
Product 1
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Financial Statements

Metrobank Card Corporation
(A Finance Company)

Financial Statements
December 31, 2017 and 2016

and

Independent Auditor's Report

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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, 2017 and 2016, 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, 2017 and 2016, 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.

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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 27 to the financial statements is presented for the purpose 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.

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February 14, 2018, valid until February 13, 2021
PTR No. 6621226, January 9, 2018, Makati City

March 1, 2018

METROBANK CARD CORPORATION
(A Finance Company)

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 6 and 20)	**₱1,809,031,449**	₱728,729,249
Due from Bangko Sentral ng Pilipinas (Notes 6 and 11)	**10,948,054,071**	8,890,805,143
Interbank loans receivable (Note 6)	**300,000,000**	–
Accounts receivable (Notes 7 and 20)	**48,623,885,940**	38,765,245,766
Prepaid expenses and other current assets (Note 20)	**81,428,724**	71,544,170
	61,762,400,184	48,456,324,328
Noncurrent Assets		
Accounts receivable (Notes 7 and 20)	**11,059,919,008**	9,724,799,840
Property and equipment (Note 8)	**658,887,349**	662,288,206
Deferred tax assets (Note 19)	**982,367,488**	1,030,768,761
Intangibles and other assets (Note 9)	**567,962,711**	559,903,420
	13,269,136,556	11,977,760,227
	₱75,031,536,740	₱60,434,084,555
LIABILITIES AND EQUITY		
Liabilities		
Current Liabilities		
Accounts payable (Notes 10 and 20):		
Merchants	**₱1,730,261,526**	₱1,055,504,290
Others	**749,730,561**	670,248,801
	2,479,992,087	1,725,753,091
Bills payable (Notes 11 and 20)	**28,864,868,810**	22,824,657,073
Notes payable (Notes 11 and 20)	**13,503,504,400**	6,803,748,337
Deferred revenue (Note 12)	**1,055,810,689**	1,046,041,696
Income tax payable	**657,317,961**	276,731,607
Accrued interest, taxes and other expenses (Notes 14 and 20)	**830,971,717**	767,755,186
	47,392,465,664	33,444,686,990
Noncurrent Liabilities		
Bills payable (Notes 11 and 20)	**5,337,656,802**	10,661,868,389
Notes payable (Notes 11 and 20)	**7,271,109,498**	6,300,102,063
Subordinated debt (Note 13)	**1,163,519,811**	1,162,428,486
Retirement liability (Note 18)	**228,085,507**	430,759,451
	14,000,371,618	18,555,158,389
	61,392,837,282	51,999,845,379
Equity		
Capital stock (Note 15)	**1,000,000,000**	1,000,000,000
Additional paid-in capital	**76,071,752**	76,071,752
Retained earnings (Notes 15 and 24):		
Unappropriated	**6,147,395,141**	3,944,436,126
Appropriated	**6,600,000,000**	3,700,000,000
Remeasurement losses on retirement plan (Note 18)	**(184,767,435)**	(286,268,702)
	13,638,699,458	8,434,239,176
	₱75,031,536,740	₱60,434,084,555

See accompanying Notes to Financial Statements

METROBANK CARD CORPORATION
(A Finance Company)

STATEMENTS OF INCOME

	Years Ended December 31	
	2017	2016
REVENUES		
Interest and penalties (Note 7)	**₱12,253,104,342**	₱9,608,949,002
Discounts earned (Note 20)	**2,240,489,274**	1,747,746,824
Membership fees and dues (Note 12)	**841,001,235**	948,936,927
Recoveries of accounts written-off (Note 12)	**734,385,791**	423,582,818
Awards revenue (Note 12)	**120,774,947**	74,983,404
Interest income from banks (Notes 6 and 20)	**13,838,671**	3,505,137
Miscellaneous (Notes 16 and 20)	**814,602,639**	721,231,692
	17,018,196,899	13,528,935,804
EXPENSES		
Provision for credit losses (Note 7)	**3,560,173,618**	3,815,339,757
Interest expense (Notes 11, 13 and 20)	**1,649,797,778**	1,369,709,805
Compensation and fringe benefits (Notes 14, 18 and 20)	**1,483,761,244**	1,374,097,274
Taxes, duties and license fees (Note 14)	**1,127,506,385**	924,594,040
Communications (Notes 14 and 20)	**373,254,640**	388,730,711
Advertising and promotions (Note 14)	**277,237,405**	432,455,153
Rent, light and water (Notes 17 and 20)	**185,285,489**	150,662,414
Amortization of intangible assets (Note 9)	**169,957,396**	148,581,194
Loyalty expense (Note 12)	**140,070,483**	126,340,340
Depreciation of property and equipment (Note 8)	**102,455,118**	111,989,298
Distribution costs (Note 20)	**96,780,467**	93,332,801
Stationery, office supplies and printing	**60,457,760**	61,775,828
Computer-related expenses (Note 20)	**43,066,586**	85,142,695
Management and professional fees (Notes 14 and 20)	**42,610,889**	37,266,553
Security, messengerial and janitorial (Note 20)	**21,136,225**	21,020,739
Transportation and travel	**6,852,016**	6,501,747
Entertainment, amusement and recreation (Note 19)	**951,482**	830,909
Miscellaneous (Notes 16 and 20)	**383,392,963**	356,985,364
	9,724,747,944	9,505,356,622
INCOME BEFORE INCOME TAX	**7,293,448,955**	4,023,579,182
PROVISION FOR INCOME TAX (Note 19)		
Corporate	**2,183,569,862**	1,328,653,737
Deferred	**4,900,731**	(119,435,451)
Final	**2,019,347**	336,729
	2,190,489,940	1,209,555,015
NET INCOME	**₱5,102,959,015**	₱2,814,024,167

See accompanying Notes to Financial Statements.

METROBANK CARD CORPORATION
(A Finance Company)

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2017	2016
NET INCOME	**₱5,102,959,015**	₱2,814,024,167
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that do not recycle to profit or loss in subsequent periods:		
Remeasurement gains (losses) on retirement plan (Note 18)	**145,001,810**	(77,095,879)
Income tax effect (Note 19)	**(43,500,543)**	23,128,764
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	**101,501,267**	(53,967,115)
TOTAL COMPREHENSIVE INCOME, NET OF TAX	**₱5,204,460,282**	₱2,760,057,052

See accompanying Notes to Financial Statements.

METROBANK CARD CORPORATION
(A Finance Company)

STATEMENTS OF CHANGES IN EQUITY

			Retained Earnings		Remeasurement Losses on	
	Capital Stock (Note 15)	**Additional Paid-in Capital**	**Unappropriated** (Note 24)	**Appropriated** (Note 15)	**Retirement Plan** (Note 18)	**Total**
Balance at January 1, 2017	**₱1,000,000,000**	**₱76,071,752**	**₱3,944,436,126**	**₱3,700,000,000**	**(₱286,268,702)**	**₱8,434,239,176**
Total comprehensive income for the year	–	–	**5,102,959,015**	–	**101,501,267**	**5,204,460,282**
Net appropriations (Note 15)	–	–	**(2,900,000,000)**	**2,900,000,000**	–	–
Balance at December 31, 2017	**₱1,000,000,000**	**₱76,071,752**	**₱6,147,395,141**	**₱6,600,000,000**	**(₱184,767,435)**	**₱13,638,699,458**
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 (Note 15)	–	–	(2,223,000,000)	2,223,000,000	–	–
Dividends paid (Note 15)	–	–	–	(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

See accompanying Notes to Financial Statements.

METROBANK CARD CORPORATION
(A Finance Company)

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱7,293,448,955**	₱4,023,579,182
Adjustments for:		
Amortization of:		
Intangible assets (Note 9)	**169,957,396**	148,581,194
Debt issuance costs (Notes 11 and 13)	**51,161,125**	38,643,241
Retirement expense (Note 18)	**134,005,248**	118,661,201
Depreciation and amortization of property and equipment (Note 8)	**102,455,118**	111,989,298
Unrealized foreign exchange gain (Note 16)	**(42,740,027)**	(17,809,163)
Gain on sale of property and equipment (Note 16)	**(749,650)**	(875,721)
Changes in operating assets and liabilities:		
Increase in the amounts of:		
Accounts receivable	**(11,193,759,342)**	(7,068,768,346)
Prepaid expenses and other assets	**(12,968,698)**	(12,953,478)
Increase (decrease) in the amounts of:		
Bills payable	**668,705,248**	9,600,121,752
Deferred revenue	**9,768,993**	149,756,706
Accounts payable	**754,238,996**	(130,858,314)
Accrued interest, taxes and other liabilities	**63,216,531**	85,113,131
Net cash generated from (used for) operations	**(2,003,260,107)**	7,045,180,683
Income taxes paid	**(1,805,002,855)**	(1,298,318,955)
Contribution to the retirement plan (Note 18)	**(191,677,381)**	(153,456,756)
Net cash provided by (used in) operating activities	**(3,999,940,343)**	5,593,404,972
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property and equipment (Note 8)	**10,799,658**	8,831,995
Acquisitions of:		
Intangible assets (Note 9)	**(174,932,545)**	(260,649,530)
Property and equipment (Note 8)	**(109,104,269)**	(108,057,630)
Net cash used in investing activities	**(273,237,156)**	(359,875,165)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from availments of notes payable	**21,236,042,391**	14,729,680,580
Payments of:		
Notes payable	**(13,525,314,204)**	(17,620,551,749)
Dividends (Note 15)	**−**	(1,400,000,000)
Net cash provided by (used in) financing activities	**7,710,728,187**	(4,290,871,169)

(Forward)

	Years Ended December 31	
	2017	2016
EFFECT OF CHANGE IN FOREIGN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	**₱440**	(₱332)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**3,437,551,128**	942,658,306
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		
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
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)		
Cash	**1,809,031,449**	728,729,249
Due from Bangko Sentral ng Pilipinas	**10,948,054,071**	8,890,805,143
Interbank loans receivable	**300,000,000**	–
	₱13,057,085,520	₱9,619,534,392

OPERATING CASH FLOWS FROM INTERESTS AND DIVIDENDS		
Interest received	**₱11,648,525,520**	₱9,073,675,164
Interest paid	**(1,556,749,786)**	(1,289,624,372)
	₱10,091,775,734	₱7,784,050,792

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.

Prior to December 28, 2017, 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). On December 28, 2017, the BSP approved the Parent Company's acquisition of the remaining 40% ownership interest of MCC from ANZ. With the BSP's approval, and in accordance with the agreement between the Parent Company and ANZ, the acquisition of the first half of the 40% ownership interest of ANZ in MCC was deemed completed for accounting purposes, thus increasing the Parent Company's ownership interest in MCC to 80% as of December 31, 2017. The transfer of ANZ of the 200,000,000 common shares, equivalent to the 20% ownership interest acquired by the Parent Company as discussed above, and payment of Php7.4 billion for such shares by the Parent Company took place on January 8, 2018.

2. Summary of Significant Accounting Policies

<u>Basis of Preparation</u>
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 (Peso or ₱), 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).

Offsetting of financial instruments
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 expenses 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 that the Company has adopted the following new accounting pronouncements starting January 1, 2017:

- Amendments to PFRS 12, *Disclosure of Interests in Other Entities, Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs 2014 - 2016 Cycle*)
- Amendments to Philippine Accounting Standard (PAS) 7, *Statement of Cash Flows, Disclosure Initiative*
- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*

The adoption of these pronouncements did not have any significant impact on the Company's financial position or performance. The additional disclosure required by PAS 7 amendments is presented in Note 26.

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 the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized or due to be settled within 12 months after the statement of financial position date.

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 12 months after the statement of financial position date. A liability is also current when there is no unconditional right to defer the settlement of the liability for at least 12 months after the statement of financial position date.

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 ruling 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 statement of income 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 the 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 statement of financial position date.

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 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.

Financial instruments – classification and initial 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 in 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.

Classification and 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), available-for-sale (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's financial instruments significantly comprised of loans and receivables and financial liabilities at amortized cost as of December 31, 2017 and 2016.

'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.

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', '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 presented as 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, on a straight-line basis.

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest rate (EIR) method, less allowance for credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in 'Interest 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 EIR method. Amortized cost is calculated by taking into account any underwriting and debt issuance 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 (e.g., 'Accounts payable') 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.

Debt issuance 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 EIR 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.

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, 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.

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

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. 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 (e.g., 30, 60, 90, 120, 150 and 180 days past due) as of statement of financial position 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. Historical loss or recovery 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 or recovery experience is based and to remove the effects of conditions in the historical period that do not exist currently.

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 statement of financial position 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.

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 instruments

Financial asset

A financial asset (or, when applicable, a part of a financial asset or part of a group of financial assets) is derecognized (that is, removed from the Company's statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:

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

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 statement of income 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 statement of income.

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.

Full depreciated property and equipment are retained in the accounts until these are no longer used and no further depreciation and amortization is charged to statement of income.

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 non-financial assets).

Intangible assets
Intangible assets acquired separately, such as license fees and capitalized software, are measured on initial recognition at cost. Following initial recognition, these 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, 2017 and 2016, 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 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.

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

	License fees	Capitalized software
Useful lives	3 to 5 years	2 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

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.

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. It is amortized over the period of expected future benefit.

Impairment of nonfinancial assets
Property and equipment and intangible assets
At statement of financial position 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 (CGUs) 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 CGU 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 statement of income 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 'Additional paid-in capital'.

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.

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 EIR 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 fees from cash advance transactions of cardholders.

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.

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.

Miscellaneous income
'Over credit limit fee', 'Gross international fee', 'Service fee', 'Transaction processing fee', and 'Business process outsourcing 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.

Leases
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

a. There is a change in contractual terms, other than a renewal or extension of the arrangement;
b. A renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
c. There is a change in the determination of whether fulfillment is dependent on a specified asset; or
d. There is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gives rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

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 these 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 these are earned.

Retirement benefits
The Company operates a defined benefit retirement plan, which requires contributions to be made to a separately administered fund. The cost of providing benefits under the defined benefit retirement plan is actuarially determined using the projected unit credit method.

The net retirement liability is the aggregate of the present value of the defined benefit obligation at the end of the statement of financial position date reduced by the fair value of plan assets, 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.

Retirement expense comprise of service cost and net interest on the net retirement liability.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in statement of income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by an independent qualified actuary.

Net interest on the net retirement liability or asset is the change during the year in the net retirement 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 retirement liability or asset. Net interest on the net retirement liability or asset is recognized as expense or income in the statement of income.

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

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 retirement 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 12 months after the end of the annual statement of financial position date is recognized for services rendered by employees up to the end of the statement of financial position date.

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 assets are not recognized but are disclosed in the notes to financial statements when an inflow of economic benefits is probable. Contingent liabilities are not recognized but are disclosed in the notes to financial statements unless the possibility of an outflow of resources embodying economic benefits is remote.

Income taxes
Income tax on profit and loss for the year comprises current and deferred taxes. 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 year are measured at the amount expected to be recovered from or paid to the tax authority. 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 assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences 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 liabilities are recognized for all taxable temporary differences.

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 offset 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.

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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 continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

<u>Judgments</u>

a. *Contingencies*
   The Company is currently 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 financial performance of the Company (Note 22).

b. *Fair values of financial instruments*
   When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Judgments include considerations of inputs such as liquidity risk, credit risk and volatility for longer-dated derivatives and discount rates, prepayments and default rates assumptions. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

   The fair values of the Company's financial instruments are disclosed in Note 5.

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.

Accounts receivable that are 180 days past due are written-off. 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 7.

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 12.

c. *Estimation of retirement liability*
The cost of the Company's defined benefit retirement plan is determined using an actuarial valuation, which involve various assumptions. These assumptions include the determination of discount rates and future salary increase rates. 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.

Future salary increases are based on expected future inflation rates in the Philippines.

All assumptions are reviewed at each statement of financial position date. The details of assumptions used in the actuarial valuation and amounts of retirement liability as of December 31, 2017 and 2016 are disclosed in Note 18.

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
- Information security 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.

<u>Risk Management Framework</u>
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 and 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 Risk Oversight 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 continuously assesses the creditworthiness of counterparties.

The Company has established the Credit Risk Unit (CRU), composed of Acquisitions Risk and Portfolio Risk, which continues to modernize and streamline the Company's Credit Risk Management practices and processes. The CRU is responsible for establishing credit policies and processes to minimize losses while ensuring the sustainability of the business.

The Credit Risk team is responsible for managing the portfolio through regular monitoring of acquisition, line management and usage programs with the goal of limiting exposure to bad accounts while maximizing revenue. The Credit Risk team is also involved in monitoring and managing the quality of the credit card portfolio through its oversight functions over Fraud, Authorizations, and Collections.

Management Information Systems (MIS) play an integral part in credit risk management. Regular MIS from Credit Risk help the business identify possible sources of risks. Credit policies, which should always be in consultation with business unit, must be supported by MIS reports.

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 enhancements:

	2017			
	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:				
Fully secured cardholders' receivables	**₱181,634,904**	**₱181,634,904**	**₱–**	**₱181,634,904**

	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:				
Fully secured cardholders' receivables	₱204,077,190	₱204,077,190	₱–	₱204,077,190

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 agreement 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:

	2017			
	Loans and Receivables	**Loans and Advances to Banks***	**Others****	**Total**
Concentration by industry:				
Personal activities	**₱65,105,413,353**	**₱–**	**₱160,057,196,089**	**₱225,162,609,442**
Philippine government	**–**	**10,948,054,071**	**–**	**10,948,054,071**
Financial intermediaries	**96,424,052**	**2,109,018,949**	**14,541,158**	**2,219,984,159**
	65,201,837,405	**13,057,073,020**	**160,071,737,247**	**238,330,647,672**
Unearned interest and other deferred income	**(3,663,915,094)**	**–**	**–**	**(3,663,915,094)**
Allowance for credit losses	**(1,854,117,363)**	**–**	**–**	**(1,854,117,363)**
	₱59,683,804,948	**₱13,057,073,020**	**₱160,071,737,247**	**₱232,812,615,215**
Concentration by location:				
Metro Manila	**₱30,592,651,981**	**₱13,057,073,020**	**₱73,479,687,266**	**₱117,129,412,267**
Luzon (except Metro Manila)	**21,491,959,222**	**–**	**53,772,800,034**	**75,264,759,256**
Visayas	**6,755,976,854**	**–**	**16,903,428,331**	**23,659,405,185**
Mindanao	**6,361,249,348**	**–**	**15,915,821,616**	**22,277,070,964**
	65,201,837,405	**13,057,073,020**	**160,071,737,247**	**238,330,647,672**
Unearned interest and other deferred income	**(3,663,915,094)**	**–**	**–**	**(3,663,915,094)**
Allowance for credit losses	**(1,854,117,363)**	**–**	**–**	**(1,854,117,363)**
	₱59,683,804,948	**₱13,057,073,020**	**₱160,071,737,247**	**₱232,812,615,215**

	2016			
	Loans and Receivables	Loans and Advances to Banks*	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	12,641,590	854,573,171
Transport, storage and communications	–	–	–	–
	53,123,658,495	9,619,521,892	132,913,437,696	195,656,618,083
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	₱132,913,437,696	₱191,023,005,194
Concentration by location:				
Metro Manila	₱25,014,134,684	₱9,619,521,892	₱61,922,403,935	₱96,556,060,511
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	132,913,437,696	195,656,618,083
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	₱132,913,437,696	₱191,023,005,194

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 statement of financial position 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 statement of financial position 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 statement of financial position date.

Loans and advances to banks 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 interbank loans receivable, and deposit accounts with the BSP. There is a high assurance of timely payment of interest and principal.

ii. Other assets
This account consists of refundable deposits.

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

	2017					
	Loans and Receivables					
	Cardholder	Other	Total	Loans and Advances to Banks*	Others**	Total
Neither past due nor impaired	**₱60,187,322**	**₱1,092,836**	**₱61,280,158**	**₱13,057,073**	**₱19,521**	**₱74,356,752**
Past due but not impaired	**2,862,696**	**–**	**2,862,696**	**–**	**–**	**2,862,696**
Impaired	**1,058,984**	**–**	**1,058,984**	**–**	**–**	**1,058,984**
	64,109,002	**1,092,836**	**65,201,838**	**13,057,073**	**19,521**	**78,278,432**
Unearned interest and other deferred income	**(3,663,915)**	**–**	**(3,663,915)**	**–**	**–**	**(3,663,915)**
Allowance for credit losses	**(1,842,387)**	**(11,731)**	**(1,854,118)**	**–**	**–**	**(1,854,118)**
	₱58,602,700	**₱1,081,105**	**₱59,683,805**	**₱13,057,073**	**₱19,521**	**₱72,760,399**

**Comprised of Cash in banks, Due from BSP and interbank loans receivable*
***Comprised of refundable deposits*

	2016					
	Loans and Receivables					
	Cardholders	Others	Total	Loans and Advances to Banks*	Others**	Total
Neither past due nor impaired	₱49,153,363	₱576,788	₱49,730,151	₱9,619,522	₱18,320	₱59,367,993
Past due but not impaired	2,351,661	–	2,351,661	–	–	2,351,661
Impaired	1,041,847	–	1,041,847	–	–	1,041,847
	52,546,871	576,788	53,123,659	9,619,522	18,320	62,761,501
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)
	₱47,926,250	₱563,796	₱48,490,046	₱9,619,522	₱18,320	₱58,127,888

**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.

	2017		2016	
	Amount	**Percentage**	Amount	Percentage
Current and never past due	**₱56,378,550**	**93.7%**	₱45,530,965	92.6%
Balances of accounts with 1 to 29 days past due history	**2,658,344**	**4.4**	2,817,635	5.7
Balances of accounts with 30 to 59 days past due history	**570,149**	**0.9**	464,402	1.0
Balances of accounts with 60 to 89 days past due history	**305,347**	**0.5**	213,097	0.4
Balances of accounts with 90 days and up past due history	**274,932**	**0.5**	127,264	0.3
	₱60,187,322	**100%**	₱49,153,363	100%

The aging analysis of past due but not impaired accounts receivable from cardholders is shown below.

	2017		2016	
	Amount	**Percentage**	Amount	Percentage
1 to 29 days	**₱1,422,135**	**49.7%**	₱1,181,304	50.2%
30 to 59 days	**810,567**	**28.3**	655,199	27.9
60 to 89 days	**629,994**	**22.0**	515,158	21.9
	₱2,862,696	**100%**	₱2,351,661	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, 2017 and 2016, amounted to ₱6.2 million and ₱4.6 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. The Treasury Unit ensures 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):

	2017			
	Changes in interest rates (in basis points)			
	(100)	**(50)**	**100**	**50**
Change in income before income tax	**₱549.8**	**₱274.9**	**(₱549.8)**	**(₱274.9)**
As percentage of the Company's income before income tax	**7.5%**	**3.8%**	**(7.5%)**	**(3.8%)**

	2016			
	Changes in interest rates (in basis points)			
	(100)	(50)	100	50
Change in income before income tax	₱465.9	₱233.0	(₱465.9)	(₱233.0)
As percentage of the Company's income before income tax	6.4%	3.2%	(6.4%)	(3.2%)

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). The EaR is used to measure any mismatch between assets and liabilities in terms of interest rate repricing. The 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 2017 and 2016, 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, 2017 and 2016 and their Peso equivalents are as follows (amounts in thousands):

	2017		2016	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
Financial assets				
Cash in banks	**US$1,704**	**₱85,099**	US$2,216	₱110,166
Accounts receivable	**6,585**	**328,807**	5,930	294,863
	8,289	**413,906**	8,146	405,029
Financial liabilities				
Notes payable	**10,580**	**528,259**	4,390	218,271
Accrued interest payable	**26**	**1,288**	19	952
	10,606	**529,547**	4,409	219,223
Net foreign currency-denominated assets (liabilities)	**(US$2,317)**	**(₱115,641)**	US$3,737	₱185,806

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):

	2017			
	Changes in foreign exchange rates (in basis points)			
	(100)	**(50)**	**100**	**50**
Change on annualized net income	**₱115.6**	**₱57.8**	**(₱115.6)**	**(₱57.8)**
As percentage of the Company's net income before income tax	**1.6%**	**0.8%**	**(1.6%)**	**(0.8%)**

	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%

Liquidity Risk and Funding Management

Liquidity risk 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 risk 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. The Treasury Unit ensures 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 80.0% of the total wholesale borrowing limit less utilized borrowing limit. 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, 2017 and 2016 (amounts in millions):

	2017						
	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	**₱20,876**	**₱5,977**	**₱5,051**	**₱10,867**	**₱10,649**	**₱19,559**	**₱72,979**
Liabilities	**13,059**	**6,368**	**2,938**	**9,350**	**14,896**	**13,845**	**60,456**
Periodic Gap	**₱7,817**	**(₱391)**	**₱2,113**	**₱1,517**	**(₱4,247)**	**₱5,714**	**₱12,523**
Cumulative Gap	**₱7,817**	**₱7,426**	**₱9,539**	**₱11,056**	**₱6,809**	**₱12,523**	

	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	

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, 2017 and 2016 (amounts in thousands).

	2017					
	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	**₱1,809,695**	**₱–**	**₱–**	**₱–**	**₱–**	**₱1,809,695**
Due from BSP	**10,948,054**	**–**	**–**	**–**	**–**	**10,948,054**
Interbank Loans Receivable	**300,000**	**–**	**–**	**–**	**–**	**300,000**
Accounts receivable:						
Cardholders	**12,447,707**	**22,652,673**	**3,842,464**	**8,224,979**	**16,941,178**	**64,109,001**
Others	**976,370**	**–**	**–**	**–**	**–**	**976,370**
	26,481,826	**22,652,673**	**3,842,464**	**8,224,979**	**16,941,178**	**78,143,120**
Financial liabilities						
Accounts payable:						
Merchants	**1,730,262**	**–**	**–**	**–**	**–**	**1,730,262**
Others	**508,081**	**–**	**–**	**–**	**–**	**508,081**
	2,238,343	**–**	**–**	**–**	**–**	**2,238,343**
Bills payable	**9,606,904**	**7,651,563**	**6,034,025**	**5,867,496**	**5,861,222**	**35,021,210**
Notes payable	**1,205,211**	**–**	**3,439,972**	**9,133,096**	**8,036,927**	**21,815,206**
Subordinated debt	**–**	**18,164**	**36,329**	**72,657**	**1,476,073**	**1,603,223**
Accrued interest and other expenses:						
Accrued interest payable	**51,656**	**70,355**	**69,456**	**46,496**	**36,571**	**274,534**
Accrued advertising	**88,943**	**–**	**–**	**–**	**–**	**88,943**
Accrued other expenses	**436,140**	**–**	**–**	**–**	**–**	**436,140**
	13,627,197	**7,740,082**	**9,579,782**	**15,119,745**	**15,410,793**	**61,477,599**
Net undiscounted financial assets (liabilities)	**₱12,854,629**	**₱14,912,591**	**(₱5,737,318)**	**(₱6,894,766)**	**₱1,530,385**	**₱16,665,521**

	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	424,271	–	–	–	–	424,271
	10,791,178	5,605,710	10,948,086	4,801,015	20,596,133	52,742,122
Net undiscounted financial assets (liabilities)	₱12,829,960	₱10,911,742	(₱7,489,713)	₱1,907,448	(₱8,158,749)	₱10,000,688

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.

Below are the current Liquidity Risk Limits utilized by the Company:

MCO Limit	80.0% of aggregate Wholesale Borrowing Limit (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 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, 2017 and 2016, the Company has available credit and IBCL lines amounting to ₱29.5 billion and ₱17.0 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.

Below are the Stress Scenarios currently being employed by Risk Management:

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 one 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 one 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 > 16.0% at end of one 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. The guidelines revised the 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 took effect on January 1, 2014.

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

	2017	2016
Tier 1 capital	**₱12,047**	₱7,048
Tier 2 capital	**1,805**	1,686
Gross qualifying capital	**₱13,852**	₱8,734
Credit risk-weighted assets	**₱64,169**	₱52,361
Operational risk-weighted assets	**21,363**	19,321
Total risk weighted assets	**₱85,532**	₱71,682
Risk-based CAR	**16.2%**	12.2%

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, 2017 and 2016, 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 BSP 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, 2017 and 2016 is computed as follows (in millions, except for ratios):

	2017	2016
Total Liabilities (TL)	**₱61,393**	₱52,000
Total Equity (TE)	**₱13,639**	₱8,434
Debt-to-Equity Ratio (TL/TE)	**4.5**	6.2

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 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, 2017 and 2016, the Company is eighty percent (80.0%) and sixty percent (60.0%), respectively, owned by Metrobank, a wholly owned Filipino company. For both years, the Company has a paid up capital of ₱1.0 billion, which already covers the additional capital requirement for its extension office in Cebu City, Davao City and Pasay City. As of December 31, 2017 and 2016, the Company is in full compliance 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.

<u>Information Security Risk</u>
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:

<u>Cash and Cash Equivalents (includes Cash, Due from BSP and Interbank Loans Receivable)</u>
Carrying amounts approximate fair values in view of the relatively short-term maturities of these instruments.

<u>Accounts Receivable - Cardholders</u>
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 ranging from 3.2% to 5.7% and 2.5% to 4.6% in 2017 and 2016, respectively 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 ranging from 0.9% to 6.3% and 0.5% to 6.3% in 2017 and 2016, respectively 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):

	2017				
	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	**₱58,590,969**	**₱–**	**₱–**	**₱62,400,625**	**₱62,400,625**
Financial liabilities					
Bills payable	**₱34,202,526**	**₱–**	**₱–**	**₱34,518,260**	**₱34,518,260**
Notes payable	**20,774,614**	**–**	**–**	**21,026,842**	**21,026,842**
Subordinated debt	**1,163,520**	**–**	**–**	**1,200,216**	**1,200,216**
	₱56,140,660	**₱–**	**₱–**	**₱56,745,318**	**₱56,745,318**

	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

During the years ended December 31, 2017 and 2016, there were no transfers of financial instruments between Level 1 and Level 2, and no transfer in and out of Level 3.

6. Cash and Cash Equivalents

This account consists of:

	2017	2016
Cash on hand	**₱12,500**	₱12,500
Cash in banks (Note 20)	**1,809,018,949**	728,716,749
	1,809,031,449	728,729,249
Due from BSP (Note 11)	**10,948,054,071**	8,890,805,143
Interbank loans receivable	**300,000,000**	–
	₱13,057,085,520	₱9,619,534,392

Cash in banks include time deposit accounts, current and savings deposit accounts and foreign currency deposits with related parties (Note 20). In 2017 and 2016, time deposit, savings account and foreign currency deposits bear annual interest rates of 0.5% to 1.5% and 0.5% to 4.0%, 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. As of December 31, 2017 and 2016, the total statutory reserves, as reported to the BSP, amounted to ₱10.9 billion and ₱8.9 billion, respectively (Note 11).

In 2017 and 2016, interbank loans receivable have terms of 1 to 7 days and 1 to 11 days, respectively. Interbank loans receivable bears annual interest rates of 3.13% and 2.5%, respectively.

Interest income earned on cash and other cash items, included under 'Interest income from banks' in the statements of income follow:

	2017	2016
Interbank loans receivable	**₱10,079,316**	₱1,864,025
Short-term deposits	**3,681,497**	1,545,930
Deposits with banks	**77,858**	95,182
	₱13,838,671	₱3,505,137

7. Accounts Receivable

This account consists of receivables from:

	2017	2016
Cardholders	**₱64,109,001,276**	₱52,433,267,641
Others (Note 20)	**976,369,804**	576,787,798
	65,085,371,080	53,010,055,439
Deferred acquisition cost	**116,466,325**	113,603,056
Unearned interest and other deferred income	**(3,663,915,094)**	(2,787,134,072)
	61,537,922,311	50,336,524,423
Allowance for credit losses	**(1,854,117,363)**	(1,846,478,817)
	₱59,683,804,948	₱48,490,045,606

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

	2017	2016
Current portion	**₱48,623,885,940**	₱38,765,245,766
Noncurrent portion	**11,059,919,008**	9,724,799,840
	₱59,683,804,948	₱48,490,045,606

As of December 31, 2017 and 2016, the Company has outstanding installment credit card receivables and unearned interest income amounting to ₱30.6 billion and ₱23.9 billion and ₱3.7 billion and ₱2.8 billion, respectively.

The Company recognized interest income from regular and installment credit card receivables amounting to ₱7.5 billion and ₱4.2 billion in 2017, respectively, and ₱5.9 billion and ₱3.2 billion in 2016, respectively.

Credit card receivables include past due accounts amounting to ₱3.9 billion and ₱3.4 billion as of December 31, 2017 and 2016, 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 accrued interest receivables, advances to officers and employees and receivables from Metrobank (Note 20).

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, 2017 and 2016, 99.8% of the Company's accounts receivable are classified under personal activities.

As of December 31, 2017 and 2016, nonperforming loans (NPLs) not fully covered by allowance for credit losses follow:

	2017	2016
Total NPLs	**₱1,058,983,805**	₱1,041,846,968
Less NPLs fully covered by allowance for credit losses	**262,955**	1,141,387
	₱1,058,720,850	₱1,040,705,581

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

Allowance for Credit Losses
Changes in the allowance for credit losses are as follows:

	2017		
	Cardholders	**Others**	**Total**
Balances at beginning of year	**₱1,833,486,513**	**₱12,992,304**	**₱1,846,478,817**
Provision for credit losses	**3,530,074,908**	**30,098,710**	**3,560,173,618**
Accounts written-off	**(3,523,824,313)**	**(28,710,759)**	**(3,552,535,072)**
Balances at end of year	**₱1,839,737,108**	**₱14,380,255**	**₱1,854,117,363**

	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

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 non-collection or non-realization of its accounts receivable.

Section 9(f) of RA No. 8556 requires that a 100.0% allowance for credit losses should be set up for the following:

a. Clean loans and advances past due for a period of more than six months;
b. Past due loans secured by collateral such as inventories, receivables, equipment and other chattels that have declined in value by more than 50.0%, without the borrower offering additional collateral for the loans;
c. Past due loans secured by real estate mortgage title to which is subject to an adverse claim rendering settlement through foreclosure doubtful;
d. When borrower and his co-maker or guarantor, are insolvent or where their whereabouts are unknown, or their earnings power is permanently impaired;
e. Accrued interest receivable that remain uncollected after six months from the maturity date of such loans to which it accrues; and
f. Accounts receivable past due for 361 days or more.

As of December 31, 2017 and 2016, the Company's allowance for credit losses for accounts receivable is in compliance with the requirements of RA No. 8556.

8. Property and Equipment

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

	2017						
	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**	**₱124,903,327**	**₱383,205,522**	**₱210,443,992**	**₱74,563,674**	**₱1,299,273,414**
Acquisitions	**–**	**–**	**5,569,549**	**51,274,345**	**51,528,440**	**731,935**	**109,104,269**
Disposals	**–**	**–**	**–**	**(8,818,620)**	**(48,881,355)**	**–**	**(57,699,975)**
Balances at end of year	**283,410,974**	**222,745,925**	**130,472,876**	**425,661,247**	**213,091,077**	**75,295,609**	**1,350,677,708**
Accumulated depreciation and amortization							
Balances at beginning of year	**–**	**66,154,850**	**107,482,395**	**281,597,891**	**111,901,979**	**69,848,093**	**636,985,208**
Depreciation and amortization	**–**	**7,424,864**	**8,587,850**	**44,879,064**	**38,363,974**	**3,199,366**	**102,455,118**
Disposals	**–**	**–**	**–**	**(8,773,241)**	**(38,876,726)**	**–**	**(47,649,967)**
Balances at end of year	**–**	**73,579,714**	**116,070,245**	**317,703,714**	**111,389,227**	**73,047,459**	**691,790,359**
Net book value at end of year	**₱283,410,974**	**₱149,166,211**	**₱14,402,631**	**₱107,957,533**	**₱101,701,850**	**₱2,248,150**	**₱658,887,349**

	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

As of December 31, 2017 and 2016, the Company has fully depreciated property and equipment that are still in use with original cost amounting to ₱496.9 million and ₱313.3 million, respectively. Gain on sale of property and equipment amounted to ₱0.7 million and ₱0.9 million in 2017 and 2016, respectively (Note 16).

9. Intangibles and Other Assets

This account consists of:

	2017	2016
Intangible assets	**₱535,390,286**	₱530,415,137
Refundable deposits	**14,541,158**	12,641,590
Miscellaneous	**18,031,267**	16,846,693
	₱567,962,711	₱559,903,420

The composition of and movements of intangible assets are as follows:

	2017		
	Capitalized Software and License Fees	**Project in Progress**	**Total**
Cost			
Balances at beginning of year	**₱887,207,671**	**₱43,275,274**	**₱930,482,945**
Acquisitions	**106,062,945**	**68,869,600**	**174,932,545**
Reclassifications	**8,466,882**	**(8,466,882)**	**–**
Write-offs	**(79,850,193)**	**–**	**(79,850,193)**
Balance at end of year	**921,887,305**	**103,677,992**	**1,025,565,297**
Accumulated amortization			
Balances at beginning of year	**400,067,808**	**–**	**400,067,808**
Amortization	**169,957,396**	**–**	**169,957,396**
Write-offs	**(79,850,193)**	**–**	**(79,850,193)**
Balances at end of year	**490,175,011**	**–**	**490,175,011**
Net book value at end of year	**₱431,712,294**	**₱103,677,992**	**₱535,390,286**

	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

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.

Project in Progress
As of December 31, 2017 and 2016, the Company reclassified cost of individual projects, which were completed and available-for-use, amounting to ₱8.5 million and ₱511.6 million, respectively, to capitalized software and license fees.

10. Accounts Payable

This account consists of:

	2017	2016
Payable to merchants	**₱1,730,261,526**	₱1,055,504,290
Others:		
Financial:		
Advance payments from cardholders	**179,776,309**	167,873,712
Payable to suppliers and service providers (Note 20)	**172,201,698**	113,461,252
Payable to Visa/MasterCard	**151,141,200**	163,761,188
Collection fees	**1,445,199**	9,030,432
Miscellaneous	**3,516,385**	4,672,444
	508,080,791	458,799,028
Nonfinancial:		
Withholding taxes payable	**156,475,804**	135,628,810
Gross receipts tax (GRT) payable	**77,866,571**	64,498,817
Documentary stamp tax payable	**5,226,411**	9,276,143
Payable to SSS/Pag-ibig	**2,080,984**	2,046,003
	241,649,770	211,449,773
	₱2,479,992,087	₱1,725,753,091

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.

11. Bills and Notes Payable

Bills Payable
This account consists of:

	2017	2016
Deposit substitutes	**₱34,202,525,612**	₱33,271,525,462
Interbank loans payable	–	215,000,000
	₱34,202,525,612	₱33,486,525,462

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

	2017	2016
Current portion of promissory notes issued to:		
Consumers	**₱18,161,110,053**	₱14,786,827,445
Corporates	**10,703,758,757**	7,822,829,628
	28,864,868,810	22,609,657,073
Interbank loans payable	**–**	215,000,000
	28,864,868,810	22,824,657,073
Noncurrent portion of promissory notes issued to:		
Consumers	**4,282,842,301**	8,704,478,033
Corporates	**1,054,814,501**	1,957,390,356
	5,337,656,802	10,661,868,389
	₱34,202,525,612	₱33,486,525,462

As of December 31, 2017 and 2016, deposit substitutes have maturities of 15 days to 7 years. Deposit substitutes bear annual interest rates ranging from 1.4% to 5.3% and 0.6% to 5.1% in 2017 and 2016, respectively.

Under the existing BSP regulations, the Company's deposit substitutes are subject to statutory reserves of 20.0% in 2017 and 2016. The total statutory reserves maintained by the Company, as reported to the BSP, are disclosed in Note 6.

Interbank loans payable bear annual interest rates ranging from 2.5% to 3.2% and 2.5% to 3.3% in 2017 and 2016, respectively.

As of December 31, 2017 and 2016, the unamortized issuance costs on bills payable amounted to ₱37.7 million and ₱50.0 million, respectively.

Amortization of issuance costs amounting to ₱47.3 million and ₱34.2 million in 2017 and 2016, respectively, were charged to 'Interest expense' in the statements of income.

Notes Payable

This account consists of:

	Maturities	Interest Rates	2017	2016
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
₱2.0 billion loan facility	**2017**	**2.3% to 2.5%**	**–**	1,000,000,000
₱1.0 billion loan facility	**2017**	**6.2%**	**–**	959,497,537
₱3.7 billion loan facility	**2018**	**2.8% to 3.4%**	**3,550,000,000**	–
₱8.0 billion loan facility	**2018**	**2.8% to 3.3%**	**7,500,000,000**	–
₱2.5 billion loan facility	**2018**	**3.1% to 3.9%**	**2,000,000,000**	–
₱0.1 billion loan facility	**2018**	**2.9%**	**100,000,000**	–
Loans from Metrobank:				
₱2.4 billion credit facility agreement (Note 20)	**2017**	**2.3%**	**–**	500,000,000

(Forward)

	Maturities	Interest Rates	2017	2016
Dollar-denominated notes:				
Loans from ANZ:				
US$20.0 million credit facility agreement	**2017**	**2.0%**	**₱–**	₱44,250,800
US$20.0 million credit facility agreement	**2018**	**2.4%**	**353,504,400**	–
			13,503,504,400	6,803,748,337
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%**	**1,897,032,479**	1,914,794,575
Loans from local banks:				
5Y bilateral loans	**2019**	**5.3%**	**1,441,712,257**	1,442,525,008
5Y bilateral loans	**2020**	**4.8%**	**498,685,722**	498,186,543
5Y bilateral loans	**2021**	**4.7%**	**1,295,531,216**	1,294,231,928
7Y bilateral loans	**2021**	**5.5%**	**967,639,812**	976,926,085
5Y bilateral loans	**2022**	**5.0%**	**995,753,012**	–
Dollar-denominated notes:				
Loans from ANZ:				
US$5.0 million credit facility agreement	**2019**	**3.3%**	**174,755,000**	173,437,924
			7,271,109,498	6,300,102,063
			₱20,774,613,898	₱13,103,850,400

As of December 31, 2017 and 2016, notes payable amounting to nil and ₱1.0 billion, respectively, which are presented under current liabilities, pertains to long-term notes which are due within one year.

Unamortized issuance costs amounted to ₱17.6 million and ₱20.4 million as of December 31, 2017 and 2016, respectively. In 2017 and 2016, amortization of issuance costs amounting to ₱2.8 million and ₱3.3 million, respectively, were charged to 'Interest expense' in the statements of income.

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 monthly for short-term notes and quarterly to semi-annually for 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.

Interest expense on the Company's borrowings consists of:

	2017	2016
Bills payable	**₱997,257,851**	₱748,580,593
Notes payable	**578,960,259**	547,261,262
Subordinated debt (Note 13)	**73,579,668**	73,867,950
	₱1,649,797,778	₱1,369,709,805

12. Deferred Revenue

This account consists of:

	2017	2016
Deferred awards revenue	**₱556,038,301**	₱629,401,177
Deferred membership fees and dues	**381,453,995**	416,640,519
Deferred income - recoveries from debt sale	**118,318,393**	–
	₱1,055,810,689	₱1,046,041,696

The changes and movements in these accounts are as follows:

	2017		
	Awards Revenue	**Membership Fees and Dues**	**Total**
Balances at beginning of year	**₱629,401,177**	**₱416,640,519**	**₱1,046,041,696**
Deferred during the year	**47,412,071**	**854,821,942**	**902,234,013**
Recognized to income during the year	**(120,774,947)**	**(890,008,466)**	**(1,010,783,413)**
Balances at end of year	**₱556,038,301**	**₱381,453,995**	**₱937,492,296**

	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

In 2017 and 2016, the cost of redemption of loyalty points, recognized under 'Loyalty expense', amounted to ₱140.1 million and ₱126.3 million, respectively.

Debt Sale Agreement
On October 1, 2017, the Company entered into a Debt Sale Agreement with Collectius AG c/o Stena (Switzerland) AG (Collectius) to sell its written-off receivables for ₱394.4 million. The agreement includes a provision for a buy-back period until December 31, 2018 in an amount not exceeding 30% of the selling price as a result of certain conditions as enumerated in the agreement.

The sale of written-off receivables would allow the Company to get more value from the older vintage accounts, and at the same time, speed up the recovery on the newer vintage non performing accounts.

As of December 31, 2017, the Company deferred 30% of the selling price for the sold written-off receivables.

13. Subordinated Debt

On February 28, 2013, the Company's BOD approved the issuance of ₱1.17 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 6.21% 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, 2017 and 2016, the unamortized issuance costs on the subordinated debt amounted to ₱6.5 million and ₱7.6 million, respectively.

Amortization of issuance costs amounting to ₱1.1 million in 2017 and 2016 were charged to 'Interest expense' in the statements of income (Note 11).

14. Accrued Interest, Taxes and Other Expenses

This account consists of:

	2017	2016
Accrued interest (Note 20)	**₱274,533,877**	₱232,647,010
Accrued advertising	**88,942,636**	101,269,407
Accrued taxes	**31,355,681**	9,567,326
Accrued rewards	**21,739,660**	32,386,453
Accrued other expenses	**414,399,863**	391,884,990
	₱830,971,717	₱767,755,186

The table below shows the breakdown of accrued other expenses:

	2017	2016
Compensation and fringe benefits (Note 20)	**₱164,953,281**	₱138,626,430
Service fee	**100,244,063**	86,862,852
Communications expense (Note 20)	**64,118,587**	58,168,563
Rental and office-related expenses (Note 20)	**52,900,032**	36,286,493
Computer-related expenses (Note 20)	**10,139,270**	7,143,604
Membership fees	**6,188,993**	6,481,935
Management and professional fees (Note 20)	**3,829,571**	3,413,026
Maintenance cost	**2,646,592**	3,401,653
Miscellaneous expenses	**9,379,474**	51,500,434
	₱414,399,863	₱391,884,990

15. **Equity**

The details of the Company's capital stock as of December 31, 2017 and 2016 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 BOD; 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 (see Note 4).

Appropriations
On February 17, 2017, the BOD approved the net appropriation of retained earnings in the amount of ₱6.6 billion as capital reserves. 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 CAR with due consideration of the impact of adopting the expected credit loss model (ECL) under PFRS 9, *Financial Instruments*. The amount includes re-appropriation of ₱3.7 billion and additional appropriation of ₱2.9 billion during the year.

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 CAR with due consideration of the impact of adopting the ECL model under PFRS 9. The amount includes re-appropriation of ₱2.5 billion and additional appropriation of ₱1.2 billion in 2016.
2. Appropriation of retained earnings for cash dividend declaration of up to ₱1.6 billion, which was subsequently 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 in 2016 amounting to ₱377.0 million.

Cash dividends
No cash dividends were declared in 2017, while the details of the cash dividends declared and paid in 2016 are summarized below:

	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

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.

16. **Miscellaneous Income and Expenses**

Miscellaneous income consists of:

	2017	2016
Gross international fees	**₱288,159,708**	₱212,251,730
Over credit limit fees	**251,345,712**	293,061,775
Service fees	**125,604,974**	103,260,062
Transaction processing fees	**57,005,377**	48,141,513
Unrealized foreign exchange gain	**42,740,027**	17,809,163
Rental income (Notes 17 and 20)	**33,616,951**	33,477,993
Business process outsourcing fees	**7,458,397**	5,327,383
Gain on sale of property and equipment (Note 8)	**749,650**	875,721
Others	**7,921,843**	7,026,352
	₱814,602,639	₱721,231,692

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:

	2017	2016
Collection fees	**₱154,927,602**	₱144,571,548
Maintenance costs (Note 20)	**113,670,420**	98,553,045
Verification costs	**58,098,623**	46,612,796
Recruitment costs	**5,387,155**	5,762,952
Insurance (Note 20)	**4,931,357**	4,480,619
Membership fees (Note 20)	**3,804,042**	1,909,435
Employee relations expenses	**2,765,852**	3,013,054
Others	**39,807,912**	52,081,915
	₱383,392,963	₱356,985,364

17. **Leases**

Company as Lessee
The Company entered into lease agreements with its Parent Company for five years which ended on December 31, 2016 (with annual escalation of 5%) and for one year which ended 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 five 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 three to five 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:

	2017	2016
Within one year	**₱220,063,689**	₱210,963,735
After one year but not more than five years	**318,299,270**	252,735,837
	₱538,362,959	₱463,699,572

In 2017 and 2016, rental expense included under 'Rent, light and water' in the statements of income amounted to ₱169.9 million and ₱135.1 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 non-related party for two years which will end on January 16, 2018 with an annual escalation rate of 5.0% for the use of office space for sales and service retail branch. This lease agreement is no longer renewed.

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

	2017	2016
Within one year	**₱736,305**	₱17,259,565
After one year but not more than five years	**–**	736,305
	₱736,305	₱17,995,870

In 2017 and 2016, rental income included under 'Miscellaneous income' amounted to ₱18.1 million and ₱17.3 million, respectively (Note 19). There were no direct costs incurred in relation to these leases.

18. **Retirement Liability**

The Company has a funded noncontributory defined benefit retirement 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 No. 7641, *Retirement Pay Law*, requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however, that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

The principal actuarial assumptions used in determining the retirement liability for the Company's retirement plan as of December 31, 2017 and 2016 are as follow:

	2017	2016
Discount rate	**5.7%**	4.8%
Future salary increases:		
For officers	**8.0%**	8.5%
For staff	**₱1,995**	₱1,940
Average years of service	**7.8 years**	7.8 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:

2017

		Retirement Expense				Remeasurement Losses on Retirement Plan						
	January 1, 2017	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, 2017
Present value of defined benefit obligation	**₱967,290,103**	**₱114,924,093**	**₱–**	**₱46,244,000**	**₱161,168,093**	**₱–**	**(₱10,517,122)**	**(₱144,809,860)**	**(₱155,326,982)**	**(₱33,373,773)**	**₱–**	**₱939,757,441**
Fair value of plan assets	**(536,530,653)**	**–**	**–**	**(29,063,780)**	**(29,063,780)**	**10,325,172**	**–**	**–**	**10,325,172**	**35,274,708**	**(191,677,381)**	**(711,671,934)**
Net defined benefit liability	**₱430,759,450**	**₱114,924,093**	**₱–**	**₱17,180,220**	**₱132,104,313**	**₱10,325,172**	**(₱10,517,122)**	**(₱144,809,860)**	**(₱145,001,810)**	**₱1,900,935**	**(₱191,677,381)**	**₱228,085,507**

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

2016

		Retirement Expense				Remeasurement Losses on Retirement Plan						
	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

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

The Company expects to contribute ₱143.6 million to its defined benefit retirement plan in 2018.

The major categories of plan assets and their corresponding percentage to the fair values of total plan assets follow:

	2017		2016	
	Amount	**%**	Amount	%
Deposits in bank	**₱136,018,027**	**19.1%**	₱60,441,464	11.3%
Equity securities	**159,000**	**–**	156,750	–
Debt securities:				
Government	**439,102,626**	**61.7**	367,170,095	68.4
Private	**60,945,223**	**8.6**	52,921,902	9.9
Unit investment trust fund	**64,914,502**	**9.1**	53,422,565	10.0
Loans	**5,940,000**	**0.8**	–	–
Others	**4,592,556**	**0.7**	2,417,877	0.4
	₱711,671,934	**100%**	₱536,530,653	100.0%

All equity and debt securities 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 the end of the statement of financial position date, assuming all other assumptions were held constant:

		Increase (Decrease)	
	Possible fluctuations	**2017**	2016
Discount rate			
	1.0%	**(₱96,700,129)**	(₱108,271,756)
	(1.0%)	**112,344,933**	127,026,692
Future salary increase rate			
	1.0%	**85,158,667**	97,217,087
	(1.0%)	**(74,821,159)**	(89,400,323)

Shown below is the maturity analysis of undiscounted benefits payments:

	2017	2016
Less than one year	**₱33,119,199**	₱23,671,134
More than one year to five years	**162,284,157**	152,258,560
More than five years to 10 years	**618,584,338**	446,752,148
More than 10 years to 15 years	**1,100,306,260**	1,226,670,873
More than 15 years to 20 years	**2,059,346,670**	1,732,785,656
More than 20 years	**1,482,404,562**	1,921,569,295

The average duration of the defined benefit obligation as of December 31, 2017 and 2016 is 16.3 years and 16.8 years, respectively.

19. **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 Regular Corporate Income Tax (RCIT) rate is 30.0% and interest allowed as deductible expense is reduced by 33.0% of interest income subjected to final tax.

The National Internal Revenue Code (NIRC) of 1997 also provides for rules on the imposition of Minimum Corporate Income Tax (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 2017 and 2016, EAR expenses amounted to ₱1.0 million and ₱0.8 million respectively.

Deferred Tax Assets - Net

The components of net deferred tax assets follow:

	2017	2016
Deferred tax assets on:		
Allowance for credit losses (Note 7)	**₱556,235,209**	₱553,943,645
Deferred revenue (Note 12)	**316,743,207**	313,812,509
Retirement liability (Note 18)	**68,425,652**	129,227,835
Accrued expenses	**37,564,659**	39,449,257
Unamortized past service cost	**51,160,667**	33,759,181
	1,030,129,394	1,070,192,427
Deferred tax liabilities on:		
Deferred acquisition cost (Note 7)	**(34,939,898)**	(34,080,917)
Unrealized foreign exchange gain	**(12,822,008)**	(5,342,749)
	(47,761,906)	(39,423,666)
	₱982,367,488	₱1,030,768,761

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:

	2017	2016
Statutory income tax	**₱2,188,034,686**	₱1,207,073,755
Tax effects of:		
Nondeductible expenses	**3,464,928**	2,649,625
Income subjected to final tax	**(1,009,674)**	(168,365)
Effective income tax	**₱2,190,489,940**	₱1,209,555,015

20. **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 2017 and 2016 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
  - Philippine Savings Bank (PSBank)
  - SMBC Metro Investment Corporation
  - Taal Land, Inc.
  - Toyota Cubao, Inc.
  - Toyota Financial Services Philippines Corporation
  - Toyota Manila Bay Corporation
  - Toyota Motor Philippines Corporation

- 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;
g. Whether the proposed transaction includes any potential reputational risk issues that may arise as a result of or in connection with the transaction;
h. Impact to a director's independence; and
i. 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, 2017 and 2016 (amounts in thousands):

	December 31, 2017		
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Parent Company			
Cash and cash equivalents		**₱1,395,256**	Current and savings account, and foreign currency deposits with annual interest rates of 0.5% and 0.1%, respectively.
Deposits	**₱831,356,969**		
Withdrawals	**(830,258,981)**		
Short-term placements		**1,000,000,000**	Short-term deposits with annual interest rate of 1.50% and term of 5 days.
Placements	**1,000,000,000**		
Maturities	–		

(Forward)

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	December 31, 2017		
Interbank loans receivable		**₱–**	Various overnight placements with terms of 1 to 3 days and bear annual interest rates ranging from 2.5% to 2.7%.
Placements	**₱5,440,000,000**		
Maturities	**(5,440,000,000)**		
Accounts receivable	**(16,791)**	**96,424**	Billings on merchant discount subsidy, outsourcing fees, Point-of-Sale (POS) rentals and charges for use of Visa Banking Identification Number (BIN)
Accounts payable	**10,388**	**13,206**	Service fees on availments of bills payable
Accrued expense payable	**(29,006)**	**4,195**	Accrual of expenses from rentals, membership fees, distribution cost, utilities and other maintenance costs
Accrued interest payable	**1,387**	**2,109**	Accrued interest payable on interest-bearing notes
Bills payable		**–**	Overnight borrowings with annual interest rates ranging from 2.5% to 3.0% and terms of 1 to 5 days.
Availments	**21,600,000**		
Maturities	**(23,900,000)**		
Notes payable		**–**	Interest-bearing note with an annual interest rate of 2.45% and term of 15 days.
Availments	**–**		
Maturities	**(500,000)**		
Interest income	**791**		Interest earned on bank deposits and overnight lending
Merchant discount	**14,685**		Income earned on merchant discount subsidy
Miscellaneous income	**7,458**		Income earned on outsourcing fees
Interest expense	**34,813**		Interest expense, service fees and facility agent fees on interbank loans payable and interest-bearing notes
Rent, light and water	**38,151**		Rentals and utility expenses from leased premises at Metropolitan Park and Metrobank Plaza
Computer-related expense	**25,403**		Transaction processing charges
Communications	**301**		Telephone and courier card delivery charges
Distribution cost	**68,293**		Over-the-counter charges for the accommodation of cardholder payments
Security, messengerial and janitorial	**33**		Administrative expenses
Miscellaneous expense	**2,824**		Other membership and maintenance fees
Significant Investor			
Cash and cash equivalents		**21,256**	Current and savings account, and foreign currency deposits.
Deposits	**18,155,094**		
Withdrawals	**(18,186,415)**		
Accrued expense payable	**296**	**1,720**	Accrual of management and other professional fees and check writer transactions
Accrued interest payable	**(235)**	**717**	Accrued interest payable on interest-bearing notes
Notes payable		**1,623,095**	Interest-bearing notes with annual interest rate ranging from 2.40% to 3.30% and terms of 20 to 1,098 days
Availments	**410,599**		
Maturities	**(379,693)**		
Miscellaneous income	**14,438**		Income earned on leased office space at Metrobank Card Center
Interest expense	**5,994**		Interest expense, service fees and facility agent fees on interbank loans payable and interest-bearing notes
Affiliates			
Cash and cash equivalents		**52,315**	Current and savings account, and foreign currency deposits with annual interest rates of 0.5% and 0.1%, respectively.
Deposits	**6,078,879**		
Withdrawals	**(6,066,950)**		
Short-term placements		**300,000**	Short-term deposits and various overnight placements with terms of 1 to 5 days and bear annual interest rates ranging from 2.5% to 3.3%.
Placements	**16,538,000**		
Maturities	**(16,238,000)**		
Accounts receivable	**(154)**	**6,455**	Accounts receivable from corporate credit card transactions
Prepaid expenses and other current assets	**252**	**673**	Advance payment for insurance premiums
Bills payable		**1,027,815**	Overnight borrowings with annual interest rate ranging from 2.5% to 3.16% and terms of 1 to 5 days.
Availments	**31,078,000**		
Maturities	**(31,078,000)**		

(Forward)

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	December 31, 2017		
Accrued interest payable	**₱928**	**₱2,235**	Accrued interest payable on deposit substitutes and interest-bearing notes
Accrued expense payable	**(675)**	**455**	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	**25,644**		Interest expense on interbank loans payable, deposit substitutes and interest-bearing notes
Distribution cost	**4,405**		Over-the-counter charges for the accommodation of cardholder payments
Rent, light and water	**2,571**		Rentals and utility expenses
Insurance expense	**4,931**		Insurance expenses

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	December 31, 2016		
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		500,000	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
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 2.0% and terms of 14 to 31 days
Availments	10,040,500		
Maturities	(9,699,800)		
Interest income	16		Interest earned on bank deposits

(Forward)

Category	December 31, 2016 Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
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		–	Interest-bearing note with annual interest rate of 5.54% and term of 5 years (gross of unamortized issuance cost)
Availments	–		
Maturities	50,000		
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

Terms and Conditions of Transactions with Related Parties

Outstanding balances as of December 31, 2017 and 2016 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 2017 and 2016, 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 2017 and 2016, time deposits with Metrobank bear annual interest rates ranging from 1.0% to 2.5% and 1.0% to 2.5%, respectively.

The total carrying value and fair value of the retirement plan assets as of December 31, 2017 and 2016 are disclosed in Note 18.

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:

	2017	2016
Salaries and wages and other short-term benefits	**₱151,404,769**	₱138,727,291
Retirement benefits	**32,597,987**	26,483,888
Management fees	**18,000,000**	18,000,000
Directors fees	**9,745,000**	10,440,000
	₱211,747,756	₱193,651,179

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.

BSP Regulatory Reporting
In the ordinary course of business, the Company has various transactions with its affiliates and with certain Directors, Officers, Stockholders and Related Interests (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 BSP 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:

	2017	2016
Total outstanding DOSRI loans	**₱193,558,735**	₱176,304,101
Percent of DOSRI loans to total loans	**0.30%**	0.35%
Percent of unsecured DOSRI loans to total DOSRI loans	**0.14%**	0.50%
Percent of past due DOSRI loans to total DOSRI loans	**0.14%**	0.50%
Percent of nonperforming DOSRI loans to total DOSRI loans	**0.14%**	0.50%

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, 2017 and 2016, 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.

21. **Financial Performance**

As of December 31, 2017 and 2016, the basic ratios which measure the financial performance of the Company are as follows:

	2017	2016
Return on average equity	**46.2%**	36.3%
Net interest margin on average earning assets	**14.3%**	13.5%
Return on average assets	**7.5%**	5.0%

22. **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, 2017 and 2016, credit cardholders' unused credit limit amounted to ₱160.1 billion and ₱132.9 billion, respectively.

Various suits and claims by the Company against cardholders, and vice-versa remain unsettled as of December 31, 2017 and 2016. 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.

23. **Standards Issued but Not Yet Effective**

Pronouncements issued but not yet effective are listed below. The Company intends to adopt the following pronouncements when they become effective. The adoption of these pronouncements is not expected to have a significant impact on the Company's financial statements unless otherwise indicated.

Effective beginning on or after January 1, 2018

- Amendments to PFRS 2, *Share-based Payment*, *Classification and Measurement of Share-based Payment Transactions*
- PFRS 9, Financial Instruments
  PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Company plans to adopt the new standard on the mandatory effective date and will not restate comparative information. The Company assessed that the requirement on classification and measurement of financial assets will have no significant impact on its financial statements as most of its financial assets are receivables which the Company intends to collect. The Company has no plans of disposing its credit card receivables. On the other hand, the Company has developed impairment methodologies to support the calculation of expected credit losses (ECL) for qualified credit exposures.

  Impairment
  PFRS 9 requires the Company to record ECL for all loans and other debt financial assets not classified as at FVTPL. ECL must also be recognized for all credit exposures including undrawn loan commitments (i.e., unused limit).

  Incurred loss versus expected credit loss methodology
  The application of ECL will significantly change the Company's credit loss methodology and models. ECL represent credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. The objective of the new impairment standard is to record lifetime losses on all financial instruments which have experienced a significant increase in credit risk (SICR) since their initial recognition. As a result, ECL allowances will be measured at amounts equal to either (i) 12-month ECL or (ii) lifetime ECL for those financial instruments which have experienced a SICR since initial recognition (General Approach). The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime ECL are credit losses that results from all possible default events over the expected life of a financial instrument. In comparison, the present incurred loss model recognizes lifetime credit losses only when there is objective evidence of impairment. The ECL model eliminates the threshold or trigger event required under the incurred loss model, and lifetime ECL are recognized earlier under PFRS 9.

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

  For credit-impaired financial instruments:
  - Financial instruments are classified as Stage 3 when there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition

with a negative impact on the estimated future cash flows of a loan or a portfolio of loans. The ECL model requires that lifetime ECL be recognized for impaired financial instruments.

ECL parameters and methodologies
ECL is a function of the probability of default (PD), exposure at default (EAD) and loss given default (LGD), with the timing of the loss also considered, and is estimated by incorporating forward-looking economic information and through the use of experienced credit judgment.

Probability of Default (PD) refers to the likelihood (%) that a loan will not be repaid and fall into default. The cardholders PD which consider the Company's existing scorecards is adjusted to a forward-looking PD using the Company's overlay models.

EAD is modelled on historic data and represents an estimate of the outstanding amount of credit exposure at the time a default may occur. For off-balance sheet and undrawn amounts, EAD includes an estimate of any further amounts to be drawn at the time of default.

LGD is the amount that may not be recovered in the event of default and was developed by collecting historical information on defaulted accounts and the observed payments and costs (i.e., commission) after default using 5-year observation period.

Forward-looking overlay
The Company incorporates forward-looking assumptions, aside from historical experiences, in measuring ECL. The Overlay model was used to adjust the PD calculated from the score models to a forward-looking Point-in-Time (PiT) PD.

The Company has determined that the financial and operational aspects of the ECL methodologies under PFRS 9 will have an impact to the 2018 financial statements.

- Amendments to PFRS 4, *Insurance Contracts*, *Applying PFRS 9, Financial Instruments, with PFRS 4*
- 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 retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018.

  Based on the Company's initial assessment, the requirements of PFRS 15 on the identification of the performance obligation, particularly on the rewards program offered by the Company, will have an impact on the Company's financial position, performance and disclosures. The Company is currently assessing what necessary changes it needs to make on its current systems, internal controls, policies and procedures to enable the Company to collect and disclose the required information.

- 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*

Effective beginning on or after January 1, 2019

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
- PFRS 16, *Leases*

  PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, Leases. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

  Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

  Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

  PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

  Early application is permitted, but not before an entity applies PFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

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

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*

Deferred Effectivity

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

24. Subsequent Events

Appropriations
On March 1, 2018, the BOD approved the net appropriation of retained earnings in the amount of ₱11.6 billion for the following:

1. Appropriation of retained earnings as capital reserves amounting to ₱3.825 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 CAR with due consideration of the impact of adopting the ECL model under PFRS 9.

2. Appropriation of retained earnings for the issuance of cash dividends in 2018 amounting to ₱1.775 billion.

3. Appropriation of retained earnings for the issuance of stock dividends in 2018 amounting to ₱6.0 billion.

25. Approval of Release of Financial Statements

The accompanying comparative financial statements of the Company were authorized and approved for issuance by the BOD on March 1, 2018.

26. Notes to the Statement of Cash Flows

The changes in liabilities arising from financing activities in 2017 are as follows:

			Non-cash Changes		
	January 1, 2017	Cash Flows	Amortization of Debt Issuance Costs	Foreign Exchange Movement	December 31, 2017
Notes payable	₱13,103,850,400	₱7,710,728,186	₱2,774,897	(₱42,739,586)	₱20,774,613,897

			Non-cash Changes		
	January 1, 2017	Cash Flows	Amortization of Debt Issuance Costs	Foreign Exchange Movement	December 31, 2017
Subordinated debt	₱1,162,428,486	₱–	₱1,091,325	₱–	₱1,163,519,811

27. Supplementary Information Required Under Revenue Regulations 15-2010

In 2017, the Company reported and/or paid the following taxes which are included under ‘Taxes, duties and license fees’ in the statement of income:

GRT	₱840,975,086
Documentary stamp tax (DST)	208,183,747
Local taxes	30,317,113
Fringe benefit tax	7,909,235
License fee	13,412,602
Others	26,708,603
	₱1,127,506,386

DST payments of ₱130.8 million and ₱77.4 million are related to bills payable and notes payable issuances, respectively.

Withholding Taxes
As of December 31, 2017, total remittances and balance of withholding taxes are as follows:

	Total Remittances	Balance
Expanded withholding tax	₱565,224,105	₱138,214,839
Withholding tax on compensation and benefits	232,974,477	13,182,979
Withholding value-added tax	10,130,860	1,540,358
Final withholding tax	209,328,101	3,537,628
	₱1,017,657,543	₱156,475,804

Metrobank Card

A joint venture of Metrobank and ANZ