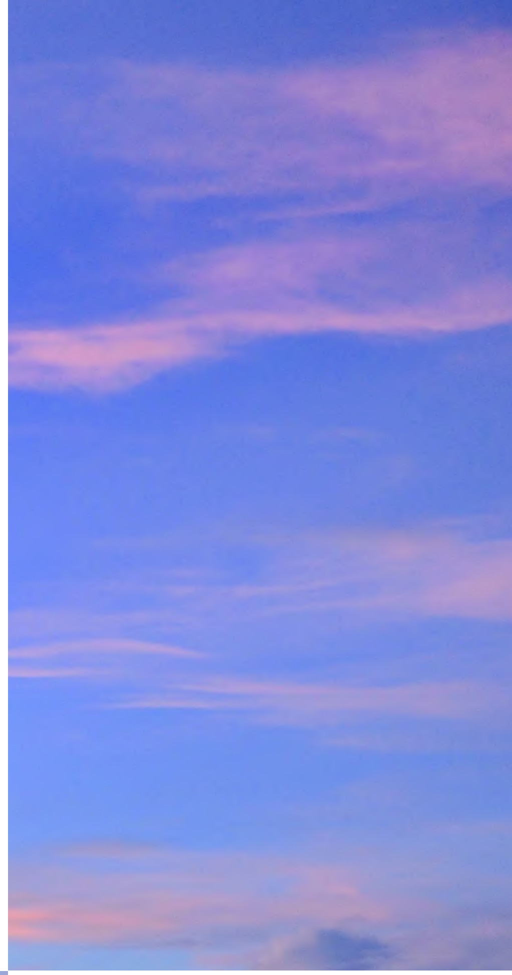
Move. Challenge. Conquer.

Metrobank Card



ANNUAL REPORT

2018

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About Metrobank Card Corporation

METROBANK CARD CORPORATION (A FINANCE COMPANY AND GENERAL INSURANCE AGENCY) [MCC] was established in August 1985, known then as Unibancard Corporation. Its maiden product was called Unicard, a single currency credit card accepted in key establishments in the Philippines. Over the years, Unicard evolved from a locally accepted card to an internationally recognized credit card when it rode on the Mastercard scheme in 1994 and the Visa scheme in 1998.

MCC changed its name to Metrobank Card Corporation after a merger with AB Card and Solid Card on June 4, 2002. In 2003, a joint venture was formed between Metropolitan Bank and Trust Company (Metrobank) and Australia and New Zealand Funds Pty. Ltd. (ANZ),, holding 60% and 40% stake of the business, respectively. The partnership has created a lot of value for both parties as it transformed MCC into a market leader with more than 1.5 Million cards-in-force, offering diverse products on payment solutions. Since then, MCC has already tripled its cardholder base, re-launched its existing credit card products and also ventured into acquiring, prepaid cards, as well as insurance businesses.

In November 2015, MCC further diversified its product suite with the introduction of the YAZZ Prepaid Card, a general purpose Prepaid VISA Card that is reloadable and made available at the retail environment.

In June 2018, MCC was granted by the Insurance Commission its license to sell various life and non-life insurance products; thus, MCC became a Finance Company and General Insurance Agency.

On September 4, 2018, MCC became a 100% wholly-owned subsidiary of Metrobank. This development is supportive of Metrobank's growth strategy to maximize operational efficiencies between Metrobank and MCC, and to further expand on opportunities for collaboration, especially within the Metrobank Group, while remaining fully committed to deliver superior products and services to existing and new customers.

MCC retains its operations and place of business in its current location at The MCC Center, 6778 Ayala Avenue, Makati City, Philippines.

Metrobank Card

VISION

Our vision is *to be the Philippines' leading payment solutions provider*–dedicated to our customers, devoted to our people and their development, committed to fulfilling our responsibility to the community, and consistent in delivering maximized shareholder value.

MISSION

We pledge to:

- *Be the primary payment solutions provider* to our customers by delivering superior key indicators:
  - a dominant market share in the middle-to high-end segment;
  - the best bottom line achievement (Net Profit After Tax and Efficiency Ratio);
  - a high level of client engagement and customer satisfaction, resulting in superior, relevant products with innovative benefits, convenient access, and unparalleled customer service;
- *Create a conducive working environment for our people* by being the employer of choice, a home for first-class talent, and a preferred place to work;
- *Be a good corporate citizen* by taking part in community development in every place we do business;
- *Achieve and sustain the most profitable performance* for our shareholders.

VALUES

MCC employees live the TEAM MCC & I values:

- *TEAMwork.* We work together to accomplish common goals. We are quick to offer assistance and support each other to succeed.
- *Making a Difference.* We uphold and extend the Bayanihan spirit by caring about our co-workers and the company, and by bringing value to our work each day.
- *Continuous Improvement.* We continue to seek new ways to improve our products, services, and processes,while maintaining a strong work-life balance.
- *Customer Focus.* We provide superior service at every point of contact and exceed customers' expectations, as we strive for meaningful and enduring relationships.
- *Integrity.* We conduct ourselves with the highest level of professionalism in the presence of colleagues, clients, and business partners. We base our decisions on merit and value, and avoid conflicts of interest.

MODEL

Our business model rests on the four pillars:

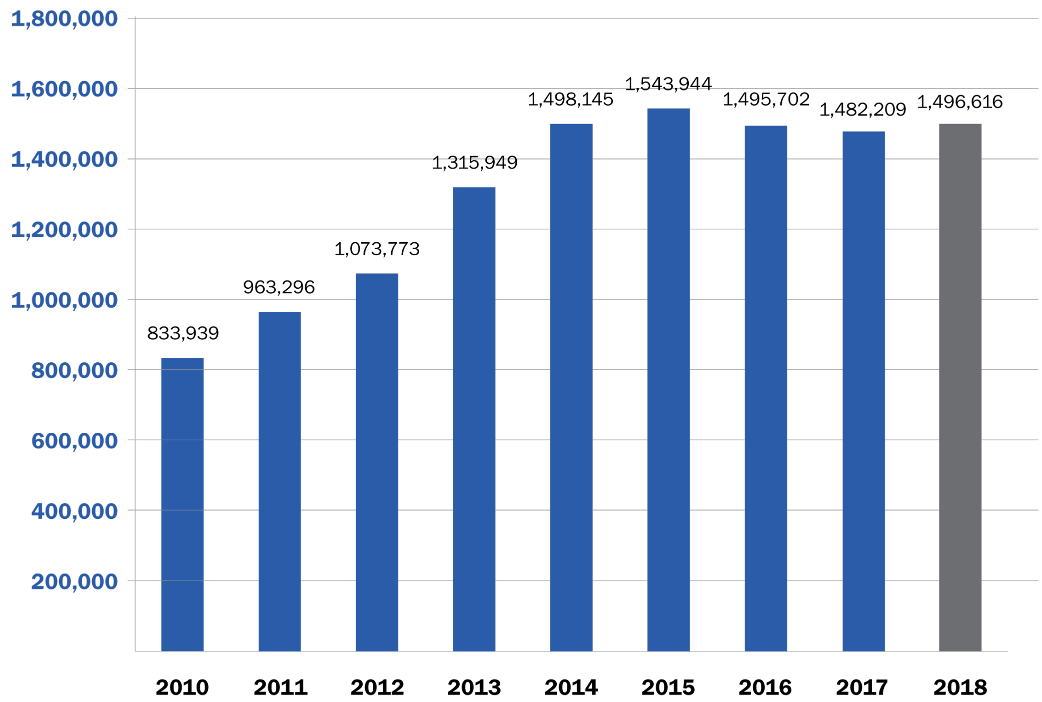
- *Sustainable Revenue and Profit Growth*, which is driven by customer acquisition and cross-selling across the Metrobank Group, tempered by prudent risk management;
- *High Customer Satisfaction*, which is driven by our excellent, unparalleled customer service;
- *Staying Ahead*, which is driven by our continuous digitalization;
- *Being an Employer of Choice*, which is supported by our people-focused agenda and high employee engagement.

DISTINCTION

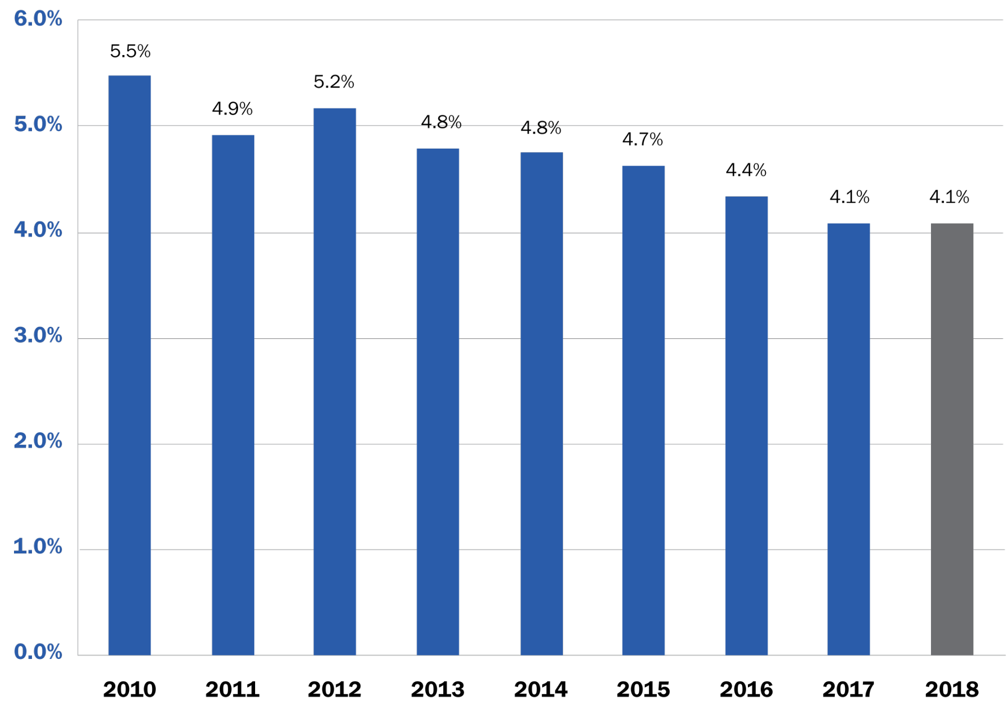
MCC is a part of the Metrobank Group, whose leadership in the financial services industry is proven by a track record of consistent success and market share. Our diverse sales and payment channels, coupled with nationwide coverage, give us commanding capability and presence across the markets we serve. Our wide suite of products and services, catering to various demographics and lifestyles, allows us to consistently satisfy every customer need.

Financial Highlights

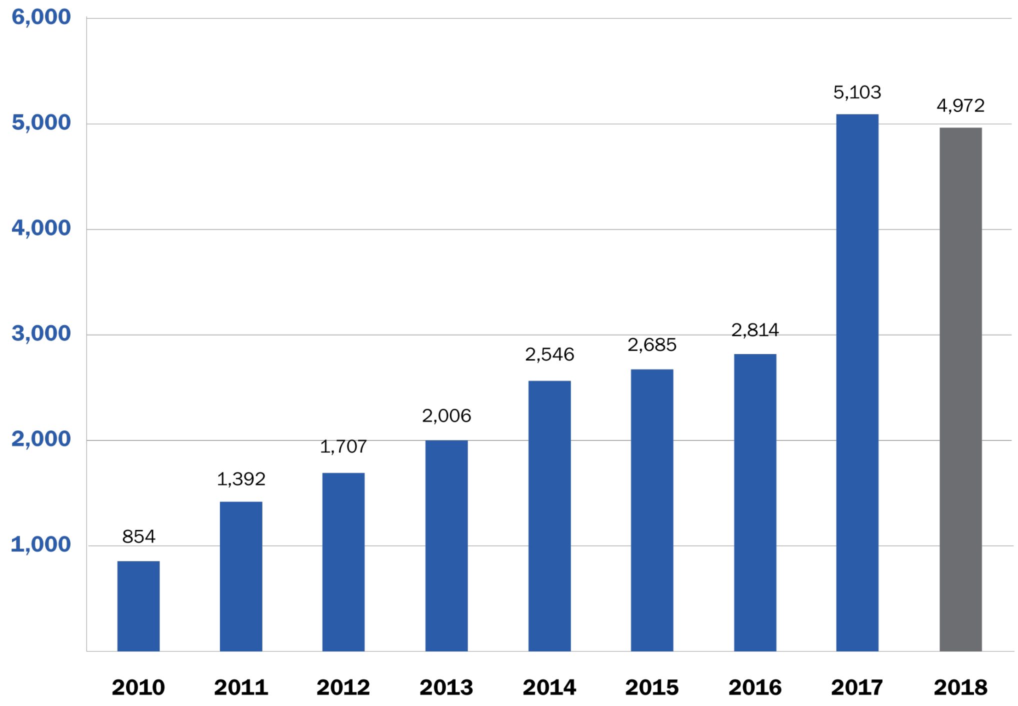
Cards in Force



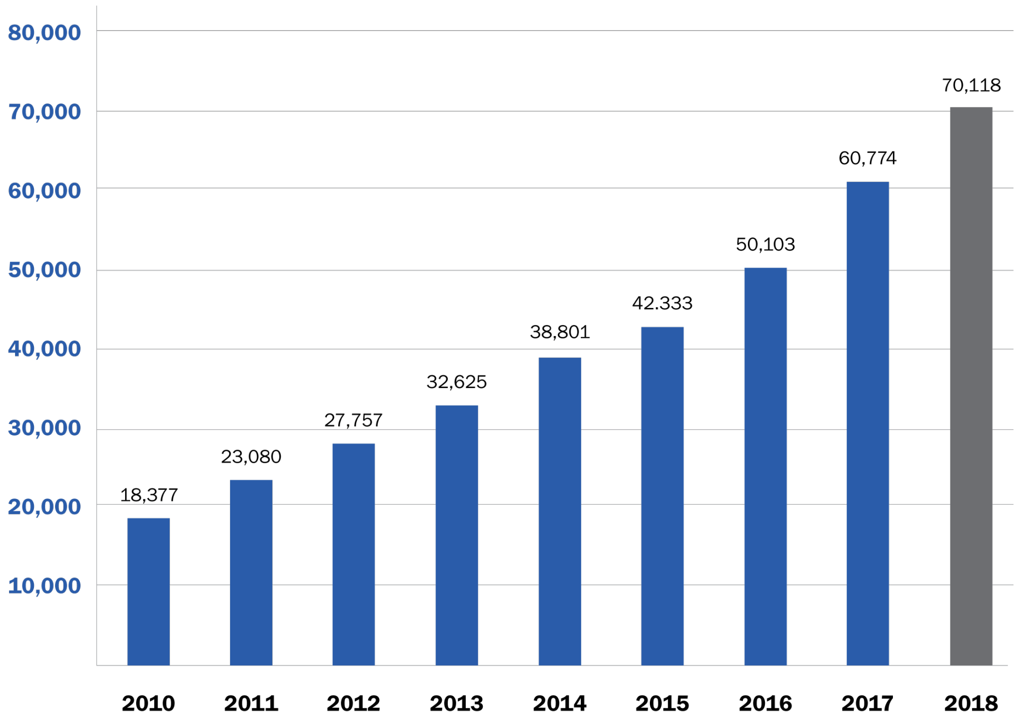
Past Due Rate



Net Income (in Mio)



AR Current-179 (in Mio)



Message from the Chairman

To our dear stakeholders,

It has been another remarkable year for Metrobank Card Corporation. In a year where we've achieved so much, it has been shown that this success was only the tip of the iceberg because of the exciting new synergies between MCC and Metrobank.

2018 was the year where MCC became fully owned by Metrobank. What began as a joint venture back in 2003 has now transformed into a leading market player today, offering diverse products on payment solutions.

This fulfilling partnership will in turn improve synergy and cross-sell, increase profitability and improve capital efficiency. In the long run, this will also enable Metrobank to be more competitive in the credit card business. We look forward to working as one because MCC is in good hands with Metrobank.

As the year closes with a huge and valuable transformation, I would like to impart our record of achievements with you, our stakeholders, with a hopeful sense of pride and purpose and a renewed burst of energy for the next year.

Mabuhay!

FABIAN S. DEE
Chairman of the Board

President's Report

I am pleased to report another strong year for Metrobank Card Corporation (MCC) – new business innovations, continued expansion, focus on Risk Management leading to excellent financial results for the year 2018.

In 2018, MCC posted a P4.97 billion Net Profit After Tax (NPAT) with an annualized Return on Equity (ROE) of 34.9%. MCC's cards-in-force ended at 1,496,616 which yielded an 11% growth in billings and 15% growth in receivables. MCC's total assets grew by 10.36% to P83 billion, with a Return on Assets (ROA) of 6.3% – which is much greater than the 1.1% ROA of the Top 10 Universal and Commercial Banks in the Philippines.

2018 saw us sustain our leadership position in terms of total number of Cards in Force (CIF), Merchant Acquiring Billings, and Receivables –proof that our commitment to customer service excellence has resulted in continued business growth.

This year also marked the biggest single fund raising activity of MCC to date, where MCC raised a USD165 million in its offshore loan syndication.

CONTINUOUS BUSINESS GROWTH

MCC has been highly successful since it was formed in 2003 as a joint venture between ANZ Funds Pty Ltd (ANZ) and Metropolitan Bank & Trust Company (Metrobank). In support of Metrobank's growth strategy and to maximize operational efficiencies, MCC moved as one and became a 100% wholly-owned subsidiary of Metrobank in September.

To boost the growing businesses of MCC, the Insurance Commission granted the General Agency License (GAL) of MCC, in coordination with Philippine AXA Life as the insurance sponsor. This enables MCC to further grow the Insurance Business and increase its commercial scope.

IMPROVED CUSTOMER EXPERIENCES

MCC launched several innovative products and partnerships to challenge the status quo and improve customer experience in 2018 to address the continuous evolution of cardholders' needs. In October, MCC relaunched the improved Metrobank World Mastercard, its most premium credit card. Towards the end of the year, MCC has collaborated with a number of key partners from various industries to launch new White Label Prepaid Cards. MCC also surpassed the standards on customer satisfaction for the Finance and Banking Sector in a Customer Satisfaction Survey conducted with Kantar TNS Philippines with a score of 94 vs. 78 for Asia and 79 for Southeast Asia.

2018 enhanced the digitalization of MCC's promotions through online gamification and raffles, such as The Winzone and Strike to Millions, as well as through digital redemptions with merchants such as McDonald's. Together with Victory Liner, MCC launched the PISO TRIP, the first-ever 1-peso seat sale for land in the country.

MCC was also one of the first few payment solutions providers in the country to include China's top digital payment providers, WeChat and Alipay into its payment processing capabilities.

RECOGNITION OF SUCCESS

Our consistent achievements did not go unnoticed: In March, we won the Gold Apple Award for Credit Card Promotion of the Year from Robinsons Supermarket. In June, the Employer Branding Institute and World HRD Congress selected MCC for the Philippines Best Employer Brand Awards 2018 in the banking sector. In September, we bagged four regional major awards and received two high commendations for several of our products, programs and innovations at the 5th Cards And Electronic Payments International (CEPI) Asia Awards.

MCC scored its highest ever Employee Engagement Score in 2018 at 92% – the highest in Philippine financial sector and second highest among all companies.

MOVE, CHALLENGE, AND CONQUER

2018 was a year full of new beginnings and successes. As we look back and share our history and achievements, we also look forward to a triumphant future for MCC.

In 2019, we shall strengthen our customer focus, grow our digital and data analytics to build market share, and establish a robust risk management as we continue to move, challenge, and conquer new heights.

PRADEEP PANT
President


Metrobank

Our Products and Services

At the heart of every product and service is the customer. We redefine the standard for customer and partner satisfaction by delivering superior quality of service at every point of contact through even the smallest of actions. It's a constant journey of improvement, and Metrobank Card is fully dedicated to nurturing and deepening our relationships with our customers.

Credit Cards

Metrobank Card Corporation offers a range of credit card products suitable to meet the needs of the Philippine Market. Cardholders enjoy increased spending power and international purchasing convenience with acceptance in over 40 million establishments worldwide. Our credit card products offer perks and privileges that allow cardholders to get maximum value for their money.

METROBANK CLASSIC MASTERCARD AND GOLD MASTERCARD

Metrobank Card's core Mastercard credit cards give cardholders increased spending power at all Mastercard partner establishments worldwide.

METROBANK CLASSIC VISA AND GOLD VISA

Metrobank Card's core Visa credit cards provide purchasing convenience at tall Visa-accredited merchants in the Philippines and abroad.

METROBANK FEMME VISA

The Metrobank Femme Visa offers the perks and privileges that a woman deserves, including exclusive offers at shopping, beauty, and wellness establishments.

METROBANK FEMME SIGNATURE VISA

The Metrobank Femme Signature Visa is the first local Signature Visa and this is the credit card targeted exclusively for women. It offers a most exclusive and rewarding experience for its premium cardholders.

METROBANK TRAVEL PLATINUM VISA

The Metrobank Travel Platinum Visa is Metrobank Card's first complete travel card that allows cardholders to earn 1 mile for every P17 spent overseas, including airlines and hotels. It also lets them enjoy unlimited airport lounge access, free travel insurance of up to P5 million coverage, and special travel offers.


GRAND HYATT
20% OFF rooms;
20% OFF at The Grand Kitchen & The Lounge at Grand Hyatt Manila.


Holiday Inn & Suites
50% OFF at Holiday Inn Makati
Enjoy premium accommodations and dining at half the price. Only with your Metrobank Femme Signature Visa or Metrobank Travel Platinum Visa.
Metrobank Card


ZALORA
Enjoy 20% OFF for a minimum spend of P1,500. Only with your Metrobank Femme Visa or Metrobank Femme Signature Visa.
Use code: FEMME20
Valid on Sale Items. Brand exclusions apply.
Promo period is from February 5 to March 31, 2018.
Metrobank Card


Two Seasons
50% OFF at Two Seasons Coron
Delight in the finest of luxury living at half the price.
Metrobank Card


The Spa
50% OFF at The Spa
Pay only half the price on all services using your Metrobank Femme Visa, Metrobank Femme Signature Visa or Metrobank Gold Visa.
Metrobank Card


barre3
all exercise studio
50% OFF at Barre3
Pay only half the price on all services using your Metrobank Gold Visa.
Metrobank Card

METROBANK PESO PLATINUM MASTERCARD

The Metrobank Peso Platinum Mastercard offers access to a wide-range of world-class privileges. It offers an exclusive 24/7 VIP Customer Service hotline, concierge service, and 50% OFF at participating hotels and restaurants.

METROBANK WORLD MASTERCARD

The Metrobank World Mastercard is the most premium credit card in the market, offering a credit limit that nearly sets no borders. It offers exclusive access, global discounts and premium privileges through Mastercard Airport Experiences and Mastercard Traveler Rewards..

METROBANK DOLLAR MASTERCARD

The Metrobank Platinum Dollar Mastercard allows cardholders to be charged in US dollars regardless of the currency transacted.

M FREE MASTERCARD

The M Free Mastercard is an annual fee-free credit card. It offers worldwide acceptance and convenience with perks and privileges.

M LITE MASTERCARD

The M Lite Mastercard is a low interest rate credit card loaded with built-in card features and privileges.

METROBANK ON INTERNET MASTERCARD

The Metrobank ON Internet Mastercard enables cardholders to shop more securely online. It is designed for non-face-to-face transactions, and offers greater security and peace of mind.

ROBINSONS MASTERCARD (CLASSIC AND GOLD)

The Robinsons Mastercard is the only credit card that completes a cardholder's shopping experience. Launched in partnership with the Robinsons Retail Group, the Robinsons Mastercard gives cardholders Shopping Points, exclusive rewards, payday rebates, and discounts in Robinsons stores.

TOYOTA MASTERCARD

The Toyota Mastercard was launched through a partnership between Metrobank Card and Toyota Motor Philippines. Offering discounts at Toyota dealers, fuel rebates from Petron, and Rewards Points for all card spending, the Toyota Mastercard is indeed the country's first complete motorist card.

PSBANK CREDIT MASTERCARD

The PSBank Credit Mastercard is a card with no annual fee for life, launched through a partnership between Metrobank Card and Philippine Savings Bank. It offers flexible payment schemes, installment programs, and exclusive perks and privileges, providing Filipinos and affordable financial tool that helps take care of simple needs and manage expenses.


Start a trend. Live your life.
Indulge with rewards you deserve.
Metrobank Card


The WinZone
Join the raffle. Play the game.
Metrobank Card


ZALORA
ON
Metrobank Card


10% REBATE
Say YAY! for Payday Weekends!
Payday weekend dates:
Metrobank Card


KIMPURA
50% OFF at KIMPURA
Metrobank Card


Go farther than the road with your new Toyota Mastercard.
Metrobank Card


COD
CITY OF DREAMS
50% OFF at NOBU Restaurant, The Tasting Room and Crystal Dragon, City of Dreams Manila
Metrobank Card

Prepaid Cards

Metrobank Card Corporation offers Reloadable Prepaid Cards that enable cashless payments in all accredited Visa merchants worldwide and online. It can also be used in all BancNet and Visa accredited ATMs for cash withdrawals. As the Prepaid Cards cater to a broad customer base, they are sold in major retail establishments with over 5,000 loading points nationwide.

YAZZ RELOADABLE PREPAID VISA CARD

The YAZZ Prepaid Visa lets you enjoy all the benefits and payment convenience of a credit card without the hassles of a credit card application. Cardholders can receive money from their loved ones, withdraw cash from a BancNet ATM, and even safely keep their savings without opening a bank account and maintaining a balance. Cardholders also get to enjoy YAZZ perks and privileges in partner establishments nationwide.

VICTORY LINER PREMIERE PREPAID VISA CARD

The Victory Liner Premiere Prepaid Visa Card is the ultimate loyalty card for Victory Liner passengers. Cardholders get to enjoy the benefits of booking Victory Liner tickets online and over the phone, having a special VIP lane when buying tickets at any Victory Liner station, sending or receiving money transfers, and getting perks and discounts from partner establishments of Victory Liner.

NWORLD CASH CARD RELOADABLE PREPAID VISA

The NWorld Cash Card Reloadable Prepaid Visa is the gateway for NWorld distributors to receive their commissions, purchase NWorld products and boost promotions of their inventory online and more access to cashless transactions. NWorld Distributors can also easily withdraw the loaded commission at any BancNet ATMs nationwide.

Insurance

The Insurance Commission issued Metrobank Card Corporation its certification to be a General Insurance Agency in 2018. As a General Insurance Agency, MCC can further expand its insurance sales channels to include face-to-face, online and corporate selling, and direct mailing, on top of telemarketing. MCC can now recruit financial advisors and sell various insurance products of AXA covering Investment, Retirement, Education, Health, and General Insurance.


20% OFF
on room rates
Free Ube Panna Cotta for every purchase of P1,000 at Raincoat Coffee
YAZZ
VISA
YAZZ Perks
G1


50% OFF
on warts removal
Get a FREE hand paraffin for every facial or whole body massage treatment
YAZZ
VISA
YAZZ Perks
Bioessence


15% OFF
on room rates during peak season
10% off on food items at the restaurant for a minimum purchase of ₱500
YAZZ
VISA
YAZZ Perks


10% OFF
For a minimum purchase of ₱500
YAZZ
VISA
YAZZ Perks
Bo's COFFEE


50% OFF
on Deluxe Room with breakfast for 2
FREE Tiramisu for a minimum purchase of ₱1,000 at My Kitchen
YAZZ
VISA
YAZZ Perks
THE OASIS


FREE
Eyebrow shaping
For every Linkage Meu Treatment
YAZZ
VISA
YAZZ Perks


35% OFF
on room rates
10% off on ala carte orders at Tanglaw Restaurant
YAZZ
VISA
YAZZ Perks


10% OFF
for a minimum purchase of ₱2,000
YAZZ
VISA
YAZZ Perks
tonch


10% OFF
on room rates
YAZZ
VISA
YAZZ Perks
HOTEL VENIZ
HOTEL VENIZ

Programs and Facilities

Metrobank Card Corporation offers a range of services that allow its cardholders to enjoy exclusive discounts, flexible payment schemes, various installment programs, and convenient digital platforms.

M HERE

M Here highlights the presence of Metrobank Card Corporation in leading establishments and caters to the urban and trendy lifestyle of its cardholders. It offers perks, privileges, discounts and freebies to all Metrobank Cardholders.

NATIONAL ACQUISITION PROGRAM

National Acquisition Program provides an incentive for new customers applying for a Metrobank credit card. It allows cardholders to enjoy a special welcome gift upon upon approval of their new Metrobank credit card.

NATIONAL USAGE PROGRAM

The National Usage Program encourages and rewards existing cardholders to use their Metrobank credit card for their everyday spend anywhere through partnerships with prominent brands.

E-COMMERCE

E-commerce offers perks, privileges, and discounts to Metrobank Cardholders at local and international online merchants.

OVERSEAS SPEND

Overseas Spend rewards Metrobank Cardholders who reach a minimum accumulated spend in their own transactions.

0% INSTALLMENT

The 0% Installment allows financial flexibility with no added cost. It offers cardholders the opportunity to purchase products on installment up to 24 months with no additional interest


beyond
50% OFF 2 weeks unlimited package;
20% OFF 3 months unlimited package;
FREE 4 classes for every 20-class
pass purchase at Beyond Yoga.
Promo period is from June 1 to August 31, 2018.
Metrobank Card


Holidays well spent with
Metrobank Card 0% installment deals.
Metrobank Card


All roads lead to
Cash Back rewards
Use your new Metrobank card ANYWHERE and get as much as P5,000 Cash Back credit.
Promo period is from November 20 to December 31, 2018.
Metrobank Card


Pick a box to win an
instant McDonald's treat!
Earn 1 game code for every P3,000 single-receipt
purchase on your Metrobank Card and enjoy
your McDonald's favorites instantly!
Metrobank Card


SHOPBACK
Shop from your favorite online stores and earn
P200 credits when you sign-up at Shopback
only with your Metrobank Card.
Shop now www.shopback.com to avail.
Promo period is from April 12 to December 31, 2019.
Metrobank Card


Traveling just got a lot more rewarding.
Earn up to P15,000* cash rebate on your overseas
and online purchases using your Metrobank Card.
Promo period is from November 5, 2018 to January 31, 2019.
Metrobank Card

CASH2GO

Cash2Go provides fast cash for any need or occasion. It allows cardholders to get cash and pay in installments at low interest rates per month in 3- to 36-month terms.

BILLS2PAY

Bills2Pay allows Metrobank Cardholders enjoy hassle-free utility payments. They can enroll their Meralco, PLDT, Globe Telecom, SMART, SUN, and Sky Cable Network in Bills2Pay and their monthly bills will be automatically charged to their credit cards.

BALANCE TRANSFER

Balance Transfer lets cardholders transfer their outstanding balance from their non-Metrobank Card to their Metrobank Card and pay at a lower interest rate in 6- to 24- month terms.

BALANCE CONVERSION

Balance Conversion lets cardholders convert their billed straight purchases into light monthly installments.

M ONLINE

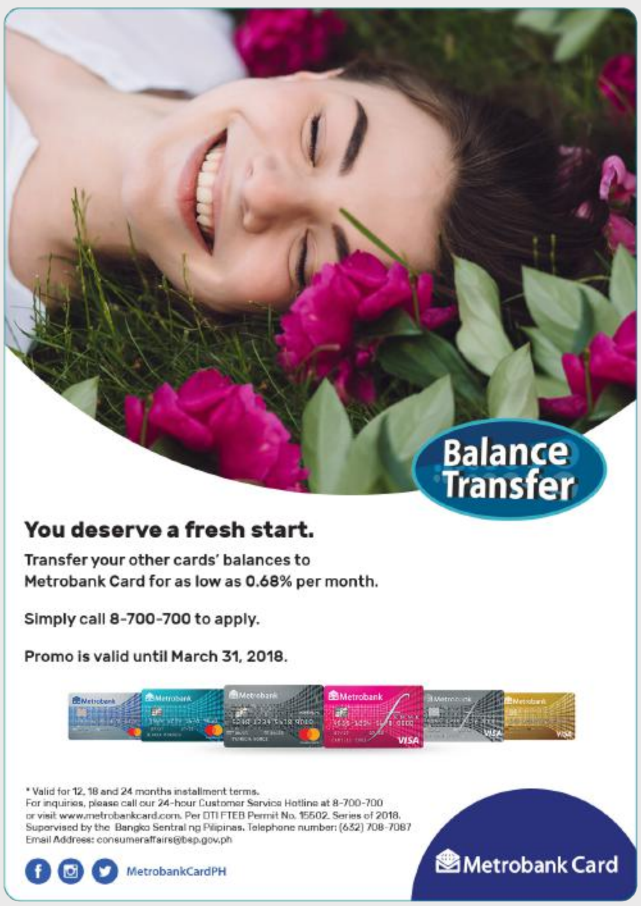
M Online is Metrobank Card's up-to-date website that lets cardholders get instant information on their Metrobank Card. It allows cardholders to view their Statement of Account, pay their card bill, find out about the latest promos, learn more about their card's features, and apply for a new Metrobank credit card.

METROBANK CARD MOBILE APP

The Metrobank Card mobile app allows Metrobank cardholders to know more about Metrobank Card's ongoing promos and apply for a new Metrobank Card from their mobile devices. It is both available on iOS and Android platforms.

Cash2Go
Get more out of life.
Cash2Go makes it possible with our lowest rate of 0.99% per month and longest tenor of 36 months*.
How to avail:
• Log on to https://www.metrobankcard.com/onlineservices
• Text MCC<space>CASH<space>FULL NAME<space>LAST 4 DIGITS OF CARD NO.
• Call 8-700-766 or 1-800-1-888-5775 (Domestic Toll Free).
* Also valid for 12, 18 and 24 months installment terms.
For inquiries, please call our 24-hour Customer Service Hotline at 8-700-700 or visit www.metrobankcard.com. Promo extended until June 30, 2018 as approved by DTI-FTEB. Per DTI FTEB Permit No. 15500, Series of 2018.
Supervised by the Bangko Sentral ng Pilipinas. Telephone number: (632) 708-7087
Email Address: consumeraffairs@bsp.gov.ph
MetrobankCardPH
Metrobank Card

Bills2Pay
PLDT
MERALCO
may liwanag ang buhay
Globe
SKYCABLE
Maynilad
Smart
Free yourself from queues and missed payment dues.
Enroll in Bills2Pay and auto-charge your monthly utility bills.
To enroll, register online at www.metrobankcard.com/onlineservices.
Make more time for activities that matter!
Click here to register
Terms and conditions apply. For inquiries, please call our 24-hour Customer Service Hotline at 8-700-700 or visit www.metrobankcard.com. Supervised by the Bangko Sentral ng Pilipinas. Telephone number: (632)708-7087.
Email Address: consumeraffairs@bsp.gov.ph
MetrobankCardPH
Metrobank Card



Balance Transfer
You deserve a fresh start.
Transfer your other cards' balances to Metrobank Card for as low as 0.68% per month.
Simply call 8-700-700 to apply.
Promo is valid until March 31, 2018.
* Valid for 12, 18 and 24 months installment terms.
For inquiries, please call our 24-hour Customer Service Hotline at 8-700-700 or visit www.metrobankcard.com. Per DTI FTEB Permit No. 15502, Series of 2018.
Supervised by the Bangko Sentral ng Pilipinas. Telephone number: (632) 708-7087
Email Address: consumeraffairs@bsp.gov.ph
MetrobankCardPH
Metrobank Card

Cash2Go
Get more out of life.
Cash2Go makes it possible with our lowest rate of 0.99% per month and longest tenor of 36 months*.
Simply call 8-700-700 to apply.
Promo is valid until March 31, 2018.
* Also valid for 12, 18 and 24 months installment terms.
For inquiries, please call our 24-hour Customer Service Hotline at 8-700-700 or visit www.metrobankcard.com. Per DTI FTEB Permit No. 15500, Series of 2018.
Supervised by the Bangko Sentral ng Pilipinas. Telephone number: (632) 708-7087
Email Address: consumeraffairs@bsp.gov.ph
MetrobankCardPH
Metrobank Card

Merchant Acquiring

Metrobank Card offers its partner merchants a portfolio of payment solutions.

POINT-OF-SALE (POS) TERMINALS

Metrobank Card's cutting-edge POS terminal fleet allows partner merchants to process Mastercard, Visa, JCB, UnionPay International, BancNet Debit cards, WeChat Pay and Alipay transactions in a matter of seconds. Each is a one-stop shop terminal, integrated with the following up-to-date features:

• *EMV (Europay, Mastercard, and Visa) Certified Contactless.* Metrobank Card's POS terminals are equipped with compliant EMV chip card reader for additional fraud and chargeback protection. The POS terminal's secure contactless payment capability enhances overall customer experience for everyday purchases.

• *MCC Installment acceptance.* Payment flexibility through the various installment options such as 0% installment and Shop Now, Pay Later.

• *Alipay and WeChat Pay.* MCC has partnered with China's top digital payment providers, Alipay and WeChat Pay, in enabling local merchants using MCC's payment platform to accept QR based mobile payments.

• *Mobile Point-Of-Sale solution.* It is a secure, low-cost and industry-compliant payment platform that provides a protected, cashless environment for merchants and customers. It cuts across the different market segments—from small and traditional retail, to corporate wholesale.

• *Loyalty Card and Gift Card acceptance.* Our terminals can support merchant loyalty programs such as points earning, redemption and inquiry.

• *3G-enabled.* Equipped with mobile and wireless capability, Metrobank Card's 3G POS terminals provide a seamless and faster payment experience.

• *ECR (Electronic Cash Register) Integration.* End-to-end integration from merchant ECR machines to Metrobank Card POS terminals.

INTERNET PAYMENT SOLUTION

The Internet Payment Solution facility enables Metrobank Card merchants to accept card payments for online transactions via the Mastercard Internet Gateway Service. It allows online merchants to accept secure card payments that are authenticated by Mastercard Secure Code and Verified by Visa.

RECURRING PAYMENT SOLUTION

The Recurring Payment Solution facility provides Metrobank Card merchants the ability to set up automatic and scheduled payment arrangements with their customers. It allows the collection of monthly recurring fees and charges such as memberships, subscriptions, insurance premiums, and utility bills.

MAIL ORDER TELEPHONE ORDER (MOTO)

The MOTO payment facility allows credit card acceptance for purchases made over the phone or by mail. It gives access and convenience to a wider customer base for card-not-present transactions.

Corporate Governance

Over the years, the company's brand of corporate governance has greatly defined every aspect of our identity and leadership. We operate on transparency, accountability, and security, and it has guided the principles and policies of our business and corporate culture to further serve as aids to our success.

Corporate Governance

The Board of Directors and Senior Management of MCC are firmly committed to good corporate governance and are cognizant of the fact that it is the foundation of safe and sound operations. The view that creation and maintenance of shareholder value can only be achieved if sound corporate governance is in place is strongly espoused by the Company. MCC believes that it is essential to have an effective compliance program to promote the total commitment of the stockholders, Board of Directors, and Senior Management to compliance. It is equally believed that through good corporate governance, protection of the rights of all stakeholders can be ensured. MCC Board and Management adhere to the basic principles of accountability, fairness, integrity and transparency for the safe and sound operations of the company. MCC Board and Management believe that accountability should permeate the entire organization starting with its directors and officers all the way to its staff. There should also be integrity in every action and more importantly, transparency in all its business dealings.

All Board members have undergone training in corporate governance and have been duly certified therefor. The Board is composed of professionals from various fields of expertise such as banking, law, general business and finance. MCC is assured that each director is capable of adding value and formulating sound corporate policies.

Board of Directors

The overall vision, strategic objectives, key policies, and the monitoring and evaluation of the management performance are set by the Board of Directors. It is part of the Board's mandate to ensure the adequacy of internal controls and risk management practices, accuracy, and reliability of financial reporting, and compliance with applicable laws and regulations.

The roles of the Chairman and the CEO or President are separate to establish accountability and ensure Board independence from management. Of the seven members of the Board, only the President or CEO is an executive director. The Chairman on the other hand, though assumes a non-executive function, provides leadership in the Board who ensures effective functioning thereof including maintaining a relationship of trust with and among Board members. The Chairman likewise ensures a sound decision making process who promotes critical discussions in the company's top collegial body which is the Board.

Board Committees

The Board of Directors is supported by seven (7) Board Committees with their respective mandates as follows:

1. EXECUTIVE COMMITTEE. The Executive Committee acts on behalf of the Board and has the general power and competence to perform any act or make any decision (or authorize the performance of any act or the making of any decision) with the general competence and authority of the Board subject to the limitations stated in the By-Laws of the Company.

Anjanette Ty Dy Buncio	Chairperson
Richard Benedict S. So	Member
Pradeep Pant	Member

2. AUDIT COMMITTEE. The Audit Committee provides oversight of the internal and external audit functions and ensures both the independence from management of internal audit activities as well as the compliance with the regulations governing accounting standards on financial reporting. It approves the annual audit plan, the annual audited financial statements, and the analysis of results of operations as submitted by the Internal and External Auditor. It also evaluates strategic issues relating to plans and policies, financial and system controls, and methods of operation for adequacy and improvements.

Francisco S. Magsajo, Jr. *(Independent Director)*	Chairperson
Benedicto Jose R. Arcinas *(Independent Director)*	Member
Richard S. So	Member

3. NOMINATION COMPAENSATION & REMUNERATION COMMITTEE. The NCR Committee leads the process for identifying and recommending candidates for appointment to the key positions in the institution taking into full consideration the succession planning

BOARD MEMBER	TYPE	NO. OF YRS	% SHARES
Fabian S. Dee	Non-executive	12	0.00001
Anjanette T. Dy Buncio	Non-executive	15	0.00001
Pradeep Pant	Executive	1	0.00001
Francisco S. Magsajo, Jr	Independent	3	0.00001
Richard S. So	Non-executive	8	0.00001
Angelica H. Lavares	Non-executive	1	0.00001
Benedicto Jose R. Arcinas	Non-executive	1	0.00001

and the leadership and skills needed in MCC. It provides oversight on the compensation and remuneration of matters of the entire organization.

The NCR Committee leads the process for identifying and recommending candidates for appointment to the key positions in the institution taking into full consideration the succession planning and the leadership and skills needed in MCC. It provides oversight on the compensation and remuneration of matters of the entire organization.

Anjanette Ty Dy Buncio	Chairperson
Angelica H. Lavares *(Independent Director)*	Member
Francis S. Magsajo, Jr. *(Independent Director)*	Member

4. CORPORATE GOVERNANCE COMMITTEE. The Corporate Governance Committee is tasked primarily to assist the Board in formulating policies and overseeing the implementation of MCC's corporate governance practices. It conducts annually the performance self-evaluation of the Board of Directors and its committees. It also oversees the implementation of the orientation of newly-elected Directors. In 2018, an annual performance review of the Board as a whole, the Committees, individual directors and the President was conducted using assessment questionnaires that measure their effectiveness.

Angelica H. Lavares *(Independent Director)*	Chairperson
Richard S. So	Member
Francis S. Magsajo, Jr. *(Independent Director)*	Member

5. RISK OVERSIGHT COMMITTEE. The Risk Management Committee is responsible for the development of MCC's risk policies and defining the appropriate strategies for identifying, quantifying, managing and controlling risk exposures including preventing and/or minimizing the impact of losses to the organization. It oversees the implementation and review of the enterprise wide risk management plan and system of limits of management's discretionary authority delegated by the Board. It is also responsible for reassessing the continued relevance, comprehensiveness, and effectiveness of the risk management plan, and introduces revisions thereto as needed.

Benedicto Jose R. Arcinas	Chairperson
Angelica H. Lavares *(Independent Director)*	Member
Richard S. So	Member

6. RELATED-PARTY TRANSACTIONS COMMITTEE. The Related-Party Transactions Committee ensures that transactions with related parties (including internal Group transactions) of MCC are reviewed to assess the risks, are subject to appropriate restrictions to ensure that such are conducted at arm's-length terms and that corporate or business resources are not misappropriated or misapplied.

Angelica H. Lavares *(Independent Director)*	Chairperson
Richard S. So	Member
Francis S. Magsajo, Jr. *(Independent Director)*	Member

7. IT STEERING COMMITTEE. The IT Steering Committee is tasked to regularly review, endorse/approve, monitor and report to the Board MCC's Annual review of the IT Strategic Plan, IT Projects and initiatives, and related risks, IT Operations and Performance, Information Security Program and Policies (IT-specific), IT Outsourcing activities and IT Policies, Procedures and Standards. The Committee also reviews, approves and endorses for Board's approval outsourcing to cloud environment and the provision of electronic services to customers.

Richard S. So	Chairperson
Deputy Cards Head	Co-Chairperson
President, Head of Business Technology, Head of Operations, Head of Credit Operations, Chief Financial Officer, and Head of Merchant Acquiring,	Members
Chief Risk Officer, Internal Audit Head, and MBTC IT Resource	Advisers

MEMBERS	**DATES OF REGULAR & SPECIAL MEETINGS IN 2018**														
	08 January (*Special Joint*)	22 January (*Special Joint*)	01 March (*Special BOD*)	06 April (*Special BOD*)	24 April (*Regular BOD*)	24 April (*Annual SH Meeting*)	24 April (*BOD Organizational*)	29 June (*Regular BOD*)	15 August (*Special BOD*)	04 September (*Special Joint*)	14 September (*Regular BOD*)	09 November (*Special BOD*)	29 November (*Special BOD*)	14 December (*Regular BOD*)	Percentage of Attendance (%)
1. Fabian S. Dee	Present	Present	Present	Present	Present	Present	Present	Present	Present	Present	Present	Present	Present	Present	100
2. Anjanette T. Dy Buncio	Absent	Present	Present	Present	Present	Present	Present	Present	Present	Present	Present	Present	Present	Present	92.86
3. Atty. Regis V. Puno (*no longer re-elected*)	Present	Present	Present	Present	Present	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	100
4. Richard Benedict S. So	Present	Present	Present	Present	Present	Present	Present	Present	Present	Present	Present	Present	Present	Present	100
5. Francisco S. Magsajo, Jr.	Present	Present	Present	Present	Present	Present	Present	Present	Present	Present	Present	Present	Present	Present	100
6. Sanjoy Sen (*resigned on 08 January 2018*)	Absent	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	0
7. Panadda Manoleehakul (*resigned on 04 September 2018*)	Present	Present	Present	Present	Present	Present	Present	Present	Present	Present	Not Applicable	Not Applicable	Not Applicable	Not Applicable	100
8. Riko A.S. Abdurrahman (*resigned on 01 February 2018*)	Present	Present	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	100
9. Marie Edgette C. Gamboa (*no longer re-elected*)	Present	Present	Present	Present	Present	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	100
10. Pradeep Pant (*appointed BOD on 22 January 2018*)	Not Applicable	Not Applicable	Present	Present	Present	Present	Present	Present	Present	Present	Present	Present	Present	Present	100
11. Benedicto Jose R. Arcinas (*elected in ASM*)	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Absent	Present	Present	Present	Present	Present	Present	Present	87.5
12. Angelica H. Lavares (*elected in ASM*)	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Absent	Present	Present	Present	Present	Present	Present	Present	87.5

PRESENT **ABSENT** **NOT APPLICABLE**

MCC's Executive Officers

Anna Therese Rita D. Cuenco*	Senior Vice President-Deputy Cards Head/Treasurer
Aloysius C. Alday, Jr.	Senior Vice President-Head of Prepaid and Insurance Business
Jocelyn L. Bata	Senior Vice President-Head of Credit Card Sales, Alliances and Other Channels
Hiroko M. Castro	Senior Vice President-Head of Credit Operations
Harrison C. Gue	Senior Vice President-Head of Operations
Cesar P. Nicolasora, Jr.	Senior Vice President-Chief Finance Officer

**Assumed until November 30, 2018*

PERFORMANCE ASSESSMENT PROGRAM

It is a major objective of the Company to be able to monitor the performance of the Board through an annual self-assessment. A comprehensive self-assessment process was put in place by the Board since 2010 and has since been consistently implemented. This process is administered in the form of a formal questionnaire that is answered by each member of the Board individually and where members of the Board are able to rate their individual performance and that of the Board as a whole. The results are collated and compiled by the Compliance Officer, and are submitted to the Board for discussion and when needed, appropriate action.

ORIENTATION AND EDUCATION PROGRAM

All Board members have undergone training in corporate governance and have been duly certified therefor. All first-time directors have attended a special seminar on corporate governance for board of directors conducted or accredited by the BSP. They are also furnished with a copy of the general responsibility and specific duties and responsibilities of the Board and of a director. As required under regulations, directors are made to certify under oath that they have received copies and fully understand and accept the general responsibility and specific duties accompanying membership in the Board; this certification is eventually submitted to BSP together with a certification that he or she has all the prescribed qualifications and none of the disqualifications of a duly elected director.

The Board is composed of professionals from various fields of expertise such as banking, law, general business and finance. MCC is assured that each director is capable of adding value and formulating sound corporate policies.

RETIREMENT AND SUCCESSION POLICY

Retirement from service in MCC shall be compulsory upon the employee's attainment of his/her fifty-fifth (55th) birthday or thirty (30) years of service, whichever comes first, but MCC has the option to extend his/her retirement period up to his/her sixtieth (60th) birthday. Any member who attains the age of fifty (50) and has completed ten (10) years of service, may opt to retire and shall be paid an amount equivalent to a percentage of his final monthly basic salary for every year of service in accordance with the schedule under Voluntary Separation Benefit.

The Talent Management Program (TMP) or Succession Policy covers the following:

1. Administration-spearheaded by the President, in partnership with the candidates' immediate superiors and division heads, and support of the Human Resources Division (HR).
2. Coverage:
    - Key-Man-Risk
    - Selected Department/Unit Heads
    - Critical and hard-to-find positions as identified by HR
    - Top high performing and high potential employees of MCC
3. Eligibility & criteria of all identified successors
4. Implementation Phases & Strategies-from preparation i.e. identification of Line of Succession and prioritization, assessment, developments & programs, regular talent management reviews, final evaluation, presentation, approvals & deployment of successors.
5. Other initiatives and strategies

REMUNERATION POLICY

The Compensation Policy of MCC includes the following factors used in determining the appropriate compensation of an employee:

1. Hiring rate
2. Promotional increase
3. Upgrade increase
4. Structural Adjustments
5. Acting Capacity Allowance
6. Guaranteed & Performance Bonuses
7. Merit Increase
8. Other salary adjustments

In determining the remuneration of senior management, there are three (3) critical factors that are being considered: (1) External Benchmarking; (2) Internal Equity Analysis wherein Human Resource Compensation & Benefits (C&B) uses salary review, comparative ratio, and C&B financial metrics; and lastly, (3) Salary Structure which reflects the total rewards strategy of MCC and the sole basis in doing salary recommendations across all employees.

To ensure MCC's competitiveness against the market, it is crucial that the salary structure is reviewed annually and also in instances whenever there are regulatory salary adjustments as mandated by DOLE.

All Compensation strategies and initiatives in the policy are subject for analysis and validation of the Compensation & Benefits Head with the approval the Head of Human Resources, the President, NCR Committee and Board of Directors for Senior Officers.

RELATED-PARTY TRANSACTIONS

The Related-Party Transactions Committee ensures that transactions with related parties (including internal Group transactions) of MCC are reviewed to assess the risks, are subject to appropriate restrictions to ensure that such are conducted at arm's-length terms and that corporate or business resources are not misappropriated or misapplied.

Policies and guidelines on related party transactions (RPT) are in place in MCC and the company undertakes to implement these in order to provide guidance on RPTs and to ensure that the highest ethical standards consistent with the principles for enhancing corporate risk governance are properly observed. Transactions between and among related parties create financial, commercial and economic benefits to Metrobank Card Corporation (MCC) and to the entire conglomerate, Metrobank Group, where it belongs. In this regard, related party transactions are generally allowed provided that these are done on an arm's length basis. MCC's implementation is pursuant to and consistent with BSP Circular 895, Guidelines on Related Party Transactions which recognizes the financial, commercial and economic benefits created by RPTs to individual institutions and the group to which it belongs.

COMPLIANCE & INTERNAL AUDIT

MCC has built a robust compliance program focused on enforcement of the Corporate Governance Manual, Money Laundering & Terrorist Financing Prevention Program (MLPP), Code of Business Conduct & Ethics, and other regulatory requirements.

MCC Compliance reports directly to the Board Corporate Governance Committee and the Chairman of the Board. The Compliance Office ensures timely submission of reports, issues advisories on new regulations or amendments, initiates policy pronouncements and implementation, engages regulators on their onsite and offsite reviews, provides training to employees and reports on significant compliance issues to the management and the Board.

The MCC Internal Audit function forms an integral part of the Company's corporate governance framework. It assists the Board in discharging its corporate governance responsibilities through ensuring adequate oversight of internal controls. Specifically, Internal Audit provides an independent, objective assurance and consulting function established to examine, evaluate, and improve the effectiveness of internal control, risk management, and governance systems and process of MCC which helps management and the board of directors in protecting the institution and its reputation.

It is part of the Board's mandate to ensure the adequacy of internal controls and risk management practices, accuracy, and reliability of financial reporting, and compliance with applicable laws and regulations.

DIVIDEND POLICY

MCC's BOD is responsible for generating all resolutions on the declaration and payment of dividends. It may declare dividends out of the company's unrestricted or free retained earnings and undivided profits as of the calendar year-end immediately preceding the date of the dividend declaration, unless an appropriation of its retained earnings is specifically made for this purpose. Dividends may be payable in cash or in stock and the amount is based on a sound accounting system and loss provisioning processes under existing regulations, which takes into account relevant capital adjustments including losses, bad debts, and unearned profits or income.

By policy, MCC may only declare cash dividends provided that its capitalization will not fall below the minimum required combined capital accounts of the BSP or below the minimum risk-based capital ratios, including capital conservation buffer requirements and higher loss absorbency requirements as stipulated in the BSP's existing capital adequacy framework. For the year 2017, MCC did not declare any dividends.

CONSUMER PROTECTION

MCC adheres to consumer protection standards relating to disclosure and transparency, protection of client information, fair treatment, effective recourse, and financial education and awareness in its dealings with financial consumers. These are embedded into the corporate culture of MCC, enhancing further its defined governance framework while addressing conflicts that are inimical to the interests of its customers.

The Board of Directors (Board) is ultimately responsible in ensuring that consumer protection practices are embedded in MCC's business operations. The Board and Senior Management are responsible for developing MCC's consumer protection strategy and establishing an effective oversight over MCC's consumer protection programs. The Board is primarily responsible for approving and overseeing the implementation of MCC's consumer protection policies as well as the mechanism to ensure compliance with said policies. While Senior Management is responsible for the implementation of the consumer protection policies approved by the Board, the latter is responsible for monitoring and overseeing the performance of Senior Management in managing the day to day consumer protection activities of MCC. MCC has adopted a Consumer Protection Risk Management System (CPRMS) in 2015 as part of its corporate-wide Risk Management System. The CPRMS is a means by which consumer protection risks inherent in MCC's operations are identified, measured, monitored and controlled. These include both risks to the financial consumer and MCC. MCC's CPRMS provides the foundation for ensuring MCC's adherence to consumer protection standards of conduct and compliance with consumer protection laws, rules and regulations, thus ensuring that MCC's consumer protection practices address and prevent identified risks to MCC and associated risk of financial harm or loss to consumers.

As prescribed by the Bangko Sentral ng Pilipinas Circular 857, MCC established its Consumer Protection Manual which defines the general framework of MCC's consumer protection policy and stance. This manual aims to promote clarity and consistency of approach in relation to MCC's commitment in ensuring the following:

- Protection of its customers against deceptive, unfair and unconscionable sales acts and practices;
- Protection of client information;
- Provision of adequate rights and means of redress;
- Provision on information and consumer education.

The risk management activities include the following:

- Risk identification and classification
- Risk analysis and measurement of likelihood and consequences as indicated in MCC's Enterprise Risk Management Manual
- Risk management and mitigation strategies through risk assessment, establishing controls, improvement of business processes and policies, incident reporting and regular operating risk review and self-assessment
- Risk monitoring and review through ongoing monitoring, review and reporting to ensure changing circumstances are managed in line with the risk. This may involve testing of control's effectiveness to ensure suitability, adequacy and effectiveness.

These risk management tools are enforced to ensure adherence to consumer protection standards.

MCC adopts a Consumer Assistance Management System (CAMS) that serves as an avenue for consumers to air out their grievances in the products and services of MCC. MCC has established the consumer assistance channels for customers to provide their feedback and these are through MCC's hotlines and emails. The information on filing a complaint can be accessed in its website at **https://www.metrobankcard.com/feedback** and is likewise displayed in MCC's office premises at the lobby. MCC designated its Service Quality and Delivery Department as the independent unit that will handle the following functions under the supervision of its head who simultaneously designated as Consumer Assistance Officer:

- Monitor consumer assistance process;
- Keep track, identify, and analyze the nature of complaints and recommend solutions to avoid recurrence;
- Report to senior management the complaints received on a monthly basis
- Ensure immediate escalation of any significant complaint

The consumer assistance channels are tasked with the following:
Receive and acknowledge customer concerns

- Record inquiries, requests and complaints in the MCC System
- Review and investigation of concerns
- Address concerns and provide official response to the customer within the prescribed processing time
- Escalate customer concerns based on the escalation process

The end-to-end handling of customer concerns are recorded in the MCC System and controls are implemented on the quality of resolution provided to the customer based on existing policies of MCC.

MCC is committed in ensuring that it delivers excellent service to its customers. MCC has general service standards and key service metrics to measure the complaints management performance. In 2018, MCC's resolution rate is at 94.48% and valid rate of complaints is at 1.33%. The complaints management performance is reinforced by trainings and workshops provided to its personnel. As part of MCC's affirmative action to ensure financial awareness and education to its customers, MCC has utilized its website and social media channels to provide information to cardholders on tips on how to manage credit cards. Comparative information about key features, benefits and risks, and associated fees and charges of different card products of MCC are likewise provided in the website.

MCC endeavors to maintain the low valid rate of complaints against CIF through continuous enhancement of processes by utilizing customer feedback received across all consumer assistance channels.

Risk Management

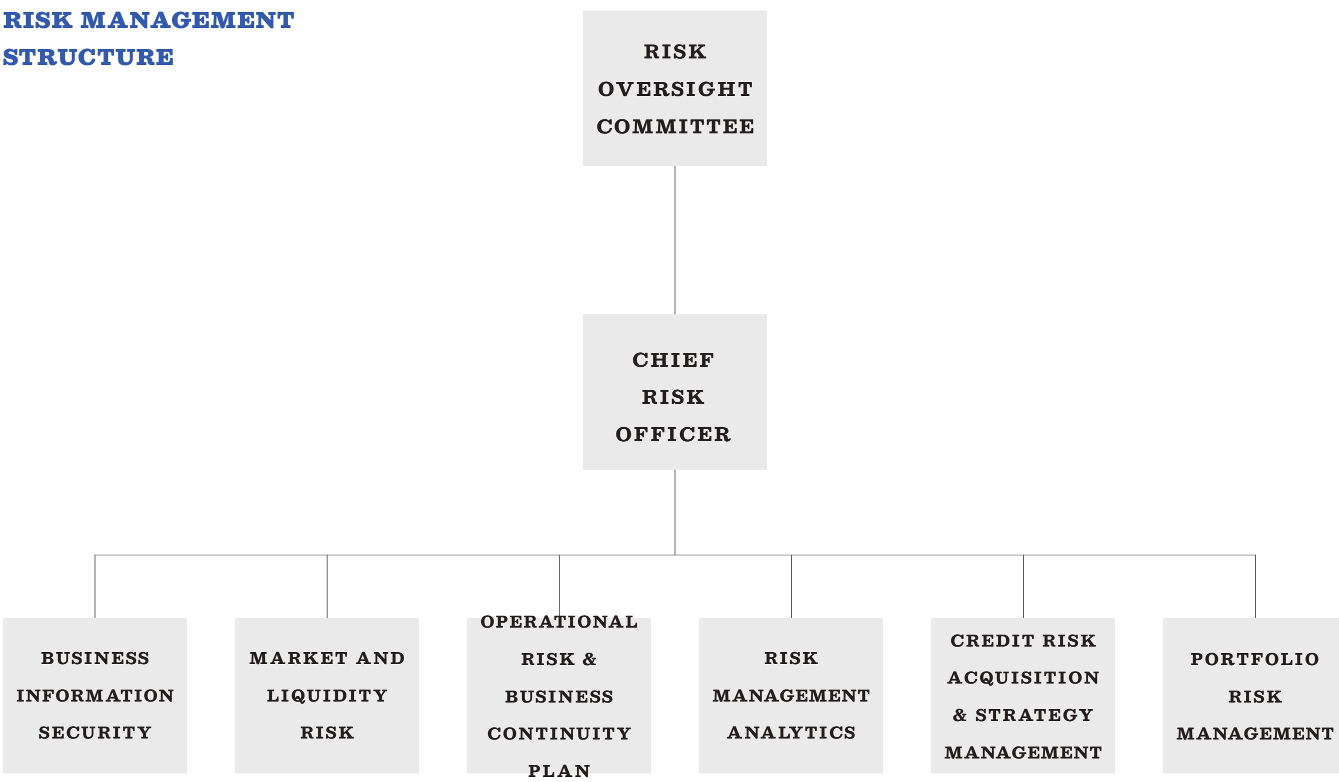
Behind every steady leadership is a solid foundation. For Metrobank Card, it was through risk management that we defined the company's risk appetite framework. Under this rubric, we were able to form a consistent refinement process that is always in step with our continuous growth, expansion, and innovation.

Risk Management

RISK PHILOSOPHY AND GUIDING PRINCIPLES

The Company faces a broad range of risks reflecting its thrust to continue to be the top credit card and payment solutions provider in the Philippines. These risks include those resulting from its responsibilities in the areas of financial stability and profitability, credit policy as well as its day-to-day operational activities. As the company continues to expand to different channels and segments, credit risk is controlled while maintaining profit targets with different test programs. MCC is also exposed to risks that are relevant to Information Technology and the business processes it supports. Exposure to financial risk is limited to capital planning, company loans and liquidity. MCC makes resources available to control process risks to acceptable levels. These processes are continuously being improved to control various risks faced by the company and to minimize loss, if not eliminated, resulting from such exposures. The company is guided with a clearly defined board-approved corporate risk appetite framework structured based on the identified risks in financial, infrastructure, operational and marketplace. The corporate risk appetite framework is set to balance opportunities for business development and growth in areas of potentially high risks while maintaining risk-reward tradeoff and maximizing returns.

RISK MANAGEMENT STRUCTURE



MCC continues to assume a number of risks in pursuit of meeting its strategic growth, financial stability and viability to sustain its development efforts. The framework through which these risks are controlled and managed is overseen by MCC Risk Governance which comprises the Board and the Risk Oversight Committee. Its responsibility resides in all levels of the organization from setting the overall corporate governance strategy and overall risk appetite to upholding risk awareness, acceptance, management and mitigation.

The Risk Oversight Committee, composed of a chairperson and two committee members, is responsible for appropriate oversight of risk management strategies, policies, and processes that have potential impact to the business. It is responsible for measuring and controlling credit and strategic risks, market and liquidity risks, operational and reputational risks, and information security along with adhering to any regulatory requirements from a risk perspective. These types of risks are being assessed and managed to a level that is consistent with the company's corporate risk appetite. Together with the Audit Committee, 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 Division (RMD), Finance, Compliance, and Internal Audit, through the Executive and Management Committees.

In addition to the Risk Oversight Committee, the MCC Senior Management Team (SMT) consisting of key executive members and/or heads of business play an integral role in the oversight of the effectiveness of risk management policies and processes in the business. The SMT includes the Head of Risk Management.

Their primary responsibility is to assist in fulfilling governance responsibilities by establishing and maintaining a robust risk management program that allows for timely identification, analysis, and rectification of risk issues in addition to day-to-day risk management within the business.

The Company ensures that all risks are identified, monitored, controlled, and reported to appropriate senior management.

CREDIT RISK

In a business where exposure to credit risk is inherent, it is very crucial for the Company to manage the risk effectively. In order to achieve this, the Company ensures that sound credit risk management practices are implemented. This is achieved by having adequate controls and operating within sensible and well-defined credit-granting criteria.

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

The Company manages credit risk guided by the following principles:

- Strict compliance to credit policies.
- Credit policies should be in consultation with business units and, where appropriate, supported by MIS reports. This covers credit assessment and process, compliance and regulatory requirements and account management.

- Minimize losses by establishing robust credit policies and processes.
- Approval of credit facilities should be based on authorization limits approved by the BOD.
- Expansion to new markets is controlled through credit testing and full use of available credit scoring facilities and credit bureau information.
- Management of portfolio through regular monitoring and analysis of acquisition, line management and usage programs with the goal of controlling exposure to bad accounts while maximizing revenue through effective line management and usage campaigns.
- Delinquent accounts are managed by implementing robust collection strategies and efficient management of collection resources.
- A conscious effort to continuously challenge existing strategies and processes to adapt to changes in the market and maintain the Company's competitiveness.
- To track the performance of the portfolio, Risk Management implements and reviews the credit strategies, policies, models, processes and MIS.

In 2018, Risk Management focused on the implementation and review of the expected credit loss (ECL) models, in compliance to the new accounting standards (PFRS 9), which took effect last January 2018. Several initiatives were implemented aimed at model improvements and a more accurate credit risk classification and provisioning.

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 such as interest rate risk and foreign currency risk.

Interest Rate Risk

The Treasury unit is primarily responsible in managing the liquidity, as well as, the interest rate risk of the Company. They ensure borrowings from various sources of funds are availed at the cheapest possible cost at acceptable terms. In measuring interest rate risk, the Company employs gap analysis wherein, an interest rate gap report is prepared by breaking down the balance sheet accounts according to contractual maturities/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.

To manage interest rate risk, the RMD uses a quantitative risk model on interest rate risk called the Earnings-at-Risk (EaR). EaR is used to measure any mismatch between assets and liabilities in terms of interest rate repricing and an EaR limit is set 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. Effective June 2018, the EaR limit approved by the BOD is the 2018 budgeted Net Interest Income less the 2017 actual Net Interest Income. For 2017, 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.

Foreign Currency Risk

Foreign exchange risk (also known as FX risk or currency risk) is defined as the risk to earnings or capital that may arise from movements in foreign exchange rates. It refers to the risk that exchange rate fluctuations may have direct or indirect impact to the firm's cash flow or to the value of its assets and liabilities and in turn, its profit and capital position.

LIQUIDITY RISK AND FUNDING MANAGEMENT

The Company is continuously working on developing diversified funding sources to support its asset growth, as well as to minimize liquidity and interest rate risks. The Treasury unit, on a daily basis, monitors the cash position of the Company. They ensure that the Company has ample liquidity to settle financial obligations that are due as of a given period. The Treasury unit employs various liquidity/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. As of end-Dec 2018, the positive and negative MCO limit of P35.21 Billion corresponds to the total funding capacity. 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.

CAPITAL MANAGEMENT

The primary objectives of the Company's capital management are to ensure that it complies with externally imposed capital requirements and to maintain strong credit ratings and healthy capital ratios in order to support its business and to maximize stockholders' value.

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 differs 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%.

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. Last November 29, 2018, the BSP released a circular implementing the Basel III Counter cyclical Capital Buffer (CCyB). Current CCyB is zero percent (0%) subject to upward adjustment as determined by the Monetary Board when systemic conditions warrant up to a maximum of 2.5%.

As of December 31, 2018 MCC's CAR stood at 14.5%, well within the regulatory requirement of 10.0%. Total qualifying capital for the years ended 2018 and 2017 were P14.32 Billion and P13.85 Billion, respectively.

QUALIFYING CAPITAL ***(in PhP Millions)***	**2018**	**2017**
Tier 1 Capital		
Paid-Up Common Stock	1,000.00	1,000.00
Common Stock Dividends Distributable		
Additional Paid-In Capital	76.07	76.07
Retained Earnings	8,886.38	7,644.44
Undivided Profits 2	4,947.16	5,107.56
Other Comprehensive Income	(91.64)	(174.95)
Less: Regulatory Adjustments		
DOSRI	101.24	192.84
Deferred Tax Assets	1,913.95	953.57
Goodwill	9.62	9.62
Other Intangible Assets	380.29	450.06
Total Common Equity Tier 1 (CET1) Capital	**12,412.87**	**12,047.02**
Additional Tier 1 Capital	0.00	0.00
Total Tier 1 Capital	**12,412.87**	**12,047.02**
Tier 2 Capital		
General Loan Loss Provision	746.22	641.46
Instruments Eligible As Tier 2 Capital	1,164.61	1,163.46
Total Tier 2 Capital	**1,910.83**	**1,804.92**
Total Qualifying Capital	**14,323.70**	**13,851.94**
Total Risk Weighted-Assets	**98,950.79**	**85,532.02**
Credit Risk	74,622.43	64,169.45
Operational Risk	24,328.36	21,362.57
CET1 Ratio	**12.5%**	**14.1%**
Tier 1 Ratio	**12.5%**	**14.1%**
Capital Adequacy	**14.5%**	**16.2%**
Capital Requirements (in PhP Millions)	**2018**	**2017**
Credit Risk	7,462.24	6,416.95
Market Risk	-	-
Operational Risk	2,432.84	2,136.26
Total Capital Requirements	**9,895.08**	**8,553.20**

Reconciliation of all regulatory capital elements back to the balance sheet in the audited financial statements are as follows (in PhP Millions):

RECONCILIATION OF ALL REGULATORY CAPITAL ELEMENTS	**2018**	**2017**
Common Equity Tier 1 Capital	12,407.18	12,022.15
Tier 2 Capital	1,898.68	1,804.97
Total Regulatory Capital	**14,305.86**	**13,827.13**
Add (Deduct) reconciling items:	0.00	0.00
GLLP, limited to max. of 1% of CRWA	(734.07)	(641.45)
Regulatory Adjustments to CET 1	0.00	0.00
Outstanding unsecured credit accommodations	101.24	192.84
Deferred Tax Asset	1,927.57	982.37
Goodwill	9.62	9.62
Other Intangible Assets	380.29	431.71
Total SHE and Tier per AFS	**15,990.52**	**14,802.22**
Stockholder's Equity	14,825.91	13,638.70
Unsecured Subordinated Debt (Tier 2 capital)	1,162.61	1,163.52
Total SHE and Tier 2 per AFS	**15,990.52**	**14,802.22**

Tier 1 Capital is comprised of common stock, additional paid-in capital, and capital surplus. Common Equity Tier 1 (CET1) represents ordinary share capital, share premium, and retained earnings, including cumulative translation adjustment. Common Equity Tier 1 Capital, Tier 1 Capital, Qualifying Capital, and Risk-Weighted Assets are computed in accordance with BSP regulations. Risk-weighted assets are determined based on standardized regulatory approach for credit risk (both on-and-off balance sheet exposures) and market risk, while operational risks are based on the Basic Indicator Approach (BIA).

The total capital adequacy ratio (CAR) is calculated by dividing the sum of its Tier 1 and Tier 2 capital, as defined under BSP regulations, by the total Risk Weighted Assets (RWA).

OPERATIONAL RISK

The Operational Risk Management facilitates and monitors the implementation of effective risk management practices by operational management and assists risk owners in defining the target risk exposure and reporting adequate risk-related information throughout the organization.

The operational risk management process adopted by MCC consists of a staged approach involving: establishing the context, identification, analysis, treatment, monitoring, review, and reporting of risks.

Risk and Control Self-Assessment

Risk and Control Self-Assessment (RCSA) forms an integral element of the overall operational risk framework of MCC, as it provides an excellent opportunity for a firm to integrate and coordinate its risk identification and risk management efforts and generally to improve the understanding, control, and oversight of its operational risks.

Incident Reporting

Incident Reporting is another process of MCC's risk management process. The business ensures that incidents, which may have either financial impact and/or reputational damage is escalated promptly. The collection and analysis of incident data provides management information which can be fed back into the operational risk management and mitigation process. Ultimately the database of incidents built up over time will also provide the basis for quantitative modeling and the calculation of capital or reserves allocation, where required.

Key Risk Indicators

Key Risk Indicators (KRIs) act as early warning signals by providing the capability to indicate changes in an organization's risk profile. KRIs are a fundamental component of a full-featured risk and control framework and sound risk management practice. Their usefulness stems from potentially helping the business to reduce losses and prevent exposure by proactively dealing with a risk situation before an event actually occurs.

INFORMATION SECURITY RISK

The Business Information Security Office is responsible for overseeing conduct of independent risk assessment and governance of MCC's information security program, including oversight of information technology risk. This includes establishing, implementing, monitoring and improving controls to ensure protection of MCC 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 MCC 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.

COMPLIANCE RISK

Compliance risk refers to the risk of legal or regulatory sanctions, financial loss, and loss of reputation that MCC may suffer as a result of its failure to comply with applicable laws, regulations, Codes of Conduct and standards of good practice. This risk exposes the institution to fines, civil money penalties, payment of damages, and the voiding of contracts.

Compliance risk can lead to diminished reputation, reduced franchise value, limited business opportunities, reduced expansion potential, and an inability to enforce contracts.

All business units of MCC are primarily responsible in managing compliance risk of the company. The Compliance Unit, on the other hand, will be responsible in guiding every business unit on the proper implementation of laws, rules and regulations, and directives.

To aid in ensuring the organization adhere to laws, rules and regulations of the Bangko Sentral ng Pilipinas (BSP), Anti-Money Laundering Council (AMLC), and Securities Exchange Commission (SEC) and other relevant regulatory agencies, the company has established appropriate Compliance Program Manual which is based on BSP Circular 747 and Memorandum No. M-2013-023.

The Compliance unit was created to oversee and coordinate the implementation of the Compliance Program. Its function includes the identification, monitoring and controlling of compliance risk. This unit reports to and under the direct supervision of the Corporate Governance Committee.

LEGAL RISK

Legal risk is the risk of financial or reputational loss arising from legal or regulatory action; disputes for or against the company; failure to properly document, enforce or adhere to contractual arrangements; inadequate management of non-contractual rights; or inability to meet non-contractual obligations.

Legal risk is managed by the Legal Department which is under the Office of the President. It is mandated to provide legal services, assistance, support, initiatives, strategies and action plans on all areas affecting the business and operations of MCC. This includes legal risk assessment, legal risk management and tax compliance.

REPUTATIONAL RISK

Reputational risk as the current and prospective impact on earnings or capital arising from negative public opinion. This can adversely affect the organization's ability to maintain existing, or establish new business relationships and continued access to sources of funding. Consequently, it may expose the organization to litigation, financial loss, or a decrease in customer base.

Reputation is considered as a valuable intangible asset, it is an indicator of past performance and future prospects. Damage to this may result to loss of trust and confidence from stakeholders and will eventually adversely affect the organization in sustaining a profitable business. It does not matter whether the event is real or not, it is the perception that counts.

In measuring the reputational risk, each cause/ source are appraised based on the categories of likelihood and Consequence indicated under Risk Analysis Section of the Enterprise Risk Management Manual. Historical occurrences and control adequacy in place are considered in evaluating the likelihood of such risk.

STRATEGIC RISK

Strategic risk is the potential loss that may arise from: (1) inappropriate, insufficient, or wrong strategy; (2) failed or inadequate strategy and implementation & (3) adverse change in business environment excluding changes in regulation. Being a business risk, strategic risk excludes operation, Information Security and IT Strategies.

MCC's Board of Directors, together with the Senior Management provides the general direction of the Company and where the business plans of the Business Units are anchored upon. Periodic review of actual performance versus Plan is conducted by the Senior Management with the Board of Directors.

ANTI-MONEY LAUNDERING

Compliance to AML laws and regulations, and the identification and prevention of risks related to laundering and terrorist financing activities, are the very objectives of the Anti-Money Laundering/Combating of Terrorist Financing program of MCC. Through its AML program, it seeks to ensure that the business is at all times conducted in conformity with high ethical standards to protect its safety and soundness as well as the integrity of the national banking and financial system. MCC ensures that laws and regulations are always adhered to, and that services are not provided where there is good reason to believe that transactions are associated with money laundering and terrorist financing activities.

Compliance and/or adherence to anti-money laundering principles and regulations is a shared responsibility amongst all employees with Senior Management being vested with the crucial responsibility of ensuring an effective system of internal controls for AML/Terrorist Financing suppression. The Compliance Office has the primary task of managing the implementation of MCC's Money Laundering Prevention Program. To ensure the independence of the Office, it shall have a direct reporting line to the Board of Directors or to the Corporate Governance Committee on all matters related to AML and terrorist financing compliance and the management of risks associated thereto.

Under the Compliance Office, is the AML Compliance Officer who is a senior officer and is the lead implementer of the MLPP. The AML Compliance Officer is the liaison between MCC, the BSP and the AMLC in matters relating to the MCC's AML compliance. The Chief Compliance Officer of MCC assumes the concurrent role AML Officer.

	2018	2017
Profitability		
Total Net Interest Income	11,475,959,022	10,065,767,112
Total Non-Interest Income	4,985,412,333	4,721,145,800
Total Non-Interest Expenses	7,510,506,736	6,887,913,310
Pre-provision Profit	8,950,864,619	7,898,999,602
Allowance for Credit Losses	(3,978,501,074)	(2,796,040,587)
Net Income After Tax	4,972,363,545	5,102,959,015
Selected Balance Sheet Data		
Liquid Assets	79,602,384,086	73,081,306,449
Gross Loans	73,095,325,362	62,178,338,291
Total Assets	82,801,787,389	75,031,536,740
Total Equity	14,825,912,003	13,638,699,458
Selected Ratios		
Return on Equity	34.9%	46.2%
Return on Assets	6.3%	7.5%
Common Equity Tier 1 Capital Ratio	12.5%	14.1%
Tier 1 Capital Ratio	12.5%	14.1%
Capital Adequacy Ratio	14.5%	16.2%
Others		
Cash Dividend Declared	1,975,000,000	0
Headcount		
Officers	447	406
Staff	709	699

Corporate Social Responsibility

Responsible and responsive corporate citizenship has always been Metrobank Card's passion. It's a vital part of how we run business and it's parallel to our drive for business excellence. Our engagement with the community is a direct reflection of our continuing desire to serve Filipinos in every aspect of their lives.


Make-A-Wish
Welcome friends!

Corporate Social Responsibility

Metrobank Card Corporation (MCC) has always valued making a difference in the communities it operates in. The year 2018 was meaningful and rewarding for MCC as it continued to give back to various sectors of society – from women and children, to the elderly and the noble workers – for causes such as health, education, environment, disaster response, and community development.

THE GIFT OF HOPE AND JOY

MCC has long been committed in helping Make-A-Wish Philippines give hope and joy by granting the wishes of children with critical illnesses. In 2018, 30 wish kids received their wish from MCC, with 18 of these kids spending time with over a hundred employee volunteers in fun activities at indoor playgrounds and in MCC Center.

As part of this commitment, MCC was also a major sponsor of MAW's benefit movie screening in 2018 to help the organization raise funds to grant more wishes within the year.

THE GRATITUDE FOR SERVICE

Together with Metrobank Foundation, MCC has awarded this year's 10 Outstanding Filipinos with customized Metrobank credit cards to thank them for their service. These cards helped empower the lives of these Filipino role models with modern-day noble professions – Teachers, Police Officers, and Soldiers.

To further empower teachers, MCC also supported Metrobank Foundation and DepEd in their National Teachers' Month celebrations through merchant partnerships, customer communications, and employee activities.

THE SPIRIT OF VOLUNTEERISM

In 2018, MCC gathered volunteers for initiatives of various partner organizations, such s Metrobank Foundation's Bags of Blessings, Manila Tytana Colleges' Founder's Run, and the Philippine Navy - Civil Military Operations Group's 7 Up! Run.

Hundreds of MCC employees also devoted their time and resources to organize their own department's CSR initiatives, such as a tree-planting activity with Bantay Kalikasan, a house building initiative with Gawad Kalinga, and a relief operations repacking initiative with the Department of Social Welfare and Development - National Resource Operations Center.

Other initiatives consisted of fundraising efforts, various programs and visits, as well as in-kind and cash donations to socio-civic groups benefitting children and the elderly, such as Associacion de Damas ˜de Filipinas, Inc., White Cross Children's Home, Brgy. Bangkal Day Care Center, Hospicio de San Jose, Manila Doctors Hospital, and Metrobank Foundation's GPS², HE Cares Mission, David's Share the Happiness Advocacy, and Little Sisters of the Poor - San Lorenzo Home for the Elderly.

Overall, these initiatives had about 1,000 employee volunteers with a combined total of over 3,600 hours.

THE SUPPORT FOR BREAST CANCER AWARENESS

MCC continues to extend its cause for breast cancer awareness to its cardholders through the Metrobank Femme-ICanServe Visa, a credit card partnership with ICanServe (ICS) Foundation, which is a nationwide network of cancer survivors who help and give hope to women with breast cancer.

Metrobank Femme-ICanServe Visa cardholders have the option to donate to ICS by converting earned Rewards Points. Plus, they can participate in its Breast Cancer Awareness Month catalogue promotion - wherein MCC donates P100 to ICS for every P2,000 cardholder spend at select merchants.

Since its launch, MCC has donated an accumulated total of about P200,000 through this yearly promotion, which helped fund the information campaigns and breast cancer screenings of the foundation.


MCC CSR
DSWD
RELIEF SUPPLIES
DSWD
DSWD


1 2 3 4 5 6 7 8 9 10

Leadership

Passionate, purposeful, collaborative, and customer-centered leadership has always been at the heart of the Metrobank Card Corporation. These characteristics, guided by our mission, vision, and values, have helped shape us into the industry-leading organization that we are today.

Board of Directors

FABIAN DEE
Chairman
Filipino, 55

President, Metropolitan Bank and Trust Company | Chairman, Metro Remittance Singapore Pte Ltd. | Trustee, Metrobank Foundation, Inc. | Director, Bankers Association of the Philippines | Former Chairman, SMBC Metro Investment Corporation | Director, Bancnet, Inc. | Acting Chairman, LGU Guarantee Corporation | Former Director, FMIC Equities, Inc. | Former Senior Vice President, Executive Vice President, Adviser, and Director, Metropolitan Bank and Trust Company | Former Adviser, Metropolitan Bank (Bahamas) | Former Director, SMBC Metro Investment Corporation | Former Consultant, First Metro Investment Corporation | Former Vice Chairman, Toyota Manila Bay | Former Senior Vice President, Middle Market

ANJANETTE T. DY BUNCIO
Vice Chairperson
Filipino, 51

Treasurer, GT Capital Holdings, Inc. | Vice President and Treasurer, Global Treasure Holdings, Inc. | Vice President and Treasurer, Grand Titan Capital Holdings, Inc. | Director, Treasurer, Former Corporate Secretary, Former First Vice President and Former Vice President, Federal Land, Inc. | Treasurer and Corporate Secretary, Bonifacio Landmark Realty Development Corp. | Treasurer, Property Company of Friends, Inc. | Treasurer, Adviser, and Former Director, Cathay International Resources | Treasurer, Federal Land Orix Corporation | Director, Treasurer, and Senior Vice President, Horizon Land Property Development Corp. | Director, Treasurer, and President, Federal Homes, Inc. | Director, Treasurer, Senior Vice President, and Former First Vice President, Philippine Securities Corp. | Director and President, Inter Par Philippines Resources | Director, Treasurer, and Vice President, Great Mark Resources Corp | Director, President, and Former Executive Vice President, Tytana Corporation | President and Director, Neiman Rhodes Holdings, Inc. | Corporate Secretary and Former Senior Vice President, Metrobank Foundation, Inc. | Board of Trustee and Vice President, GT Foundation Inc. | Treasurer, Manila Medical Services Inc., | Executive Vice President and Corporate Secretary, Proline Sports Center, Inc. | Treasurer, Integra Development Corp. | Executive Vice President and Corporate Secretary, Corporate Secretary Pro Oil Corp. | Treasurer, Omni Orient Management Corp. | Former Senior Vice President, Treasurer, Corporate Secretary, and Assistant Treasurer, Global Business Power Corp. | Former Director, Federal Brent Retail Inc. | Former Director, Bonifacio Landmark Realty Development Corp. | Former Vice President, Senior Manager, Manager, Asst. Manager, Metropolitan Bank & Trust Company | Former Director and Corporate Secretary, Phil. AXA Life Insurance Corp. | Former Asst. Treasurer and Asst. Corporate Secretary, Thomas Cook Phils. Inc. | Former Asst. to the President (seconded), First Metro Investment Corp | Former Trader, Berliner Handels und Frankfurter

PRADEEP PANT

President / Director

Indian, 52

Director, TransUnion Information Solutions Inc. | Former Country Head - Retail & Private Bank, ANZ Taiwan | Former Board Member, ANZ Insurance (Taiwan) |Former Managing Director & Country Head - Thailand, Citibank N.A. | Former Card Business Manager - Taiwan, Citibank N.A. | Former Marketing Director - Asia Pacific Cards, Citibank N.A. | Former Sales & Distribution Director, Citibank N.A. | Former Senior Vice President & Head-Cards Marketing Business Head-Diners Club India, Citibank N.A. | Former Director - Marketing & Sales, Revlon (India), Former Representative Manager, Yves Saint Laurent (YSL), Oman | Former Management Associate/Sales Manager, Lakme Ltd. (Unilever)

RICHARD BENEDICT S. SO

Director

Filipino, 53

Executive Vice President and Head, Branch Banking - Countryside, and Executive Vice President and Segment Head, Transaction Banking Segment, Metropolitan Bank and Trust Company | Chairman, Metro Remittance (Hong Kong) Limited | Chairman, First Metro International Investment (Hong Kong) |Chairman, Metro Remittance Center, Inc. (U.S.A.) | Chairman, MB Remittance Center (Hawaii), Ltd. | Chairman, Metro Remittance (Canada) Inc. | Chairman, Metro Remittance (U.S.A.), Inc. (formerly MFCCI) |Chairman, Metro Remittance (UK) Limited |Chairman, Metro Remittance (Italia) SpA | Vice Chairman, Metro Remittance Singapore Pte. Ltd. | Director, Metropolitan Bank (Bahamas) Ltd. | Corporate Secretary, Metropolitan Bank (China) Ltd. | Former Senior Vice President - Deputy Group Head, Metropolitan Bank and Trust Company | Former Senior Vice President, BDO Unibank, Inc. |Former Vice President and Senior Vice President, Equitable PCI Bank, Inc. | Former Assistant Vice President and Vice President, Equitable Bank | Former Staff-Manager, Far East Bank and Trust Co. | Former Chairman, Metro Remittance (Spain) S.A. | Former Director, MBTC Services GmbH (Vienna)

FRANCISCO S. MAGSAJO, JR.

Independent Director

Filipino, 71

Director, HFM Investment, Inc. | Director, ABR Integrated Farms Corporation | Former President and CEO, Rizal Commercial Banking Corporation | Former President and CEO, RCBC Savings Bank | Former Executive Vice President, Philippine National Bank | Former Managing Director, PNB International Finance Ltd., HK | Former Director, Batangas Sugar Central | Former Director, Bulawan Mining Corp. | Former President and CEO, PhilEXIM

ATTY. ANGELICA H. LAVARES

Independent Director

Filipino, 66

Independent Director, Williamton Financing Corporation | Consultant, Bank of Commerce | Fellow, Institute of Corporate Directors | President, Araneta Hernandez Lavares Consultancy Inc. | Former Executive Vice President, Bank of Commerce | Former Senior Vice President and Compliance Officer, Metropolitan Bank and Trust Company | Former First Vice President, UCPB | Former Vice President, Filinvest Land, Inc. | Former General Manager, M. Greenfiled, Inc. and Bernard Chaus, Inc. | Former Special Asst. to the Commissioner, Bureau of Customs | Former OIC, Garments & Textile Export Board

BENEDICTO JOSE R. ARCINAS

Director

Filipino, 63

President & General Manager, Arcinas Freres, Inc. | Independent Director, Philippine Savings Bank | Former Executive Vice President and Treasurer, Export and Industry Bank | Former Director, Asia Pacific Recoveries (SPV-AMC), Asia Special Situations (SPV-AMC) | Founder and Former Managing Director, Structured Solutions, Inc. | Managing Director, ATR-Kim Eng Fixed Income, Inc. |Former Director, Peregrine Fixed Income Ltd., HK | Former Executive Vice President, Chief Investment Officer and Head, Finance Sector, Government Service Insurance System (GSIS)

Board Officers

ANNA THERESE RITA D. CUENCO

Treasurer

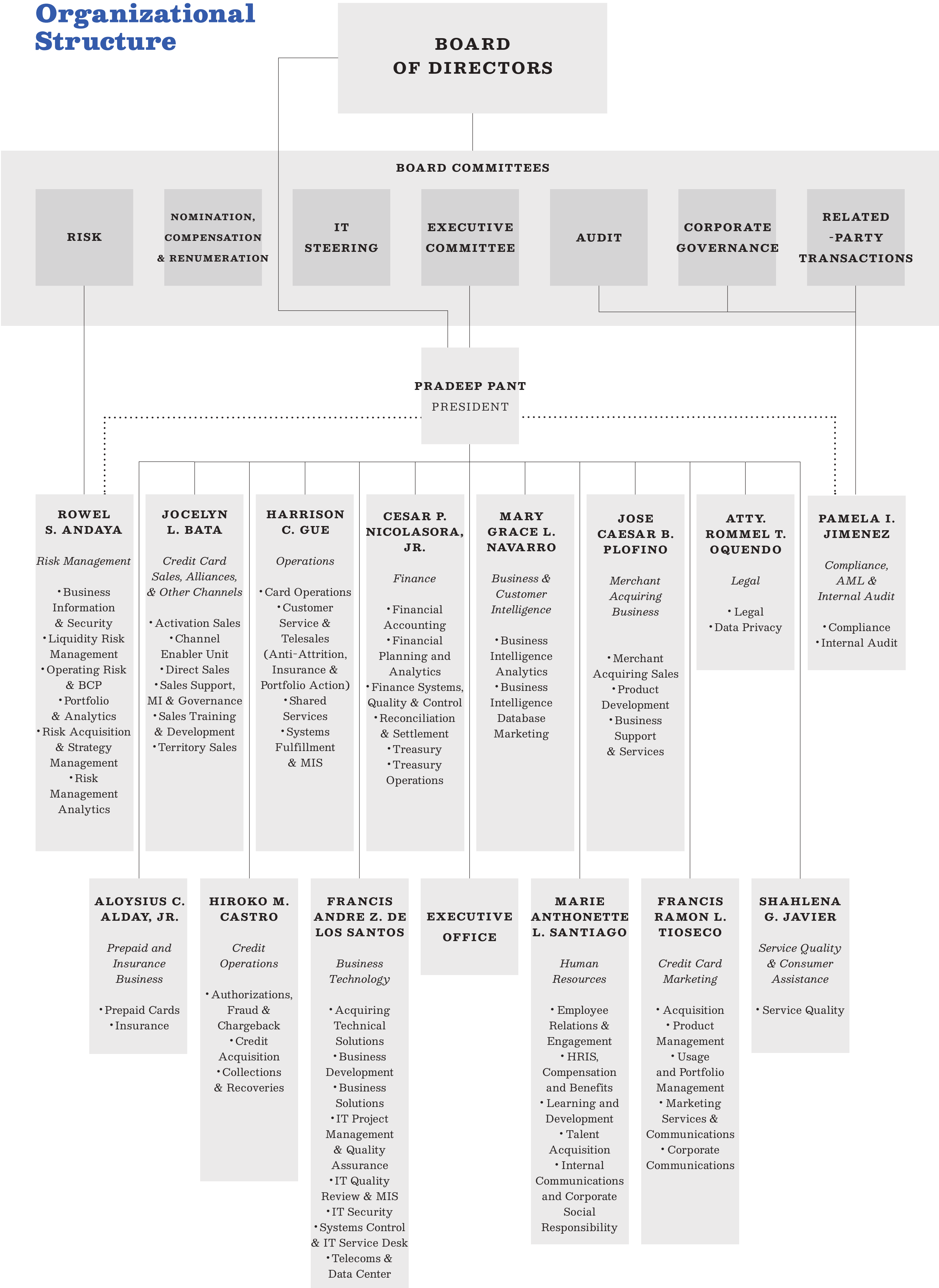
MA. LOURDES C. PLATA-ABELLAR

Corporate Secretary

MARIA SOFIA A. LOPEZ

Assistant Corporate Secretary

Organizational Structure



Management Committee

PRADEEP PANT
President

ALOYSIUS C. ALDAY, JR.
Head of Prepaid and Insurance Business
Senior Vice President

JOCELYN L. BATA
Head of Credit Card Sales, Alliances & Other Channels
Senior Vice President

HIROKO M. CASTRO
Head of Credit Operations
Senior Vice President

HARRISON C. GUE
Head of Operations
Senior Vice President

CESAR P. NICOLASORA, JR.
Chief Finance Officer
Senior Vice President

ROWEL S. ANDAYA
Chief Risk Officer
First Vice President

FRANCIS ANDRE Z. DE LOS SANTOS
Chief Business Technology Officer
First Vice President

PAMELA I. JIMENEZ
Compliance & AML Officer and Head of Internal Audit
First Vice President

MARY GRACE L. NAVARRO
Head of Business & Customer Intelligence
First Vice President

MARIE ANTHONETTE L. SANTIAGO
Head of Human Resources
First Vice President

JOSE CAESAR B. PLOFINO
Head of Merchant Acquiring Business
Vice President

FRANCIS RAMON L. TIOSECO
Head of Usage & Portfolio Management
Vice President

ATTY. ROMMEL T. OQUENDO
Head of Legal
Senior Assistant Vice President

Senior Vice Presidents

ALOYSIUS C. ALDAY, JR.
Head of Prepaid and Insurance Business
Filipino, 49

Former Head of Prepaid Card Business, Head of Sales, Head of Business Development, Alliances and Channels, Head of Services and Support, and Head of Marketing and Sales, Metrobank Card Corporation | Former Vice President - Cards Marketing and Sales, Assistant Vice President - Personal Financial Services Credit Risk Management, Assistant Vice President - Credit Risk Management, Manager - Marketing and Product Development, and Management Trainee, The Hongkong and Shanghai Banking Corporation Ltd. | Former Commodities Trader, Mitsubishi Corporation | Former Financial Analyst, NCR Corporation (US Headquarters) | Undergraduate degree: BS Business Administration, University of the Philippines - Diliman

JOCELYN L. BATA
Head of Credit Card Sales, Alliances & Other Channels
Filipino, 44

Former Senior Vice President - Citigold Priority Channel Head, Vice President - Sales & Distribution Head, Vice President - Affluent Sales Head, Vice President - Telesales Acquisitions Unit Head - Cards, Assistant Vice President - Telesales Acquisitions Channel Team Leader - Cards, Telesales Acquisitions Channel Team Leader - Cards, Telesales Acquisitions Channel Manager - Cards, Telesales Acquisitions Channel Manager - Ready Credit, and Citigold Relationship Officer, Citibank N.A. | Former Senior Vice President - Branch Network Head, Citibank Savings Inc. | Former Assistant Manager - Telesales Head, The Hongkong and Shanghai Banking Corporation Ltd. | Undergraduate degree: BS Tourism, University of the Philippines - Diliman

HIROKO M. CASTRO
Head of Credit Operations
Filipino, 49

Former Head of Credit Risk, and Head of Credit Acquisitions, Metrobank Card Corporation | Former Acceptance Manager, Credit Acquisitions Group, Credit Acquisitions Maintenance Unit Head, and Credit Officer, Citibank N.A. | Former Account Executive, Fujitsu Philippines, Inc. | Undergraduate degree: BS Management Engineering, Ateneo de Manila University

ANNA THERESE RITA D. CUENCO
Head of Consumer Lending Group (seconded to MBTC)
Filipino, 45

Former Deputy Cards Head, Head of Sales, Marketing, & Portfolio Management, Head of Credit Risk, Head of Collections, Metrobank Card Corporation | Former In-House Collections Head, Assistant Manager Recoveries, Collections Staff, and Collection Officer, The Hongkong and Shanghai Banking Corporation Ltd. | Undergraduate degree: AB Management Economics, Ateneo de Manila University

HARRISON C. GUE
Head of Operations
Filipino, 53

Former Head of Operations & Technology, Metrobank Card Corporation | Former Vice President - Head of Credit Initiation, Citibank N.A. | Former First Vice President - Head of Operations, Banco De Oro - EPCI Universal Bank | Former First Vice President - Head of Operations, Equitable Card Network, Inc. | Former Manager - Merchant Banking Group, Equitable Banking Corporation | Former Assistant Manager, China Banking Corporation | Former Technical Staff - Researcher/Programmer, SGV & Co | MBA Degree: Asian Institute of Management | Undergraduate degree: BS Commerce, De La Salle University

CESAR P. NICOLASORA, JR.
Chief Finance Officer
Filipino, 44

Former Business Finance Head, and Consumer Lending Finance Head, EastWest Banking Corporation | Former Consumer Bank Financial Planning & Analysis Head, and Credit Cards Financial Planning & Analysis Head, Citibank N.A. | Former Finance Planning Head, and Planning & Accounting Head, Metrobank Card Corporation | Former Business Finance Manager, Standard Chartered Bank | Former Senior Manager, and Manager, SB Cards Corporation | Former Account Officer, and Officership Training Program, BPI | MBA Degree: DLSU Graduate School of Business | Undergraduate degree: BS Business Administration & Accountancy, University of the Philippines - Diliman

First Vice Presidents

ROWEL S. ANDAYA

FRANCIS ANDRE Z. DE LOS SANTOS

PAMELA I. JIMENEZ

MARY GRACE L. NAVARRO

MARIE ANTHONETTE L. SANTIAGO

Vice Presidents

THOMAS WILFRIDO
R. BILBAO

ION EDMOND
A. DE GUZMAN

ELMER K. MERCADO

JOSE CAESAR
B. PLOFINO

MARIA CRISTINE
D. REYES

JAY S. TATEL

FRANCIS RAMON
L. TIOSECO

ALBERT ARNOLD
A. TOM

SHEILA P. UMALI

TRICIA H. VALERIO

Senior Assistant Vice Presidents

ANNA LISSA C. AÑO

AL-JALIL B. BANDALI

MIGUEL PAOLO L. BELTRAN

REUBEN RINALDI Y. COBANKIAT

EMMA R. DE PANO

MICHAEL R. GABRIEL

RAFAEL B. GAMAD, JR.

FRANCES LEA C. GUINO

WELLINGTON M. JAVELLANA, JR.

Senior Assistant Vice Presidents

SHAHLENA G. JAVIER

ATTY. APOLONIO C. JUAN II

JOHN OLIVER T. KO

ANDRO JOSE M. LAGMAN

ANNE KRISTEN Y. MACALLAN

ALBERT ROY D. NAVARRETE

ATTY. ROMMEL T. OQUENDO

JANYLOU M. ROMARAO

WINNIE VIC G. VENTURA

Assistant Vice Presidents

MALVIN B. BALLARTA

BERNAL S. BANTILAN

MICHAEL C. BAUTISTA

MARY GRACE D. BERAÑA

GERLY ANNE G. BERNISCA

RAFAEL D. DURENDEZ

NOLAN CARLO U. EMPALMADO

IVAN DRIETER D. EUSEBIO

PEACE E. IBARRA

JOHANN THERESE L. JAYME

Assistant Vice Presidents

EMMANUEL MA. E. JOSE

MARIA KARENIÑA R. LOPEZ

MATIAS A. MAITIM

AILEEN B. MALCO

NADJA CECILIA R. MARQUEZ

RONALDO T. PAHATI

JOSEPH VINCENT L. PANGILINAN

HELEN A. PANLILIO

FREDERICK V. PIEDAD

MARIA SHIELA E. PUNSALAN

JUAN MIGUEL M. RELOSA

LIEZL O. ROGANDO

JAMIE ROSE D. ROMUALDEZ

ATTY. GAIL JOSEPH S. SANTOS

KHAREN S. SEROTE

ALVIN T. SERRANO

FRANCIS L. TAN

CARLSTEN A. TERROBIAS

ELVIRA S. ZABLAN

Corporate Information

METROBANK CARD CORPORATION

(A Finance Company and General Insurance Agency) [MCC] is a 100% wholly-owned subsidiary of Metropolitan Bank and Trust Company (Metrobank), which is one of the largest banks in the Philippines.

MCC is one of the leading payment solutions providers in the country issuing credit cards, prepaid cards, acquiring services, insurance and other products with distinct advantages to its customers.

THE MCC CENTER

6778 Ayala Avenue, Makati City, Philippines 1226

MCC METROPARK

Metropolitan Technological Park Building, Metropolitan Park corner Metrobank Avenue, EDSA Extension, Pasay City, Philippines 1308

MCC CEBU

Metrobank Plaza Building, Osmeña Boulevard, Cebu City, Philippines 6000

MCC DAVAO

Metrobank Davao Center Branch, Ramon Magsaysay Avenue corner J. Dela Cruz St., Davao City 800

CONTACT INFORMATION

24/7 Contact Center:
Metro Manila: (632) 8700-900

Customer Service: (632) 8700-700
Domestic Toll Free: 1-800-1888-5775

MCC Website
www.metrobankcard.com

MCC
Social Media
@metrobankcardph

Facebook
www.facebook.com/MetrobankCardPH

Instagram
www.instagram.com/MetrobankCardPH

Twitter
www.twitter.com/MetrobankCardPH

YAZZ Website
www.yazzcard.com

YAZZ Social Media
@yazzcardPH

Facebook
www.facebook.com/yazzcardPH

Financial Statements

METROBANK CARD CORPORATION
(A Finance Company and General Insurance Agency)

Financial Statements
December 31, 2018 and 2017

And

Independent Auditor's Report

Metrobank Card Corporation
(*A Finance Company and*
General Insurance Agency)

Financial Statements
December 31, 2018 and 2017

And

Independent Auditor's Report

C O V E R S H E E T
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

					1	2	7	9	0	4

C O M P A N Y N A M E

METROBANK CARD CORPORATION (A Finance Company and General Insurance Agency)

PRINCIPAL OFFICE *(No. / Street / Barangay / City / Town / Province)*

The MCC Center, 6778 Ayala Avenue, Makati City

Form Type	Department requiring the report	Secondary License Type, If Applicable
AAFS	ICTD	N/A

C O M P A N Y I N F O R M A T I O N

Company's Email Address	Company's Telephone Number	Mobile Number
N/A	870-0900	N/A

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
8	Any day in April	12/31

CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Mr. Cesar P. Nicolasora, Jr.	cpnicolasora@ metrobankcard.com	898-7488	N/A

CONTACT PERSON's ADDRESS

NOTE 1 : *In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.*

2 : *All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.*

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

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

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Metrobank Card Corporation
The MCC Center
6778 Ayala Avenue, Makati City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Metrobank Card Corporation *(A Finance Company and General Insurance Agency)* (the Company), which comprise the statements of financial position as at December 31, 2018 and 2017, 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, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on the Supplementary Information Required Under Revenue Regulations 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 28 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.

Ray Francis C. Balagtas
Partner
CPA Certificate No. 108795
SEC Accreditation No. 1510-AR-1 (Group A),
September 18, 2018, valid until September 17, 2021
Tax Identification No. 216-950-288
BIR Accreditation No. 08-001998-107-2018,
February 14, 2018, valid until February 13, 2021
PTR No. 7332523, January 3, 2019, Makati City

March 8, 2019

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 and General Insurance Agency)* (the Company), which comprise the statements of financial position as at December 31, 2018 and 2017, 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.

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- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on the Supplementary Information Required Under Revenue Regulations 15-2010

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SYCIP GORRES VELAYO & CO.

Ray Francis C. Balagtas
Partner
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March 8, 2019

SyCip Gorres Velayo & Co.
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BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Metrobank Card Corporation
MCC Center
6778 Ayala Avenue, Makati City

We have audited the financial statements of Metrobank Card Corporation (*A Finance Company and General Insurance Agency*) (the Company) as of and for the year ended December 31, 2018, on which we have rendered the attached report dated March 8, 2019.

In compliance with Securities Regulation Code Rule 68, As Amended (2011), we are stating that the Company has one (1) stockholder owning more than one hundred (100) shares.

SYCIP GORRES VELAYO & CO.

Ray Francis C. Balagtas
Partner
CPA Certificate No. 108795
SEC Accreditation No. 1510-AR-1 (Group A),
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Building a better working world

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**INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY SCHEDULES**

The Stockholders and the Board of Directors
Metrobank Card Corporation
The MCC Center
6778 Ayala Avenue, Makati City

We have audited in accordance with Philippine Standards on Auditing, the financial statements of Metrobank Card Corporation (*A Finance Company and General Insurance Agency*) (the Company) as of and for the year ended December 31, 2018 and have issued our report thereon dated March 8, 2019. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Schedule of Retained Earnings Available for Dividend Declaration and List of Philippine Financial Reporting Standards effective as of December 31, 2018 are presented for the purpose of complying with Securities Regulation Code Rule 68, As Amended (2011), and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Ray Francis C. Balagtas
Partner
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September 18, 2018, valid until September 17, 2021
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BIR Accreditation No. 08-001998-107-2018,
February 14, 2018, valid until February 13, 2021
PTR No. 7332523, January 3, 2019, Makati City

March 8, 2019

METROBANK CARD CORPORATION
(A Finance Company and General Insurance Agency)

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 6 and 21)	**₱1,082,125,457**	₱1,809,031,449
Due from Bangko Sentral ng Pilipinas (Notes 6 and 12)	**9,526,731,502**	10,948,054,071
Interbank loans receivable (Note 6)	**2,200,000,000**	300,000,000
Accounts receivable (Notes 7 and 21)	**58,455,080,198**	48,623,885,940
Prepaid expenses and other current assets (Note 21)	**137,620,981**	81,428,724
	71,401,558,138	61,762,400,184
Noncurrent Assets		
Accounts receivable (Notes 7 and 21)	**8,338,446,930**	11,059,919,008
Property and equipment (Note 9)	**645,335,011**	658,887,349
Equity instruments at fair value through other comprehensive income (FVOCI) (Note 10)	**28,157,760**	–
Deferred tax assets (Note 20)	**1,927,572,853**	982,367,488
Intangibles and other assets (Note 10)	**460,716,696**	567,962,711
	11,400,229,250	13,269,136,556
	₱82,801,787,388	₱75,031,536,740
LIABILITIES AND EQUITY		
LIABILITIES		
Current Liabilities		
Accounts payable (Notes 11 and 21):		
Merchants	**₱1,525,460,186**	₱1,730,261,526
Others	**920,509,565**	749,730,561
	2,445,969,751	2,479,992,087
Bills payable (Notes 12 and 21)	**20,998,410,202**	28,864,868,810
Notes payable (Notes 12 and 21)	**20,481,873,027**	13,503,504,400
Derivative liability (Note 8 and 21)	**99,372,282**	–
Deferred revenue (Note 13)	**1,068,800,101**	1,055,810,689
Provisions (Note 23)	**915,675,612**	–
Income tax payable	**713,512,283**	657,317,961
Accrued interest, taxes and other expenses (Notes 15 and 21)	**1,091,695,882**	830,971,717
	47,815,309,140	47,392,465,664
Noncurrent Liabilities		
Bills payable (Notes 12 and 21)	**7,987,465,461**	5,337,656,802
Notes payable (Notes 12 and 21)	**10,835,553,040**	7,271,109,498
Subordinated debt (Note 14)	**1,164,611,135**	1,163,519,811
Retirement liability (Note 19)	**172,936,609**	228,085,507
	20,160,566,245	14,000,371,618
	67,975,875,385	61,392,837,282
EQUITY		
Capital stock (Note 16)	**1,000,000,000**	1,000,000,000
Additional paid-in capital	**76,071,752**	76,071,752
Retained earnings (Notes 2 and 16):		
Unappropriated	**7,858,744,448**	6,147,395,141
Appropriated	**6,000,000,000**	6,600,000,000
Remeasurement losses on retirement plan (Note 19)	**(125,608,514)**	(184,767,435)
Net fair value gains on equity instruments at FVOCI	**19,700,689**	–
Cash flow hedge reserve (Note 8)	**(2,996,372)**	–
	14,825,912,003	13,638,699,458
	₱82,801,787,388	₱75,031,536,740

See accompanying Notes to Financial Statements

METROBANK CARD CORPORATION
(A Finance Company and General Insurance Agency)

STATEMENTS OF INCOME

	Years Ended December 31	
	2018	2017
REVENUES		
Interest and penalties (Note 7)	**₱14,252,800,043**	₱12,253,104,342
Discounts earned (Notes 13 and 21)	**2,411,581,701**	2,240,489,274
Membership fees and dues (Note 13)	**882,661,306**	841,001,235
Recoveries of accounts written-off (Note 7)	**540,579,528**	734,385,791
Awards revenue (Note 13)	**67,890,112**	120,774,947
Interest income from banks (Notes 6 and 21)	**17,670,497**	13,838,671
Miscellaneous (Notes 13, 17 and 21)	**932,110,429**	814,602,639
	19,105,293,616	17,018,196,899
EXPENSES		
Provision for credit losses (Note 7)	**4,548,755,634**	3,560,173,618
Interest expense (Notes 12, 14 and 21)	**2,210,757,921**	1,649,797,778
Compensation and fringe benefits (Notes 15, 19 and 21)	**1,706,822,678**	1,483,761,244
Taxes, duties and license fees (Note 15)	**1,236,680,286**	1,127,506,385
Advertising and promotions (Note 15)	**444,107,219**	277,237,405
Communications (Notes 15 and 21)	**393,274,599**	373,254,640
Rent, light and water (Notes 18 and 21)	**249,130,354**	185,285,489
Amortization of intangible assets (Note 10)	**181,508,945**	169,957,396
Loyalty expense (Note 13)	**180,158,557**	140,070,483
Depreciation of property and equipment (Note 9)	**101,120,953**	102,455,118
Distribution costs (Note 21)	**99,799,521**	96,780,467
Stationery, office supplies and printing	**71,196,684**	60,457,760
Computer-related expenses (Note 21)	**48,892,362**	43,066,586
Management and professional fees (Notes 15 and 21)	**26,161,146**	42,610,889
Security, messengerial and janitorial (Note 21)	**22,310,740**	21,136,225
Transportation and travel	**7,650,084**	6,852,016
Entertainment, amusement and recreation (Note 20)	**1,627,980**	951,482
Miscellaneous (Notes 13, 17 and 21)	**472,130,849**	383,392,963
	12,002,086,512	9,724,747,944
INCOME BEFORE INCOME TAX	**7,103,207,104**	7,293,448,955
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 20)		
Corporate	**2,296,078,462**	2,183,569,862
Deferred	**(165,743,966)**	4,900,731
Final	**509,063**	2,019,347
	2,130,843,559	2,190,489,940
NET INCOME	**₱4,972,363,545**	₱5,102,959,015

See accompanying Notes to Financial Statements.

METROBANK CARD CORPORATION

(A Finance Company and General Insurance Agency)

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2018	2017
NET INCOME	**₱4,972,363,545**	₱5,102,959,015
OTHER COMPREHENSIVE INCOME (LOSS)		
Item that recycle to profit or loss in subsequent periods:		
Changes in fair value from cash flow hedge, net of tax (Note 8)	**(2,996,372)**	–
Items that do not recycle to profit or loss in subsequent periods		
Net change in fair value of equity instruments at FVOCI	**23,177,281**	–
Income tax effect (Note 20)	**(3,476,592)**	–
	19,700,689	–
Remeasurement gains on retirement plan (Note 19)	**84,512,744**	145,001,810
Income tax effect (Note 20)	**(25,353,823)**	(43,500,543)
	59,158,921	101,501,267
OTHER COMPREHENSIVE INCOME, NET OF TAX	**75,863,238**	101,501,267
TOTAL COMPREHENSIVE INCOME, NET OF TAX	**₱5,048,226,783**	₱5,204,460,282

See accompanying Notes to Financial Statements.

METROBANK CARD CORPORATION
(A Finance Company and General insurance Agency)

STATEMENTS OF CHANGES IN EQUITY

	Capital Stock (Note 15)	Additional Paid-in Capital	Retained Earnings Unappropriated (Note 2)	Retained Earnings Appropriated (Note 16)	Remeasurement Losses on Retirement Plan (Note 18)	Net Fair Value Gains on Equity Instruments at FVOCI	Cash Flow Hedge Reserve (Note 8)	Total
Balance at January 1, 2018, as previously reported	**₱1,000,000,000**	**₱76,071,752**	**₱6,147,395,141**	**₱6,600,000,000**	**(₱184,767,435)**	**₱–**	**₱–**	**₱13,638,699,458**
Effects of the adoption of PFRS 9, *Financial Instruments* (Note 2)	–	–	**(1,835,976,997)**	–	–	–	–	**(1,835,976,997)**
Effects of the adoption of PFRS 15, *Revenue from Contracts with Customers* (Note 2)	–	–	**(50,037,241)**	–	–	–	–	**(50,037,241)**
Balance as at January 1, 2018, as restated	**1,000,000,000**	**76,071,752**	**4,261,380,903**	**6,600,000,000**	**(184,767,435)**	–	–	**11,752,685,220**
Total comprehensive income for the year	–	–	**4,972,363,545**	–	**59,158,921**	**19,700,689**	**(2,996,372)**	**5,048,226,783**
Net appropriations (Note 16)	–	–	**600,000,000**	**(600,000,000)**	–	–	–	–
Dividends (Note 16)	–	–	**(1,975,000,000)**	–	–	–	–	**(1,975,000,000)**
Balance at December 31, 2018	**₱1,000,000,000**	**₱76,071,752**	**₱7,858,744,448**	**₱6,000,000,000**	**(₱125,608,514)**	**₱19,700,689**	**(₱2,996,372)**	**₱14,825,912,003**
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 16)	–	–	(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

See accompanying Notes to Financial Statements.

METROBANK CARD CORPORATION
(A Finance Company and General Insurance Agency)

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱7,103,207,104**	₱7,293,448,955
Adjustments for:		
Provision for credit losses (Note 7)	**4,548,755,634**	3,560,173,617
Amortization of:		
Intangible assets (Note 10)	**181,508,945**	169,957,396
Debt issuance costs (Notes 12 and 14)	**114,496,848**	51,161,125
Retirement expense (Note 19)	**172,963,847**	134,005,248
Depreciation and amortization of property and equipment (Note 9)	**101,120,953**	102,455,118
Unrealized foreign exchange gain (Note 17)	**36,653,455**	(42,740,027)
Loss on retirement of intangible assets (Note 10)	**66,608,115**	–
Gain on sale of property and equipment (Note 17)	**(1,804,243)**	(749,650)
Changes in operating assets and liabilities:		
Decrease (increase) in the amounts of:		
Accounts receivable	**(13,450,120,189)**	(14,753,932,959)
Prepaid expenses and other assets	**(56,192,257)**	(9,186,555)
Other noncurrent assets	**7,097,104**	(3,782,143)
Increase (decrease) in the amounts of:		
Bills payable	**(5,267,089,106)**	668,705,248
Deferred revenue	**(58,492,361)**	9,768,993
Accounts payable	**(34,022,336)**	754,238,996
Provisions	**83,803,516**	–
Accrued interest, taxes and other liabilities	**260,724,164**	63,216,531
Net cash used for operations	**(6,190,780,807)**	(2,003,260,107)
Income taxes paid	**(2,240,393,203)**	(1,805,002,855)
Contribution to the retirement plan (Note 19)	**(143,600,000)**	(191,677,381)
Net cash used in operating activities	**(8,574,774,010)**	(3,999,940,343)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property and equipment (Note 9)	**8,395,287**	10,799,658
Acquisitions of:		
Intangible assets (Note 10)	**(147,968,149)**	(174,932,545)
Property and equipment (Note 9)	**(94,159,659)**	(109,104,269)
Net cash used in investing activities	**(233,732,521)**	(273,237,156)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from availments of notes payable	**35,927,294,874**	21,236,042,391
Payments of:		
Notes payable	**(25,332,448,413)**	(13,525,314,204)
Dividends (Note 16)	**(1,975,000,000)**	–
Net cash provided by financing activities	**8,619,846,461**	7,710,728,187

(Forward)

	Years Ended December 31	
	2018	2017
EFFECT OF CHANGE IN FOREIGN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	**(₱59,568,491)**	₱440
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(248,228,561)**	3,437,551,128
CASH AND CASH EQUIVALENTS AT BEGINNING 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
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)		
Cash	**1,082,125,457**	1,809,031,449
Due from Bangko Sentral ng Pilipinas	**9,526,731,502**	10,948,054,071
Interbank loans receivable	**2,200,000,000**	300,000,000
	₱12,808,856,959	₱13,057,085,520

OPERATING CASH FLOWS FROM INTERESTS AND DIVIDENDS		
Interest received	**₱13,645,570,678**	₱11,648,525,520
Interest paid	**(2,063,014,660)**	(1,556,749,786)
	₱11,582,556,018	₱10,091,775,734

See accompanying Notes to Financial Statements.

1. Corporate Information

Metrobank Card Corporation (*A Finance Company and General Insurance Agency*) (the Company) was initially incorporated in the Philippines as a credit card company on August 6, 1985, as Unibancard Corporation, with a corporate life of fifty (50) years from the date of incorporation. 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. 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.

On June 1, 2018, the Insurance Commission (IC) issued a license to the Company authorizing to act as a general life insurance agent of Philippine AXA Life Insurance Corporation (AXA) valid until December 2020. On September 17, 2018, the IC issued a license to the Company authorizing to act as an ordinary non-life insurance agent of Charter Ping An Insurance Corporation (Charter Ping An) (now fully-owned and operated by AXA) valid until December 31, 2020.

The Company offers and issues credit cards branded as Metrobank Visa, Metrobank Mastercard, Philippine Savings Bank (PSBank) Credit Mastercard, Robinsons Mastercard, Toyota Mastercard, Bistro Group VISA, YAZZ, and Victory Liner Premiere prepaid cards. Also, MCC is authorized to offer insurance products (life and non-life insurance products), underwritten by AXA and Charter Ping An. Its principal place of business is located at The 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 the 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 80.0% as of December 31, 2017. On January 8, 2018, the Parent Company obtained 200,000,000 common shares of ANZ, representing 20.0% ownership interest of ANZ in the Company. On September 4, 2018, the Parent Company obtained the remaining 20.0% ownership interest of ANZ in the Company. Effective September 4, 2018, the Company became a wholly owned subsidiary of the Parent Company.

This development is supportive of the Parent Company’s growth strategy to maximize operational efficiencies between the Parent Company and the Company, and to further expand on opportunities for collaboration, especially within the Metrobank Group (the Group), while remaining fully committed to deliver superior products and services to existing and new customers.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying financial statements of the Company have been prepared on a historical cost basis, except for equity instruments carried at fair value through other comprehensive income (FVOCI), included under 'Other noncurrent assets', and derivatives, which are both measured at fair value. The Company's financial statements are presented in Philippine peso (PHP or ₱), the Company's functional currency, and all values are rounded to the nearest PHP, except when otherwise indicated.

Statement of compliance

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

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 in the preparation of the financial statements are consistent with those of the previous financial year, except for the adoption of new standards and amendments effective as of January 1, 2018. The Company did not early adopt any other standard, interpretation or amendment that has been issued but is not yet effective.

- PFRS 9, *Financial Instruments*

  PFRS 9 reflects all phases of the financial instruments project and replaces Philippine Accounting Standard (PAS) 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9 for annual periods beginning on or after January 1, 2018. 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 has not restated comparative information for 2017 for financial instruments in the scope of PFRS 9. Therefore, the comparative information for 2017 is reported under PAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of PFRS 9 have been recognized directly in 'Retained earnings' as of January 1, 2018 and are disclosed under Transition to PFRS 9 below.

  To reflect the differences between PFRS 9 and PAS 39, PFRS 7, *Financial Instruments: Disclosures*, was updated and the Company has adopted it, together with PFRS 9, for the year beginning January 1, 2018. Changes include transition disclosures shown under Transition to PFRS 9 below and detailed qualitative and quantitative information about the expected credit loss (ECL) calculations such as the assumptions and inputs used are set out in Notes 4, 7 and 23.

  Reconciliation from opening to closing ECL allowance is presented in Notes 7 and 23.

a. *Classification and measurement*
PFRS 9 requires that the Company classifies debt instruments based on the contractual cash flow characteristics of the assets and the business model for managing those assets. These factors determine whether the financial assets are measured at amortized cost, FVOCI, or fair value through profit or loss (FVTPL).

As a result of the application of the classification and measurement requirements of PFRS 9, investment in unquoted equity shares carried at cost under PAS 39 is measured at FVOCI, with no recycling to the statement of income. The Company elected to classify irrevocably the investment in unquoted equity shares as it intends to hold this investment for the foreseeable future. There were no impairment losses recognized in the statement of income for this investment in prior periods.

b. *Impairment*
PFRS 9 requires the Company to record ECL for all loans and other receivables, including unused credit limit.

<u>Incurred loss versus ECL methodology</u>
The application of ECL significantly changed 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, the Company will apply the general approach, wherein 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.

The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within 12 months after the statement of financial position 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.

<u>Staging assessment</u>
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 Company recognizes a lifetime ECL for Stage 3 impaired financial instruments.

c. *Transition to PFRS 9*

A reconciliation between the carrying amounts under PAS 39 to the balances reported under PFRS 9 as of January 1, 2018 is as follows:

	PAS 39		ECL	PFRS 9	
	Category	Amount	Remeasurement	Category	Amount
Financial assets					
Cash in banks	L&R[1]	₱1,809,031,449	₱–	AC[2]	₱1,809,031,449
Due from BSP	L&R	10,948,054,071	–	AC	10,948,054,071
Interbank loans receivable	L&R	300,000,000	–	AC	300,000,000
Accounts receivable	L&R	59,683,804,948	(1,791,642,376)	AC	57,892,162,572
	L&R	72,740,890,468	(1,791,642,376)	AC	70,949,248,092
Non-financial assets					
Deferred tax assets		982,367,487	786,847,284		1,769,214,771
Total assets		₱73,723,257,955	(₱1,004,795,092)		₱72,718,462,863
Financial liabilities					
Accounts payable	AC	₱2,238,342,317	₱–	AC	₱2,238,342,317
Bills payable	AC	34,202,525,612	–	AC	34,202,525,612
Notes payable	AC	20,774,613,898	–	AC	20,774,613,898
Subordinated debt	AC	1,163,519,811	–	AC	1,163,519,811
		58,379,001,638	–		58,379,001,638
Non-financial liabilities					
Accounts payable		241,649,770	–		241,649,770
Provision for credit losses		–	831,181,905		831,181,905
		241,649,770	831,181,905		1,072,831,675
Total liabilities		₱58,620,651,408	₱831,181,905		₱59,451,833,313

[1] *Loans and receivables*
[2] *Amortized cost*

The impact of transition to PFRS 9 on unappropriated retained earnings is as follows:

Closing balance under PAS 39 - December 31, 2017	₱6,147,395,141
Recognition of PFRS 9 ECLs	(2,622,824,281)
Deferred tax effect	786,847,284
Opening balance under PFRS 9, before restatement for PFRS 15 - January 1, 2018	₱4,311,418,144
Total change in equity due to adopting PFRS 9	(₱1,835,976,997)

The following table reconciles the aggregate opening allowance for credit losses under PAS 39 and provision arising from unused credit line in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, to the ECL allowances under PFRS 9:

	Allowance for Credit Losses under PAS 39/PAS 37 as of December 31, 2017	Remeasurement	ECL under PFRS 9 as of January 1, 2018
Accounts receivable:			
Receivables from cardholders	₱1,839,737,108	₱1,791,642,376	₱3,631,379,484
Other receivables	14,380,255	–	14,380,255
	1,854,117,363	1,791,642,376	3,645,759,739
Unused credit line	–	831,181,905	831,181,905
	₱1,854,117,363	₱2,622,824,281	₱4,476,941,644

d. *Hedge accounting*
The new hedge accounting model under PFRS 9 aims to simplify hedge accounting, align the accounting for hedge relationships more closely with an entity's risk management activities and permit hedge accounting to be applied more broadly to a greater variety of hedging instruments and risks eligible for hedge accounting. The Company has assessed that the adoption of these amendments will affect the financial statements as of December 31, 2018, by recognizing either a derivative asset (liability) with the corresponding mark-to-market (MTM) valuation to FVOCI in the Company's financial position. Any ineffectiveness resulting from effectiveness testing shall be charged to the profit or loss during the term of the cross-currency interest rate swap.

The Company has applied its existing governance framework to ensure that appropriate controls and validations are in place over key processes and judgments in implementing PFRS 9. The Company is continuously refining its internal controls and processes, which are relevant in the proper implementation of PFRS 9.

- PFRS 15, *Revenue from Contracts with Customers*
PFRS 15 supersedes all current revenue recognition requirements under PFRSs. PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers, and requires that revenue be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

PFRS 15 requires entities to exercise judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Company adopted PFRS 15 using a modified retrospective approach with the date of initial application of January 1, 2018. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Company elected to apply the standard to all contracts that are not completed as of January 1, 2018.

The cumulative effect of initially applying PFRS 15 is recognized at the date of initial application as an adjustment to the opening balance of 'Retained earnings'. Therefore, the comparative information was not restated and continues to be reported under PAS 18, *Revenue*, International Financial Reporting Interpretations Committee (IFRIC) 13, *Customer Loyalty Programs*, and related interpretations.

The effect of adopting PFRS 15 as of January 1, 2018 is as follows (increase/(decrease)):

	Increase/ (Decrease)
Assets	
Deferred tax assets	₱21,444,532
Liabilities	
Deferred revenue	₱71,481,773
Equity	
Retained earnings	(₱50,037,241)

Before the adoption of PFRS 15, a portion 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, while the fair value of the points issued is deferred and recorded under 'Deferred revenue' and recognized as revenue when the points are redeemed.

Upon the adoption of PFRS 15, a portion of the consideration received from interchange fees from credit cards are allocated to the reward points. The allocated revenue corresponds to the stand-alone selling price of reward points, which is its fair value.

Set out below are the amounts by which each financial statement line item is affected as of and for the year ended December 31, 2018 as a result of the adoption of PFRS 15. The adoption of PFRS 15 did not have a material impact on other comprehensive income (OCI) or on the Company's operating, investing and financing cash flows.

Statement of financial position

	Amounts Prepared under		Increase/
	PFRS 15	Previous PFRS	(Decrease)
Assets			
Deferred tax assets	₱1,927,572,853	₱1,927,470,228	₱102,625
Liabilities			
Deferred revenue (Note 13)	₱722,138,306	₱721,796,224	₱342,082
Equity			
Retained earnings	13,858,744,448	13,858,847,073	(102,625)
Total liabilities and equity	₱14,580,882,754	₱14,580,643,297	₱239,457

Statement of income

	Amounts Prepared under		Increase/
	PFRS 15	Previous PFRS	(Decrease)
Revenues			
Discounts earned	₱2,411,581,701	₱2,433,271,944	(₱21,690,243)
Awards revenue	120,774,947	98,742,622	22,032,325
Total	₱2,532,356,648	₱2,532,014,566	₱342,082

The adoption of the following pronouncements did not have any significant impact on the Company's financial position or performance:

- Amendments to PFRS 4, *Insurance Contracts*, *Applying PFRS 9, Financial Instruments, with PFRS 4*
- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)
- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

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; and
- 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 twelve (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 currency-denominated are initially recorded at the functional currency rate of exchange ruling at the date of the transaction.

The Company translates its foreign currency-denominated monetary assets and liabilities 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. Effective April 2018, in compliance with publication of the Bank of the Philippines (BAP), the Company ceased to use PDS closing rates and started to use BAP closing rates, as provided by Bloomberg, in translating its foreign currency-denominated instruments.

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 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).

Financial Instruments – Initial Recognition

Date of recognition

Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized 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.

Initial recognition of financial instruments

All financial assets are initially measured at fair value. Except for financial assets and liabilities valued at FVTPL, the initial measurement of financial instruments includes transaction costs.

'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.

Financial Instruments – Classification and Subsequent Measurement

Policies applicable beginning January 1, 2018

Starting January 1, 2018, the Company classifies its financial assets in the following categories: financial assets at FVTPL, financial assets at FVOCI, and financial assets at amortized cost while financial liabilities are classified as financial liabilities at FVTPL and financial liabilities at amortized cost. The classification of financial instruments depends on the contractual terms and the business model for managing the instruments.

The Company determines its business model based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

As part of its classification process, the Company assesses the contractual terms of financial assets to identify whether they meet the 'solely payments of principal and interest' (SPPI) test. For the purpose of the SPPI test, principal is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (e.g., if there are repayments of principal or amortization of premium or discount). The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. In contrast, contractual terms that introduce a more that *de minimis* exposure to risks or volatility in the contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

Financial assets at FVTPL

a. *Derivatives recorded at FVTPL*

The Company uses cross-currency interest rate swaps to hedge its foreign currency and interest rate risks. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Hedge accounting

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment;
- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment; and
- hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Company will assess whether the hedging relationship meets the hedge effectiveness requirements, including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined. A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is 'an economic relationship' between the hedged item and the hedging instrument.
- The effect of credit risk does not 'dominate the value changes' that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Company actually hedges and the quantity of the hedging instrument that the Company actually uses to hedge that quantity of hedged item.

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognized in OCI in the 'Cash flow hedge reserve', while any ineffective portion is recognized immediately in the statement of income.

The Company uses cross currency interest rate swaps as hedges of its exposure to foreign currency risk in peso-denominated loans. There is no ineffective portion relating to the cross-currency interest rate swaps recognized during the year. Refer to Note 8 for details.

Financial assets at FVOCI

Financial assets at FVOCI include equity instruments. Equity instruments at FVOCI are those that the Company made an irrevocable election to present in the OCI subsequent changes in fair value.

After initial measurement, these financial assets are subsequently measured at fair value. Gains and losses arising from changes in fair value are recognized in OCI and accumulated in 'Net fair value gains on equity instruments at FVOCI' in the statement of financial position. When the asset is disposed of, the cumulative gain or loss previously recognized in 'Net fair value gains on equity instruments at FVOCI' is not reclassified to statement of income, but is reclassified to 'Retained earnings'.

The Company has designated its equity instruments as at FVOCI on initial application of PFRS 9.

Financial assets at amortized cost

Financial assets at amortized cost are debt financial assets that meet both of the following conditions:

- the asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the outstanding principal amount.

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'.

Accounts receivable include purchases made by the Company's cardholders which are collected on installments and are recorded at the cost of the items purchased plus interest covering the installment period which is initially credited to unearned 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 (2) years, the average relationship life with customers, on a straight-line basis.

After initial measurement, these financial assets at amortized cost are subsequently measured at amortized cost using the effective interest rate (EIR) method, less allowance for expected 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 expected credit losses are recognized in the statement of income under ‘Provision for credit losses’.

Policies applicable prior to January 1, 2018
Before January 1, 2018, the Company classifies its financial assets in the following categories: financial assets at FVTPL, held-to-maturity investments (HTM), AFS investments and loans and receivables. The classification depends on the purpose for which the investments were acquired. Financial liabilities are classified into financial liabilities at FVTPL and financial liabilities at amortized cost. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every statement of financial position date.

Loans and receivables
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 FVTPL.

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’.

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 (2) 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 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.

Financial liabilities at amortized cost
Financial liabilities at amortized cost include 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 FVTPL.

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.

Impairment of Financial Assets

Policies applicable beginning January 1, 2018

The adoption of PFRS 9 has changed the Company’s loan loss impairment method by replacing PAS 39’s incurred loss approach with a forward-looking ECL approach. From January 1, 2018, the Company has been recording the allowance for ECL for all loans and other receivables, including unused credit line.

Overview of the ECL principles

The ECL allowance is based on the credit losses expected to arise on 12-month duration if there was no SICR of the financial asset since initial recognition. Otherwise, if a SICR is observed, then, expected credit loss estimation is extended until the end of the life of the financial asset.

The 12-month ECL represents losses resulting from default events on a financial asset, which may happen within twelve (12) months after the statement of financial position date. The lifetime ECL, on the other hand, represents losses resulting from default events on a financial asset which may happen over its life. When estimating the lifetime ECL for unused credit line, the Company estimates the expected portion of the loan commitment that will be drawn down over its expected life.

Both lifetime ECL and 12-month ECL are calculated on an account-level, depending on the nature of the underlying portfolio of financial instruments.

Definition of ‘default’

The Company defines default when the borrower becomes at least 90 days past due (dpd) or if the account is restructured.

Definition of ‘write-off’

The Company determines the accounts receivable for write-off as those that have reached 180 dpd, except for those that are tagged as rewrite and Directors, Officers, Stockholders, and Related Interests (DOSRI). Rewrite accounts are automatically written-off when it reached 90 dpd, while accounts classified as DOSRI are written-off upon receipt of approval from the Board of Directors (BOD). Write-off of receivables from cardholders, loans and other credit accommodations are subject to the approval of the Executive Committee (EXECOM).

The Company also determines early write-off on its accounts receivable that have not yet reached 180 dpd, but has been evaluated by its Collection Division to be subjected to early write-off. These accounts generally include those from deceased cardholders or accounts with negative skip tracing results.

SICR
The criteria for determining whether credit risk has increased significantly vary by portfolio, which includes quantitative changes in probabilities of default and qualitative factors. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Company's internal scorecards, the borrower or counterparty is determined to have well-defined credit weaknesses. For exposures without internal scorecards, if contractual payments are more than a specified days past due threshold, the credit risk is deemed to have increased significantly since initial recognition. Days past due is determined by counting the number of days since the earliest elapsed due date from which payment of amount due, whether in partial or in full, has not been received. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, the Company shall revert to recognizing a 12-month ECL.

Given that there is a cut-off score upon origination, it is assumed that all booked accounts have satisfied the Company's risk appetite.

In order to determine if an account is subject to 12-month ECL or lifetime ECL, the Company evaluates whether there has been a SICR since initial recognition. The Company uses the credit score to determine whether the loan has significant increase in credit risk and to estimate the ECL. An exposure is considered to have SICR when it has entered the lowest scoreband.

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

The PD represents the likelihood that a credit exposure will not be repaid and will go into default within either a 12-month horizon for Stage 1 or lifetime horizon for Stage 2. The PD for each individual instrument is modelled based on historical data and is estimated based on current market conditions and reasonable and supportable information about future economic conditions. The Company segmented its credit exposures based on homogenous risk characteristics and developed a corresponding PD methodology for each portfolio. The PD methodology for each relevant portfolio is determined based on the underlying nature or characteristic of the portfolio, behavior of the accounts and materiality of the segment as compared to the total portfolio.

LGD is the amount that may not be recovered in the event of default and is modelled based on historical cash flow recovery and reasonable and supportable information about future economic conditions, where appropriate.

EAD is modelled on historical data and represents an estimate of the outstanding amount of credit exposure at the time a default may occur. For unused credit line, EAD includes an estimate of any further amount to be drawn at the time of default.

The Company offers credit card facilities, in which the Company has the right to cancel and/or reduce the facilities with one (1) day notice. The Company does not limit its exposure to credit losses to the contractual notice period, but instead, calculates ECL over a period that reflects the Company's expectations of the customer behavior, its likelihood of default and the Company's future risk mitigation procedures, which could include reducing or cancelling the facilities. Based on past experience and the Company's expectations, the period over which the Company calculates ECL for these products is two (2) years.

The interest rate used to discount the ECL for credit cards is based on the capital asset pricing model (CAPM) rates that is expected to be charged over the expected period of exposure to the facilities.

Forward-looking information
The Company incorporates forward-looking information in both of its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. A broad range of forward-looking information are considered as economic inputs. Correlations among variables are evaluated and the final list of variables for the model includes the following:
- Gross Domestic Product (GDP) (current) growth;
- London Interbank Offered Rate (LIBOR); and
- PHP / USD exchange rate.

The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

Policies applicable prior to January 1, 2018
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 a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost
For financial assets classified and measured at amortized cost, the Company assesses whether there is an 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 dpd. The net flow to write-off methodology relies on the last twelve (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 dpd) 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 the 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 dpd. 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.

<u>Derecognition of financial instruments</u>
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.

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 (3) 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.

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.

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

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

Intangible assets
Intangible assets acquired separately, such as license fees and capitalized software, are initially recognized at cost. Following initial recognition, these assets are carried at cost less accumulated amortization and accumulated impairment losses, if any. 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, 2018 and 2017, 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 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.

Debt issuance costs

Issuance and other related expenses incurred in connection with the issuance of debt instruments (other than debt instruments designated at FVTPL) 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.

Revenue recognition

Revenue is measured based on the consideration specified in a contract with a customer. The Company recognizes revenue when it transfers control over a good or service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Type of product/service	**Nature and timing of satisfaction of performance obligations, including significant payment terms**	**Revenue recognition under PFRS 15 (applicable from January,1 2018)**	**Revenue recognition under PAS 18 (applicable before January 1, 2018)**
Discounts earned	Discounts are 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. 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.	Discounts/interchange fees are recognized as revenue point-in-time when services related to credit card use are being provided.	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.
Membership fees and dues	Membership fees are periodically charged to cardholders upfront.	Membership fees are deferred and recorded under 'Deferred revenue' and recognized on a straight-line basis over the period the fee entitles the cardholders to use the card.	Membership fees are deferred and recorded under 'Deferred revenue' and recognized on a straight-line basis over the period the fee entitles the cardholders to use the card.
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 accumulate and do not expire.	The Company allocates a portion of the consideration received from interchange fees from credit cards to the reward points. This allocation is based on the estimated stand-alone selling prices. The amount allocated to the customer loyalty program is deferred, and is recognized as revenue when loyalty points are redeemed or the likelihood of the customer redeeming the loyalty points becomes remote.	A proportion of 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.

Type of product/service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under PFRS 15 (applicable from January,1 2018)	Revenue recognition under PAS 18 (applicable before January 1, 2018)
		The contract liability is included in 'Deferred revenue'.	
Miscellaneous income	Miscellaneous income mainly relates to service fees and transaction processing fees. Invoices for these services are issued on a monthly basis and are usually payable within 30 days.	These are recognized as revenue over time as the services are provided.	These are recognized as income when the related services are rendered.

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 (GRT), documentary stamp taxes (DST), fringe benefit taxes (FBT), 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 is 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. 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 twelve (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.

3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the financial statements in compliance with PFRS requires the Company to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and the disclosures of contingent assets and contingent liabilities. Future events may occur which 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, estimates and assumptions 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. The following are the critical judgments and key assumptions that have a significant risk of material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Judgments

a. *Classification of financial assets*
As discussed in Note 2, beginning January 1, 2018, the Company classifies its financial assets depending on the business model for managing those financial assets and whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.

The Company performs the business model assessment based on observable factors such as:

- Performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- Risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- Compensation of business units whether based on the fair value of the assets managed or on the contractual cash flows collected
- Expected frequency, value and timing of sales

In performing the SPPI test, the Company applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, prepayments options, and the period for which the interest rate is set., contingent events that would change the amount and timing of cash flows, leverage features, prepayment and extension terms and other features that may modify the consideration for the time value of money.

b. *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 23).

c. *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 loans and other receivables, including loan commitments*

Beginning January 1, 2018
The Company's ECL calculations are outputs of complex models with a number of underlying assumptions that are considered accounting judgments and estimates include the following:

- The internal scorecards, which assigns PD to the different scorebands;
- The criteria for assessing if there is a SICR and therefore, allowances for these financial assets should be measured on a lifetime ECL;
- The expected life used for revolving credit facilities;
- The development of the ECL models, including the various formulas and the choice of inputs;
- The selection of forward-looking macroeconomic scenarios to derive the economic inputs into the ECL models; and
- The commission rates used to determine the cost attributable to recoveries made by the Company, which are considered in determining the LGD.

Prior to January 1, 2018
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 dpd are written-off. The net flow to write-off methodology and the recovery rates are based on historical data for the recent twelve (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*
Beginning January 1, 2018, the Company estimates the stand-alone price as the fair value of the points awarded under the customer loyalty program. This is derived by getting the discount that the credit cardholder will obtain when points are used, adjusted for both other discount/benefit that the customer will receive without using the points, and the likelihood that usage will be exercised.

Before January 1, 2018, 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 13.

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, 2018 and 2017 are disclosed in Note 19.

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.

Risk Management Framework

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

The Audit Committee and the ROC 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 ROC are each composed of at least three members of the BOD, at least two (2) 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 ROC 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 ROC 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 ROC 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 ROC.

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:

	2018			
	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	**₱175,667,078**	**₱175,667,078**	**₱–**	**₱175,667,078**

	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

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:

	2018			
	Loans and Receivables	**Loans and Advances to Banks***	**Others****	**Total**
Concentration by industry:				
Personal activities	**₱75,199,438,156**	**₱–**	**₱185,595,765,004**	**₱260,795,203,160**
Philippine government	**–**	**11,726,731,503**	**–**	**11,726,731,503**
Financial intermediaries	**26,004,304**	**1,082,259,131**	**14,307,109**	**1,122,570,544**
	75,225,442,460	**12,808,990,634**	**185,610,072,113**	**273,644,505,207**
Unearned interest and other deferred income	**(4,330,117,097)**	**–**	**–**	**(4,330,117,097)**
Allowance for ECL	**(4,101,798,235)**	**(146,174)**	**–**	**(4,101,944,409)**
	₱66,793,527,128	**₱12,808,844,460**	**₱185,610,072,113**	**₱265,212,443,701**
Concentration by location:				
Metro Manila	**₱34,471,059,510**	**₱12,808,990,634**	**₱83,695,355,373**	**₱130,975,405,517**
Luzon (except Metro Manila)	**25,108,778,259**	**–**	**63,789,664,294**	**88,898,442,553**
Visayas	**8,142,466,156**	**–**	**20,361,911,328**	**28,504,377,484**
Mindanao	**7,503,138,535**	**–**	**18,763,141,118**	**26,266,279,653**
	75,225,442,460	**12,808,990,634**	**186,610,072,112**	**274,644,505,207**
Unearned interest and other deferred income	**(4,330,117,097)**	**–**	**–**	**(4,330,117,097)**
Allowance for ECL	**(4,101,798,235)**	**(146,174)**	**–**	**(4,101,944,409)**
	₱66,793,527,128	**₱12,808,844,460**	**₱186,610,072,112**	**₱266,212,443,701**

**Comprised of Cash in banks, Due from BSP and Interbank loans receivable*
***Comprised of Commitments and contingencies and refundable deposits*

	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	–	11,248,054,071	–	11,248,054,071
Financial intermediaries	96,424,052	2,109,018,949	14,541,158	2,219,984,159
	65,201,837,405	13,357,073,020	160,071,737,247	238,630,647,672
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	₱13,357,073,020	₱160,071,737,247	₱233,112,615,215
Concentration by location:				
Metro Manila	₱30,592,651,981	₱13,357,073,020	₱73,479,687,266	₱117,429,412,267
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	13,357,073,020	160,071,737,247	238,630,647,672
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	₱13,357,073,020	₱160,071,737,247	₱233,112,615,215

**Comprised of Cash in banks, Due from BSP and Interbank loans receivable*
***Comprised of Commitments and contingencies and refundable deposits*

c. *Credit quality of financial assets*

Accounts receivable
Receivables of the Company include those due from cardholders and other receivables.

Previously, the Company classifies and measures the quality of its receivables by the 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.
ii. Past due but not impaired

Receivables from cardholders where principal payments or contractual interests are 1 to 89 dpd 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 dpd as of statement of financial position date.

iv. Written off accounts
As a policy, all accounts receivable shall be written-off upon reaching 180 dpd except for those tagged as Rewrite and DOSRI. Rewrite accounts are automatically written-off when it reaches 90 dpd.

Beginning January 1, 2018, the Company classifies and measures the quality of its receivables, together with its corresponding unused credit line, using their existing internal credit rating grade as follows:

i. Excellent
These are customers that have exhibited the best payment behavior and are generally those without history of past due which have been paying the outstanding balance in full over a period of twelve (12) months.

ii. Very satisfactory
These are customers that have exhibited the good payment behavior and are generally those without history of past due but could have revolved over a period of twelve (12) months.

iii. Satisfactory
These are customers that have shown history of past due but not impaired, and are still within the average level of the credit card portfolio which remains to be profitable.

iv. Poor
These are customers that are past due but not yet impaired and could still be cured by collection mitigation strategies.

v. Default
These are customers that are already impaired. Recovery strategies are needed to reduce exposure to these customers.

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:

a) 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. The Company classifies and measures the quality of its cash and cash equivalents by the internal credit rating grade as follows:

i. Highest quality

This rating is given to counterparties with very low probability of going into default and with high degree of stability and very strong debt service capacity. The counterparty exhibits highest quality under virtually all economic conditions. This is given to counterparties with very satisfactory track record and has long-time business relations with the Company.

ii. Good quality

This rating is given to counterparties with low probability of going into default in the coming year and has comfort degree of stability and strong market and financial position, with a history of successful performance. The counterparty is also well capitalized and has a good track record and existing business relations with the Company.

iii. Average

This rating is given to smaller banks/financial institutions. While probability of default is low, it bears characteristics of some degree of stability and substance. Risk elements are sufficiently pronounced although the counterparty should still be able to withstand normal business cycles. This is given to counterparties with average track record and with relatively new business relations with the Company.

iv. Below average

This rating is given to counterparties that have specific risk factors which represent a concern. Operating performance and financial strength may be marginal. The counterparty may find it hard to cope with any significant economic downturn and a default is more than a possibility. This is given to counterparties with below average organizational management and track record.

v. Poor quality

This rating is given to high-risk banks/financial institutions with poor financial performance and organizational management. The Company does not recommend that lines be established for counterparties with this rating.

b) Other assets

This account consists of refundable deposits.

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

	2018			
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Accounts receivable				
Performing				
Excellent	₱42,807,057	₱–	₱–	₱42,807,057
Very satisfactory	12,312,866	–	–	12,312,866
Satisfactory	5,321,320	–	–	5,321,320
Poor	5,186,802	5,519,320	–	10,706,122
Non-performing				
Default	–	–	3,517,958	3,517,958
	₱65,628,045	**₱5,519,320**	**₱3,517,958**	**₱74,665,323**

	2018			
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Allowance for credit losses				
Performing				
Excellent	₱137,243	₱–	₱–	₱137,243
Very satisfactory	162,261	–	–	162,261
Satisfactory	173,245	–	–	173,245
Poor	444,148	1,841,462	–	2,285,610
Non-performing				
Default	–	–	1,327,724	1,327,724
	₱916,897	**₱1,841,462**	**₱1,327,724**	**₱4,086,083**

	2018			
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Unused credit line				
Performing				
Excellent	₱153,537,815	₱–	₱–	₱153,537,815
Very satisfactory	16,587,100	–	–	16,587,100
Satisfactory	5,780,810	–	–	5,780,810
Poor	6,882,745	2,660,690	–	9,543,435
Non-performing				
Default	–	–	146,605	146,605
	₱182,788,470	**₱2,660,690**	**₱146,605**	**₱185,595,765**

	2018			
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Provisions				
Performing				
Excellent	₱88,256	₱–	₱–	₱88,256
Very satisfactory	104,343	–	–	104,343
Satisfactory	111,407	–	–	111,407
Poor	285,613	326,057	–	611,670
Non-performing				
Default	–	–	–	–
	₱589,619	**₱326,057**	**₱–**	**₱915,676**

	2017					
	Accounts Receivable			Cash and Cash		
	Cardholder	Other	Total	Equivalents*	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*

For cash and cash equivalents, the credit quality of these financial assets fall under stage 1 where ₱373.8 million cash in banks, ₱2.2 billion interbank loan receivables and ₱9.5 billion due from BSP are considered highest quality. The remaining ₱708.4 million cash in banks falls in stage 1 as very satisfactory.

As of December 31, 2017, the credit quality of neither past due nor impaired accounts receivable from cardholders based on historical past due incidence is as follows:

	Amount	Percentage
Current and never past due	₱56,378,550	93.7%
Balances of accounts with 1 to 29 dpd history	2,658,344	4.4
Balances of accounts with 30 to 59 dpd history	570,149	0.9
Balances of accounts with 60 to 89 dpd history	305,347	0.5
Balances of accounts with 90 dpd above history	274,932	0.5
	₱60,187,322	100.0%

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

	Amount	Percentage
1 to 29 days	₱1,422,135	49.7%
30 to 59 days	810,567	28.3
60 to 89 days	629,994	22.0
	₱2,862,696	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, 2018 and 2017, amounted to ₱4.9 million and ₱6.2 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.

d. Impairment assessment (beginning January 1, 2018)
Internal scorecards and PD estimation process

- Credit cards
  Part of the Company's policy on acceptance of each loan is based on the likelihood of a customer to turn delinquent. The Company uses internal rating to estimate quantitatively the likelihood of a customer to turn delinquent.

  The Company uses an Application Scorecard and assigns a score for each credit card application based on the customer's tendency to go "bad". Once approved, an account's behavior through its usage, payment history, and other performance indicators is monitored. These indicators are then utilized to assess a customer's risk specifically its propensity to miss payment and go delinquent through the computation of the Behavioral Score (BScore).

  The Company's Point-in-time (PiT) PD estimates leverages on the Company's existing internal scorecards wherein each score has a corresponding PD depending on the scoreband. For unscored segments, special PD rates based on historical performance, adjusted with forward-looking macroeconomic variable, are assigned. The PiT PDs are then adjusted for PFRS 9 ECL calculations to incorporate forward-looking information.

- Treasury exposures
  The Company's treasury counterparties comprise financial services institutions and banks. For these relationships, the Company analyzes publicly available information, such as financial information and other external data.

LGD
LGD is defined as the amount of loss incurred from a defaulted account expressed as a percentage of loss exposure at the time of default. An LGD model was developed by collecting historical information on defaulted accounts and the observed cash flows for a five (5)-year period (that is, recoveries and costs) after default. The Company then segments its portfolio based on characteristics that are relevant to the estimation of future cash flows.

A discounting factor is used to obtain the present value of recoveries and cost, which are used to consider the time value of money in determining the LGD per account. The Company uses the CAPM to assign discount rates per tenor (i.e., 1 to 5 years tenor):

EAD
EAD represents the amount that the borrower owes to the Company at the time of default. This amount also addresses both the borrower's ability to increase its exposure while approaching default and potential payments. The Company segments its credit card portfolio based on key characteristics that predict the probability to use the unused credit limit or the Credit Conversion Factor (CCF). EAD is then calculated based on the factor applied to the unused credit line.

CCF is determined as the change in the total principal balance within the 12-month period over the unused credit line portion of the accounts receivable 12 months prior. The Company segments its CCF values based on the MOB and dpd of the accounts.

To calculate the EAD for a Stage 1 exposure, the Company assesses the possible default events within 12 months for the calculation of the 12-months ECL. For Stage 2 and Stage 3, the EAD is considered for events over the lifetime of the financial instruments.

Credit risk at initial recognition
The Company uses internal credit assessment and approvals at various levels to determine the credit risk of exposures at initial recognition. Assessment can be quantitative or qualitative and depends on the materiality of the facility or the complexity of the portfolio to be assessed.

Forward-looking information
PFRS 9 requires the use of forward-looking assumptions, aside from historical experiences, in measuring ECL. The overlay model was used to adjust the PD calculated from the internal scorecards to a forward-looking PiT PD.

Forecasts of key drivers may be derived by: acquired from affiliated units who monitor such macroeconomic variables, from publicly available forecasts, or from statistical forecasts using historical data.

In determining the appropriate macroeconomic variables used as forward-looking information, the Company used Single Factor Analysis (SFA). Further, the Company also used Multi-Factor Analysis (MFA) to further identify the macroeconomic variable with the most significant impact on PD.

In its ECL model, the Company relies on forward-looking information as economic inputs, such as the following:

- GDP growth;
- LIBOR; and
- PHP / USD exchange rate.

Where modelling of a parameter is carried out on a collective basis, the financial assets are grouped on the basis of shared risk characteristics, which include product type, basis of approval, market segment, vintage and geographical location. The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogenous.

12-month ECL and lifetime ECL
12-month ECL is defined as a portion of the lifetime ECL that results from default events on a financial instrument that are possible within twelve (12) months after the reporting date. A 12-month ECL will be provided for accounts with low credit risk or if no significant deterioration was observed.

In the staging criteria, the priority is to categorize the accounts with Stage 2 and Stage 3 ECL which will have lifetime ECL, and all others will have a 12-month ECL.

For credit exposures where there has been a SICR, a loss allowance is required under lifetime ECL. An entity needs to determine the expected life for each instrument, defined as:

- the maximum contractual period (including extensions) over which the entity is exposed to credit risk; and
- the entire period that it is expected to be exposed to credit risk and the credit risk management actions that an entity expects to take once the credit risk on the financial instrument has increased.

The Company assessed the expected life of its credit card portfolio as the period over which cumulative default rate has stabilized, establishing the life of its credit card portfolio at t wo (2) years or 24 months, which is the period over which cumulative default rate has stabilized.

An account is said to enter Stage 2 or Stage 3, if account has a BScore of 345 and below or is tagged as default (see SICR), respectively.

Change control policy
Any changes in the ECL model shall be subject to the approval of the following depending on the nature and the impact of the changes:

- President
- Chief Risk Officer (CRO)
- ROC / BOD

Management subjects its ECL model for review and validation at least annually to ensure that the factors within the model are up to date and relevant to the Company's goals and objectives.

The RMD reports the required allowance for ECL on a monthly basis to the CRO. The CRO assesses whether the allowance is adequate and within management's estimate by determining the reasonableness for the increase (decrease) in the allowance. Once approved by the CRO, the final figures of the allowance for ECL is reported monthly to Senior Management and EXECOM, as well as quarterly during ROC meetings.

The Company has an internal validation team from its Business Intelligence Unit (BIU) and Financial Accounting Unit (FAU) to regularly validate the effectiveness of the model and determine appropriate controls over the process. Refinements in the model depend on the assessment of the internal validation team.

Written off accounts

As a policy, all accounts receivable shall be written-off upon reaching 180 dpd except for those tagged as Rewrite and DOSRI. Rewrite accounts are automatically written-off when it reaches 90 dpd.

Aside from contractual write-off which occurs at 180 dpd, early write-off is considered depending on the circumstances as evaluated by Collections Division. Accounts of deceased cardholders or accounts with negative skip tracing results are endorsed for early write-off.

Other receivables may be endorsed for write-off upon reaching 180 dpd. These loans and other credit accommodations which are considered uncollectible or worthless shall be considered as a loss subject to approval of the EXECOM.

Write-off shall be taken up in the books within the month when the accounts are tagged as write-off or upon the receipt of list of write-off for the month. In the case of accounts classified as DOSRI, write-off in the books shall be upon receipt of the approval from the Board.

e. *Impairment assessment (before January 1, 2018)*

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 dpd are written-off. The net flow to write-off methodology and the recovery rates are based on historical data for the recent twelve (12) months.

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):

	2018			
	Changes in interest rates (in basis points)			
	(100)	**(50)**	**100**	**50**
Change in income before income tax	**₱603.0**	**₱301.5**	**(₱603.0)**	**(₱301.5)**
As percentage of the Company's income before income tax	**8.5%**	**4.2%**	**(8.5%)**	**(4.2%)**

	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%)

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. The EaR limit approved by the BOD is the 2018 budgeted net interest income and 2017 actual net interest income effective January 1 and June 1, 2018, respectively. For 2017, 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 (USD)-denominated monetary assets and liabilities as of December 31, 2018 and 2017 and their PHP equivalents are as follows (amounts in thousands):

	2018		2017	
	USD	**PHP Equivalent**	USD	PHP Equivalent
Financial assets				
Cash in banks	**US$2,618**	**₱137,658**	US$1,704	₱85,099
Accounts receivable	**6,473**	**340,350**	6,585	328,807
	9,091	**478,008**	8,289	413,906
Financial liabilities				
Notes payable	**5,700**	**299,706**	10,580	528,259

	2018		2017	
	USD	**PHP Equivalent**	USD	PHP Equivalent
Accrued interest payable	**706**	**13**	26	1,288
	6,406	**299,719**	10,606	529,547
Net foreign currency-denominated assets (liabilities)	**US$2,685**	**₱178,289**	(US$2,317)	(₱115,641)

Financial liabilities do not include the dollar-denominated floating rate loans hedged into peso fixed rate loans since the cash flow hedge manages the Company's exposure to foreign currency risk.

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

	2018			
	Changes in foreign exchange rates (in basis points)			
	(100)	**(50)**	**100**	**50**
Change on annualized net income	**₱178.3**	**₱89.14**	**(₱178.3)**	**(₱89.14)**
As percentage of the Company's net income before income tax	**2.5%**	**1.3%**	**(2.5%)**	**(1.3%)**

	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%)

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. Effective June 2018, the MCO limit is equal to the funding capacity which is equal to total available bank lines. Prior to this change, the MCO limit is equal to the total wholesale borrowing limit less utilized borrowing limit. As of December 31, 2018 and 2017, the Company reported positive and negative MCO limit of ₱35.2 billion corresponding to the total funding and ₱10.8 billion corresponding to 80.0% of the total wholesale borrowing limit less utilized borrowing limit, respectively.

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, 2018 and 2017 (amounts in millions):

	2018						
	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	**₱10,662**	**₱6,227**	**₱5,636**	**₱12,072**	**₱12,713**	**₱32,166**	**₱79,476**
Liabilities	**13,928**	**6,646**	**2,485**	**9,560**	**5,949**	**27,423**	**65,991**
Periodic Gap	**₱3,111**	**(₱264)**	**₱3,179**	**₱2,849**	**₱7,446**	**₱4,551**	**₱14,650**
Cumulative Gap	**(₱3,111)**	**(₱3,375)**	**(₱196)**	**₱2,653**	**₱10,099**	**₱14,650**	
	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	

The Company includes committed credit line and net cash flows from cross-currency swap interest rate swaps amounting to ₱1.9 million and ₱0.7 million, respectively, in determining the periodic gap during the year.

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, 2018 and 2017 (amounts in thousands):

	2018					
	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	**₱1,082,272**	**₱–**	**₱–**	**₱–**	**₱–**	**₱1,082,272**
Due from BSP	**9,526,732**	**–**	**–**	**–**	**–**	**9,526,732**
Interbank loans receivable	**2,200,000**	**–**	**–**	**–**	**–**	**2,200,000**
Accounts receivable:						
Cardholders	**14,397,970**	**33,615,864**	**7,885,348**	**9,359,121**	**9,407,020**	**74,665,323**
Others	**392,222**	**–**	**–**	**–**	**–**	**392,222**
	27,599,196	**33,615,864**	**7,885,348**	**9,359,121**	**9,407,020**	**87,866,549**
Financial liabilities						
Accounts payable:						
Merchants	**1,525,460**	**–**	**–**	**–**	**–**	**1,525,460**
Others	**599,282**		**–**	**–**	**–**	**599,282**
	2,124,742	**–**	**–**	**–**	**–**	**2,124,742**
Bills payable	**9,736,726**	**5,537,080**	**2,842,998**	**3,081,933**	**8,661,079**	**29,859,816**
Notes payable	**6,827,983**	**4,309,551**	**7,810,679**	**1,748,599**	**10,836,180**	**31,532,992**
Subordinated debt	**–**	**18,164**	**18,164**	**18,164**	**1,476,431**	**1,530,923**
Accrued interest and other expenses:						
Accrued interest payable	**187,983**	**136,786**	**50,998**	**20,740**	**25,770**	**422,277**
Accrued advertising	**115,999**	**–**	**–**	**–**	**–**	**115,999**
Accrued other expenses	**553,420**	**–**	**–**	**–**	**–**	**553,420**
	19,546,853	**10,001,581**	**10,722,839**	**4,869,436**	**20,999,460**	**66,140,169**
Net undiscounted financial assets (liabilities)	**₱8,052,343**	**₱23,614,283**	**(₱2,837,491)**	**₱4,489,685**	**(₱11,592,440)**	**₱21,726,380**

	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

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 ROC.

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 in 2017:

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)

Effective June 2018, the current Liquidity Risk Limits utilized by the Company are as follow:

MCO Limit	Equal to total available bank lines
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	18% 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, 2018 and 2017, the Company has available credit and IBCL lines amounting to ₱35.21 billion and ₱29.5 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. On November 29, 2018, the BSP released a circular implementing the Basel III Counter cylical Capital Buffer (CCyB). Current CCyB is zero percent (0%) subject to upward adjustment as determined by the Monetary Board when systemic conditions warrant up to a maximum of 2.5%.

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

	2018	2017
CET1 capital	**₱12,413**	₱12,047
Tier 1 capital	**₱12,413**	₱12,047
Tier 2 capital	**1,911**	1,805
Gross qualifying capital	**₱14,324**	₱13,852
Credit risk-weighted assets	**₱74,622**	₱64,169
Operational risk-weighted assets	**24,328**	21,363
Total risk weighted assets	**₱98,950**	₱85,532
CET1 ratio	**12.5%**	14.1%
Tier 1 ratio	**12.5%**	14.1%
Risk-based CAR	**14.5%**	16.2%

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 DOSRI. Tier 2 is composed of Fixed-Rate Unsecured Subordinated Notes (Note 14).

As of December 31, 2018 and 2017, the Company met and complied with the CAR requirements 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 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 March 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, 2018 and 2017 is computed as follows (in millions, except for ratios):

	2018	2017
Total Liabilities (TL)	**₱67,976**	₱61,393
Total Equity (TE)	**₱14,826**	₱13,639
Debt-to-Equity Ratio (TL/TE)	**4.6**	4.5

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, 2018 and 2017, the Company is one hundred percent (100.0%) and eighty percent (80.0%), 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, 2018 and 2017, 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.

Information Security Risk

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

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

5. **Fair Value Measurement**

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

Cash and Cash Equivalents (includes Cash, Due from BSP and Interbank Loans Receivable)

Carrying amounts approximate fair values in view of the relatively short-term maturities of these instruments.

Accounts Receivable - Cardholders

The fair values of accounts receivable from straight payment transactions and short-term installment approximate carrying amounts, net of allowance, while the fair values of long-term installment receivables are estimated using the discounted cash flow methodology, using current incremental lending rates ranging from 5.4% to 7.5% and 3.2% to 5.7% in 2018 and 2017, respectively, for similar types of receivables.

Effective October 2018, the Company determines its applicable lending rate on its long-term installment receivables using PHP Bloombrerg Valuation (BVAL) rates, which replaces the previously used Philippine Dealing System Treasury (PDST) reference rates, in compliance with the requirements of BAP.

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.

Equity Instruments at Fair Value through Other Comprehensive Income

The fair value of the unquoted shares is estimated using the guideline publicly-traded company method, which utilizes publicly available information from publicly-traded comparable companies that are the same or similar to the unlisted company being valued.

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 2.9% to 7.2% and 0.9% to 6.3% in 2018 and 2017, respectively, for similar types of borrowings.

Derivative Instruments
Fair values are estimated based on discounted cash flow technique. The Company used various observable market inputs including the credit quality of the counterparty, foreign exchange spot and forward rates, interest rate curves and forward rate curves. As of December 31, 2018, the fair value of derivative liability positions is net of a credit valuation adjustment attributable to derivative counterparty default risk.

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):

	2018				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Financial assets for which fair values are disclosed:					
Accounts receivable:					
Cardholders	**₱66,233,408**	**₱–**	**₱–**	**₱74,158,369**	**₱74,158,369**
Financial asset measured at fair value					
Equity instruments at FVOCI	**28,158**			**28,158**	**28,158**
	₱66,261,566	**₱–**	**₱–**	**₱74,186,527**	**₱74,186,527**

	2018				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Financial liabilities for which fair values are disclosed:					
Bills payable	**₱28,985,876**	**₱–**	**₱–**	**₱28,945,905**	**₱28,945,905**
Notes payable	**31,317,426**	–	–	**30,817,412**	**30,817,412**
Subordinated debt	**1,164,611**	–	–	**1,144,598**	**1,144,598**
	61,467,913	–	–	**60,907,915**	**60,907,915**
Financial liabilities measured at fair value:					
Derivative liabilities					
Cross currency interest rate swaps	**99,372**	–	–	**99,372**	**99,372**
	₱61,567,285	**₱–**	**₱–**	**₱61,007,287**	**₱61,007,287**

	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

During the years ended December 31, 2018 and 2017, there were no transfers of financial instruments between Level 1 and Level 2, and no transfer in and out of Level 3.

Significant Unobservable Inputs
As of December 31, 2018, quantitative information about the Company's fair value measurements using significant unobservable inputs (Level 3), specifically the unquoted equity instruments at FVOCI, follows:

Fair Value at December 31	Valuation Technique(s)	Unobservable Input(s)	Range	Reasonably Possible Alternative Assumption	Sensitivity of the Fair Value to the Input
₱28,157,760	Guideline publicly-traded company method	Price to earnings ratio	13.76 - 18.36	+5% -5%	₱1,407,823 (1,407,947)
		Discount for lack of marketability	30%	+5% -5%	(2,011,326) 2,011,202

The Company estimates the fair value of the unquoted equity instruments using the 'benchmark multiples' of comparable publicly-traded companies. The identification of comparable companies considers the similarities between the subject company being valued and the guideline companies in terms of industry, market, product line or service type, growth, etc. The Company also determines an appropriate discount adjustment for the lack of marketability of these unquoted equity shares based on empirical evidence gathered from available public market research.

The use of reasonably possible alternative assumptions in the significant unobservable inputs will affect the fair value of the unquoted equity instruments and the OCI (before tax) as presented above.

6. Cash and Cash Equivalents

This account consists of:

	2018	2017
Cash on hand	**₱12,500**	₱12,500
Cash in banks (Note 21)	**1,082,259,131**	1,809,018,949
	1,082,271,631	1,809,031,449
Due from BSP (Note 12)	**9,526,731,502**	10,948,054,071
Interbank loans receivable	**2,200,000,000**	300,000,000
	12,809,003,133	13,057,085,520
Allowance for credit losses	**(146,174)**	–
	₱12,808,856,959	₱13,057,085,520

Cash in banks include time deposit accounts, current and savings deposit accounts and foreign currency deposits with related parties (Note 21). In 2018 and 2017, time deposit, savings account and foreign currency deposits bear annual interest rates of 0.3% to 1.5% and 0.5% to 1.5%, 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, 2018 and 2017, the total statutory reserves, as reported to the BSP, amounted to ₱9.5 billion and ₱10.9 billion, respectively (Note 12).

In 2018 and 2017, interbank loans receivable have terms of 1 to 5 days and 1 to 7 days, respectively. In 2018 and 2017, interbank loans receivable bears annual interest rates of 2.5% to 5.0% and 1.5% to 3.4%, respectively.

The allowance for credit losses recognized under 'Cash and cash equivalents' pertain only to 'Cash in banks.' No allowance for credit losses were recognized for 'Due from BSP' and 'Interbank loans receivable' as of December 31, 2018.

As of December 31, 2018, an analysis of changes in the gross carrying amount and the corresponding allowance for credit losses for cash in bank is as follows:

Gross carrying amount	
Balance at beginning of year	₱1,809,018,949
Movements in receivable balance (excluding write-offs)	(726,759,818)
Balance at end of year	₱1,082,259,131
Allowance for credit losses	
Balance at beginning of year	₱–
Provision during the year	146,174
Balance at end of year	₱146,174

There were no transfers to stages 2 and 3 in 2018.

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

	2018	2017
Interbank loans receivable	**₱3,433,758**	₱10,079,316
Short-term deposits	**14,134,658**	3,681,497
Deposits with banks	**102,081**	77,858
	₱17,670,497	₱13,838,671

7. Accounts Receivable

This account consists of receivables from:

	2018	2017
Cardholders	**₱74,665,323,027**	₱64,109,001,276
Others (Note 21)	**392,222,447**	976,369,804
	75,057,545,474	65,085,371,080
Deferred acquisition cost	**167,896,986**	116,466,325
Unearned interest and other deferred income	**(4,330,117,097)**	(3,663,915,094)
	70,895,325,363	61,537,922,311
Allowance for credit losses	**(4,101,798,235)**	(1,854,117,363)
	₱66,793,527,128	₱59,683,804,948

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

	2018	2017
Current portion	**₱58,455,080,198**	₱48,623,885,940
Noncurrent portion	**8,338,446,930**	11,059,919,008
	₱66,793,527,128	₱59,683,804,948

As of December 31, 2018 and 2017, the Company has outstanding installment credit card receivables and unearned interest income amounting to ₱37.0 billion and ₱30.6 billion, and ₱4.3 billion and ₱3.7 billion, respectively.

The Company recognized interest income from regular and installment credit card receivables amounting to ₱8.7 billion and ₱5.0 billion in 2018, respectively, and ₱7.5 billion and ₱4.2 billion in 2017, respectively.

Credit card receivables include past due accounts amounting to ₱3.5 billion and ₱3.9 billion as of December 31, 2018 and 2017, 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. These are amortized over two years, which is the average relationship life with customers, on a straight-line basis. Deferred acquisition costs as at December 31 are as follows:

	2018	2017
Balances at beginning of the year	**₱116,466,325**	₱113,603,056
Acquisition during the year	**186,921,270**	155,292,629
Amortization during the year	**(135,490,609)**	(152,429,360)
Balances at end of year	**₱167,896,986**	₱116,466,325

Others include accrued interest receivables, advances to officers and employees and receivables from the Parent Company (Note 21).

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, 2018 and 2017, 100.0% and 99.8% of the Company's accounts receivable are classified under personal activities, respectively.

As of December 31, 2018 and 2017, nonperforming loans (NPLs) not fully covered by allowance for credit losses follow:

	2018	2017
Total NPLs	**₱1,186,074,196**	₱1,058,983,805
Less NPLs fully covered by allowance for credit losses	**161,731**	262,955
	₱1,185,912,465	₱1,058,720,850

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
As of December 31, 2018, an analysis of changes in the gross carrying amount and the corresponding allowance for credit losses for the following exposures is as follows:

	Receivables from Cardholders			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount				
Balance at beginning of year	₱56,276,961,989	₱5,146,054,773	₱2,685,984,514	₱64,109,001,276
New exposures	1,556,803,763	–	–	1,556,803,763
Transfers to Stage 1	4,110,364,625	(4,098,235,789)	(12,128,836)	–
Transfers to Stage 2	(9,324,540,651)	9,392,140,427	(67,599,776)	–
Transfers to Stage 3	(667,511,909)	(5,001,340,980)	5,668,852,889	–
Movements in receivables balance (excluding write-offs)	13,675,966,960	80,702,058	694,234,926	14,450,903,944
Accounts written-off	–	–	(5,451,385,956)	(5,451,385,956)
Balance at end of year	₱65,628,044,777	₱5,519,320,489	₱3,517,957,761	₱74,665,323,027
Allowance for ECL				
Balance at beginning of year	₱835,255,803	₱1,738,824,428	₱1,058,771,919	₱3,632,852,150
New exposures	22,474,366	–	–	22,474,366
Transfers to Stage 1	1,407,883,725	(1,401,208,164)	(6,675,561)	–
Transfers to Stage 2	(498,398,744)	532,674,021	(34,275,277)	–
Transfers to Stage 3	(47,874,780)	(1,673,201,194)	1,721,075,974	–
Movements in receivables balance (excluding write-offs)	381,503,795	(26,811,042)	(166,372,271)	188,320,482
Accounts written-off	–	–	(3,979,564,653)	(3,979,564,653)
Impact on year-end ECL of exposures transferred during the year	(1,183,947,734)	2,671,184,366	2,734,764,107	4,222,000,739
Balance at end of year	₱916,896,431	₱1,841,462,415	₱1,327,724,238	₱4,086,083,084

	Other Receivables			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount				
Balance at beginning of year	₱976,369,804	₱–	₱–	₱976,369,804
New exposures	596,948	–	–	596,948
Transfers to Stage 3	(596,948)	–	596,948	–
Amounts written off	–	–	(29,985,270)	(29,985,270)
Movements in receivable balance (excluding write-offs)	(794,629,318)	–	239,870,283	(554,759,035)
Balance at end of year	₱181,740,486	₱–	₱210,481,961	₱392,222,447

	Other Receivables			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Allowance for ECL				
Balance at beginning of year	₱–	₱–	₱14,380,256	14,380,256
Movements in receivable balance (excluding write-offs)	–	–	30,723,217	30,723,217
Impact on year-end ECL of exposures transferred between stages during the year	–	–	596,948	596,948
Amounts written off	–	–	(29,985,270)	(29,985,270)
Balance at end of year	₱–	₱–	₱15,715,151	₱15,715,151

During the year, the Company recognized provision for credit losses on accounts receivables from cardholders and other amounting to ₱4.4 billion and ₱31.5 million, respectively.

As of December 31, 2017, changes in the allowance for credit losses are as follows:

	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

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, 2018 and 2017, the Company's allowance for credit losses for accounts receivable is in compliance with the requirements of RA No. 8556.

8. Hedging Activities and Hedging Instruments

In 2018, the Company entered into cross currency interest rate swaps with the Parent Company and other various foreign counterparty banks (syndicated) to hedge the interest rate and foreign currency risks arising from its peso-denominated loans. Under the cross currency interest rate swap agreements, the Company hedged its dollar-denominated floating rate loans into peso fixed rate loans.

The fair value of cross currency interest rate swaps recorded as 'Derivative liabilities' and its notional amount amounted to US$137.3 million and ₱7.3 billion, respectively, as of December 31, 2018. The notional amount, recorded at a gross, is the amount of the derivative's underlying liability, reference rate of index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the end of the year. The cross-currency interest rate swaps outstanding as of December 31, 2018 has inception, effective and maturity dates as follow:

	Inception / Effective Date	**Maturity Date**
Cross-currency interest rate swap 1	June 19, 2018	June 18, 2021
Cross-currency interest rate swap 2	September 17, 2018	September 17, 2021
Cross-currency interest rate swap 3	December 28, 2018	December 27, 2019

The Company designated the cross-currency interest rate swaps at inception dates as effective hedging instruments under cash flow hedge. Based on the respective deals above, the Company, on a quarterly basis, paid fixed annual interest rates ranging from 6.6% to 7.2%, on the peso principals and received floating annual interest at three-month LIBOR plus 0.8% to 1.0% interest spread on the USD principals.

The cross-currency interest rate swaps are initially recognized at a fair value of zero (0) at inception date since the cash flow hedge was designated for hedge accounting. Such derivative financial instruments are subsequently remeasured at fair value.

The credit risk standing of the Company and the counterparty-banks are both good, and at reporting date, there are no known or significant events or circumstances that would adversely affect the credit risk standings of both counter parties. The terms of the hypothetical derivative match the critical terms of the hedged item.

The Company identified the possible sources of ineffectiveness:
- The timing of the interest payments wherein actual interest payments for the underlying loan and the swap; and
- The maturity date of the underlying loan does not coincide with the maturity date of the cross-currency interest rate swaps or non-renewal of the cross currency interest rate swaps.

The Company does neither foresee nor intend to change the timing of the interest payments. Also, non-renewal of cross currency interest rate swaps shall only transpire if and only if the market conditions on renewal date becomes favorable to the company. There were no other sources of ineffectiveness in these hedge relationships as of December 31, 2018.

An economic relationship exists between the hedged items and hedging instrument as the critical terms of the loan and the derivative match.

Hedge effectiveness is assessed at inception of the hedge, at each reporting date, and upon a significant change in the circumstances affecting the hedge effectiveness. At reporting date, hedge ratio is calculated for the hedging instrument. As of the inception and reporting date, the hedge ratio is 1:1 or 100%.

As of December 31, 2018, the Company has the following instruments with maturities of 1 to 5 years to hedge exposures to changes in interest rates and foreign exchange currency rates:

Cross currency interest rate swaps	
Nominal amount	7,316,000,000.0
Average foreign exchange rate	53.0
Average fixed interest rate	6.9%

The amounts relating to items designated as hedging instruments and hedge ineffectiveness were as follows:

	Nominal Amount	Carrying Amount	Changes in Fair Values	Changes in the Value of the Hedging Instrument Recognized in OCI	Hedge Ineffectiveness Recognized in Statement of Income	Amount Reclassified from the 'Cash flow reserve' to Statement of Income
Cross-currency interest rate swap	₱1,000,000,000	(₱5,876,424)	(₱5,876,424)	(₱8,371,795)	₱–	(₱14,248,219)
	1,000,000,000	(22,633,801)	(22,633,801)	(1,493,890)	–	(24,127,691)
	5,316,000,000	(70,862,057)	(70,862,057)	12,862,057	–	(58,000,000)
	₱7,316,000,000	**(₱99,372,282)**	**(₱99,372,282)**	**₱2,996,372**	**₱–**	**(₱96,375,910)**

The Company's financial instruments designated as hedged items in cash flow hedge relationships follow:

	Change in Value used for Calculating Hedge Ineffectiveness	Cash Flow Hedge Reserve
Floating rate dollar-denominated notes	(₱2,996,372)	(₱2,996,372)

The hedged items are recorded under 'Notes payable' (Note 12).

9. Property and Equipment

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

	2018						
	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**	**₱130,472,876**	**₱425,661,247**	**₱213,091,077**	**₱75,295,609**	**₱1,350,677,708**
Acquisitions	**–**	**–**	**7,778,163**	**27,926,234**	**58,130,616**	**324,646**	**94,159,659**
Disposals	**–**	**–**	**–**	**(29,080,869)**	**(28,631,437)**	**(575,167)**	**(58,287,473)**
Balances at end of year	**283,410,974**	**222,745,925**	**138,251,039**	**424,506,612**	**242,590,256**	**75,045,088**	**1,386,549,894**
Accumulated depreciation and amortization							
Balances at beginning of year	**–**	**73,579,714**	**116,070,245**	**317,703,714**	**111,389,227**	**73,047,459**	**691,790,359**
Depreciation and amortization	**–**	**7,424,864**	**6,959,790**	**43,656,688**	**42,325,057**	**754,554**	**101,120,953**
Disposals	**–**	**–**	**–**	**(29,072,456)**	**(22,048,806)**	**(575,167)**	**(51,696,429)**
Balances at end of year	**–**	**81,004,578**	**123,030,035**	**332,287,946**	**131,665,478**	**73,226,846**	**741,214,883**
Net book value at end of year	**₱283,410,974**	**₱141,741,347**	**₱15,221,004**	**₱92,218,666**	**₱110,924,778**	**₱1,818,242**	**₱645,335,011**

	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

As of December 31, 2018 and 2017, the Company has fully depreciated property and equipment that are still in use with original cost amounting to ₱463.5 million and ₱496.9 million, respectively. Gain on sale of property and equipment amounted to ₱1.8 million and ₱0.7 million in 2018 and 2017, respectively (Note 17).

10. **Intangibles and Other Assets**

This account consists of:

	2018	2017
Intangible assets	**₱435,241,375**	₱535,390,286
Equity instruments at FVOCI	**28,157,760**	–
Refundable deposits	**14,307,109**	14,541,158
Miscellaneous	**11,168,212**	18,031,267
	₱488,874,456	₱567,962,711

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

	2018		
	Capitalized Software and License Fees	**Project in Progress**	**Total**
Cost			
Balances at beginning of year	**₱921,887,305**	**₱103,677,992**	**₱1,025,565,297**
Acquisitions	**134,999,425**	**12,968,724**	**147,968,149**
Reclassifications	**61,698,494**	**(61,698,494)**	**–**
Write-offs	**(122,716,113)**	**–**	**(122,716,113)**
Balance at end of year	**995,869,111**	**54,948,222**	**1,050,817,333**
Accumulated amortization			
Balances at beginning of year	**490,175,011**	**–**	**490,175,011**
Amortization	**181,508,945**	**–**	**181,508,945**
Write-offs	**(56,107,998)**	–	**(56,107,998)**
Balances at end of year	**615,575,958**	–	**615,575,958**
Net book value at end of year	**₱380,293,153**	**₱54,948,222**	**₱435,241,375**

	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

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, 2018 and 2017, the Company reclassified cost of individual projects, which were completed and available-for-use, amounting to ₱61.7 million and ₱8.5 million, respectively, to capitalized software and license fees.

11. Accounts Payable

This account consists of:

	2018	2017
Payable to merchants	**₱1,525,460,186**	₱1,730,261,526
Others:		
Financial:		
Advance payments from cardholders	**202,726,727**	179,776,309
Payable to suppliers and service providers (Note 21)	**195,184,830**	172,201,698
Payable to Visa/MasterCard	**191,033,191**	151,141,200
Collection fees	**1,684,408**	1,445,199
Miscellaneous	**8,652,859**	3,516,385
	599,282,015	508,080,791
Nonfinancial:		
Withholding taxes payable	**157,881,970**	156,475,804
GRT payable	**89,805,830**	77,866,571
DST payable	**71,286,626**	5,226,411
Payable to SSS/Pag-ibig	**2,253,124**	2,080,984
	321,227,550	241,649,770
	₱2,445,969,751	₱2,479,992,087

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

Miscellaneous payable consists of stale checks.

12. Bills and Notes Payable

Bills Payable
Bills payable consists of deposit substitutes amounting to ₱29.0 billion and ₱34.2 billion as of December 31, 2018 and 2017, respectively.

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

	2018	2017
Current portion of promissory notes issued to:		
Consumers	**₱14,169,804,813**	₱18,161,110,053
Corporates	**6,776,021,938**	10,703,758,757
	20,945,826,751	28,864,868,810
Interbank loans payable	**52,583,451**	–
	20,998,410,202	28,864,868,810
Noncurrent portion of promissory notes issued to:		
Consumers	**3,942,279,863**	4,282,842,301
Corporates	**4,045,185,598**	1,054,814,501
	7,987,465,461	5,337,656,802
	₱28,985,875,663	₱34,202,525,612

As of December 31, 2018 and 2017, deposit substitutes have maturities of 2 days to 7 years, and 15 days to 7 years, respectively. Deposit substitutes bear annual interest rates ranging from 0.9% to 7% and 1.4% to 5.3% in 2018 and 2017, respectively.

Under the existing BSP regulations, the Company's deposit substitutes are subject to statutory reserves of 18.0% in 2018 and 20.0% 2017, respectively. 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 0.9% to 7% and 2.5% to 3.2% in 2018 and 2017, respectively.

As of December 31, 2018 and 2017, the unamortized issuance costs on bills payable amounted to ₱70.6 million and ₱59.5 million, respectively.

Amortization of issuance costs amounting to ₱57.6 million and ₱47.3 million in 2018 and 2017, respectively, were charged to 'Interest expense' in the statements of income.

Notes Payable

This account consists of:

	Maturities	Interest Rates	2018	2017
Current interest-bearing notes (net of unamortized issuance costs):				
Peso-denominated notes:				
Omnibus notes from local banks:				
₱16.9 billion loan facility	**2019**	**3.9% to 5.8%**	**₱16,870,278,329**	
₱1.4 billion loan facility	**2019**	**5.3% to 5.3%**	**1,432,618,316**	
₱1.9 billion loan facility	**2019**	**6.3%**	**1,879,270,382**	
₱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
Dollar-denominated notes:				
Loans from ANZ:				
US$20.0 million credit facility Agreement	**2018**	**2.4%**		353,504,400
US$5.0 million credit facility Agreement (Forward)	**2019**	**3.25%**	**184,030,000**	
Loans from MUFG				
US$2.2 million short-term loan	**2019**	**3.25%**	**115,676,000**	
			20,481,873,027	13,503,504,400

(Forward)

	Maturities	Interest Rates	2018	2017
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
Loans from local banks:				
5Y bilateral loans	**2020**	**4.8%**	**₱500,000,000**	
5Y bilateral loans	**2021**	**4.8%**	**1,300,000,000**	
5Y bilateral loans	**2021**	**5.5%**	**960,000,000**	
7Y bilateral loans	**2022**	**5.0%**	**1,000,000,000**	
5Y bilateral loans	**2019**	**5.3%**		1,441,712,257
5Y bilateral loans	**2020**	**4.8%**		498,685,722
5Y bilateral loans	**2021**	**4.7%**		1,295,531,216
7Y bilateral loans	**2021**	**5.5%**		967,639,812
5Y bilateral loans	**2022**	**5.0%**		995,753,012
Dollar-denominated notes:				
Loans from MBTC:				
US$37.3.0 million credit facility agreement	**2021**	**6.6% to 6.9%**	**1,948,661,826**	
Loans from ANZ:				
US$100.0 million credit facility agreement	**2021**	**7.2%**	**5,126,891,214**	
US$5.0 million credit facility agreement	**2019**	**3.3%**		174,755,000
			10,835,553,040	7,271,109,498
			₱31,317,426,067	₱20,774,613,898

Unamortized issuance costs amounted to ₱38.8 million and ₱17.6 million as of December 31, 2018 and 2017, respectively. In 2018 and 2017, amortization of issuance costs amounting to ₱7.5 million and ₱2.8 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
This is composed of 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.

Loans syndication arranged by ANZ
This represents unsecured loans with interest payable quarterly, from 15 Singaporean, Japanese and Taiwanese banks. The loans are subject to the follows undertaking and provisions:

- Information undertakings, the Company must provide its financial statement and notify events with material adverse effect on Company, through ANZ, acting as agent
- Negative pledge provision with permitted applications
- The loans may be prepaid on any interest payment date with prior notice, without penalty
- Provision on merger or corporate reconstruction only with the Company or its parent is surviving entity, and will not result in material adverse effect
- 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:

	2018	2017
Bills payable	**₱1,113,961,787**	₱997,257,851
Notes payable	**965,551,914**	578,960,259
Subordinated debt (Note 14)	**74,377,365**	73,579,668
Cross currency interest rate swap cost (Note 7)	**56,906,855**	–
	₱2,210,797,921	₱1,649,797,778

13. Revenue from Contracts with Customers

Set out below is the disaggregation of the Company's revenue from contracts with customers:

	2018			2017		
	Point-in-time	**Over time**	**Total**	Point-in-time	Over time	Total
Discounted earned	**₱2,411,581,701**	**₱–**	**₱2,411,581,701**	₱2,240,489,274	₱–	₱2,240,489,274
Membership fees and dues	**–**	**882,661,306**	**882,661,306**	–	841,001,235	841,001,235
Awards revenue	**67,890,112**	**–**	**67,890,112**	120,774,947	–	120,774,947
Miscellaneous income	**895,456,974**	**–**	**895,456,974**	814,602,639	–	814,602,639
	₱3,374,928,787	**₱882,661,306**	**₱4,257,590,093**	₱3,175,866,860	₱841,001,235	₱4,016,868,095

The changes and movements in contract liabilities are as follows:

	2018				
	Awards Revenue	**Membership Fees and Dues**	**Recoveries from Debt Sale**	**Others**	**Total**
Balances at beginning of year	**₱556,038,301**	**₱381,453,995**	**₱118,318,393**	**₱–**	**₱1,055,810,689**
Effect of the adoption of PFRS 15	**71,481,773**	**–**	**–**	**–**	**71,481,773**
Deferred during the year	**162,508,344**	**847,356,679**	**–**	**512,430**	**1,010,377,453**
Recognized to income during the year	**(67,890,112)**	**(882,661,309)**	**(118,318,393)**	**–**	**(1,068,869,814)**
Balances at end of year	**₱722,138,306**	**₱346,149,365**	**₱–**	**₱512,430**	**₱1,068,800,101**

	2017				
	Awards Revenue	Membership Fees and Dues	Recoveries from Debt Sale	Others	Total
Balances at beginning of year	₱629,401,177	₱416,640,519	₱–	₱–	₱1,046,041,696
Deferred during the year	47,412,071	805,814,711	118,318,393	–	971,545,175
Recognized to income during the year	(120,774,947)	(841,001,235)	–	–	(961,776,182)
Balances at end of year	₱556,038,301	₱381,453,995	₱118,318,393	₱–	₱1,055,810,689

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 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.

As of December 31, 2017, the Company deferred 30% of the selling price. For the year ending December 31, 2018, such conditions were satisfied and the deferred selling price amounting to ₱118.3 million were recognized as revenue under 'Recoveries of accounts written-off.'

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at December 31, 2018 are, as follows:

	2018	2017
Within one year	**₱346,661,795**	₱499,772,388
More than a year	**722,138,306**	556,038,301
	₱1,068,800,101	₱1,055,810,689

The remaining performance obligations expected to be recognized in more than one year relate to the customer loyalty program. The customer loyalty points have no expiration and redemptions can go beyond one year. All other remaining performance obligations, which include membership fees and dues, are expected to be recognized within one year.

In 2018 and 2017, the cost of redemption of loyalty points, recognized under 'Loyalty expense', amounted to ₱180.2 million and ₱140.1 million, respectively.

14. **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, 2018 and 2017, the unamortized issuance costs on the subordinated debt amounted to ₱5.4 million and ₱6.5 million, respectively.

Amortization of issuance costs amounting to ₱1.1 million in 2018 and 2017 were charged to 'Interest expense' in the statements of income (Note 12).

15. Accrued Interest, Taxes and Other Expenses

This account consists of:

	2018	2017
Accrued interest (Note 21)	**₱422,277,137**	₱274,533,877
Accrued advertising	**115,998,622**	88,942,636
Accrued taxes	**20,939,322**	31,355,681
Accrued rewards	**12,194,405**	21,739,660
Accrued other expenses	**520,286,396**	414,399,863
	₱1,091,695,882	₱830,971,717

The table below shows the breakdown of accrued other expenses:

	2018	2017
Compensation and fringe benefits (Note 21)	**₱202,306,607**	₱164,953,281
Service fee	**119,442,437**	100,244,063
Communications expense (Note 21)	**84,268,993**	64,118,587
Rental and office-related expenses (Note 21)	**61,673,662**	52,900,032
Computer-related expenses (Note 21)	**21,997,322**	10,139,270
Maintenance cost	**8,229,332**	6,188,993
Management and professional fees (Note 21)	**8,174,377**	3,829,571
Membership fees	**6,941,681**	2,646,592
Miscellaneous expenses	**7,251,985**	9,379,474
	₱520,286,396	₱414,399,863

16. Equity

The details of the Company's capital stock as of December 31, 2018 and 2017 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 December 14, 2018, the BOD approved the net appropriation of retained earnings in the amount of ₱1.4 billion for the planned issuance of stock dividends in 2019. Stock dividends were planned to be issued in 2018, but was postponed to 2019.

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

- Appropriation of retained earnings as capital reserves amounting to ₱3.8 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.
- Appropriation of retained earnings for the issuance of cash dividends in 2018 amounting to ₱1.8 billion.
- Appropriation of retained earnings for the issuance of stock dividends in 2018 amounting to ₱6.0 billion.

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 ECL under PFRS 9. The amount includes re-appropriation of ₱3.7 billion and additional appropriation of ₱2.9 billion in 2017.

Cash dividends
The following cash dividends were declared and paid in 2018.

	Dividend				
Date of Declaration	Per Share	Total Amount	Record Date	Amount Paid	Payment Date
June 29, 2018	₱1.975	₱1,975,000,000	June 29, 2018	₱1,975,000,000	August 29, 2018

No cash dividends were declared in 2017.

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.

17. Miscellaneous Income and Expenses

Miscellaneous income consists of:

	2018	2017
Gross international fees	**₱374,980,756**	₱288,159,708
Over credit limit fees	**245,278,028**	251,345,712
Service fees	**145,249,363**	125,604,974
Transaction processing fees	**62,633,175**	57,005,377
Rental income (Notes 18 and 21)	**30,285,556**	33,616,951
Foreign exchange gain	**59,568,491**	42,740,027
Business process outsourcing fees	**2,565,459**	7,458,397
Gain on sale of property and equipment (Note 9)	**1,804,243**	749,650
Others	**9,745,358**	7,921,843
	₱932,110,429	₱814,602,639

Gross international fees represent fees arising from foreign currency transactions of cardholders.

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

Service fees represent income arising from other services performed by the Company in fulfilling cardholder's request such as re-printing of statement of accounts (SOAs), card replacements, retrieval of transaction receipts and other fees not directly associated to credit card transactions

Transaction processing fees represent income from processing maintaining accounts, 'cash 2 go' availments and redemption of rewards.

Others include interest income on employee loans various income generating charges.

Miscellaneous expenses consist of:

	2018	2017
Collection fees	**₱168,006,078**	₱154,927,602
Maintenance costs (Note 21)	**151,958,296**	113,670,420
Verification costs	**78,707,883**	58,098,623
Membership fees (Note 21)	**5,032,435**	3,804,042
Insurance (Note 21)	**4,946,400**	4,931,357
Recruitment costs	**4,627,707**	5,387,155
Employee relations expenses	**3,149,213**	2,765,852
Others	**55,702,837**	39,807,912
	₱472,130,849	₱383,392,963

Collection fees pertains to expenses incurred for the services rendered by collection agencies in the collection of payments from delinquent and written-off accounts that were endorsed to the collection agency partners of the Company.

Verification costs represents expenses incurred for the credit investigation procedures, such as ocular verification, encoding services, cost of enquiries for potential cardholders and merchants that are outsourced by the Company from third party agencies.

Others consists of unrealized foreign exchange losses, engagement expenses, retail transaction fees, fines, penalties and other charges, operating losses, Philpass charges and software licenses.

18. **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. In addition, the Company has an existing three (3) year lease agreement with the Parent Company for the use of office premises in the latter's Cebu and Davao branches. The Company signed a new lease renewal offer for five (5) years (with annual escalation of 5%) for the premises that the Company uses in Metropolitan Park.

The Company also entered into lease agreements to lease units of point-of-sale terminals for a minimum period of 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:

	2018	2017
Within one year	**₱104,803,766**	₱220,063,689
After one year but not more than five years	**120,359,658**	318,299,270
	₱225,163,424	₱538,362,959

In 2018 and 2017, rental expense included under 'Rent, light and water' in the statements of income amounted to ₱234.1 million and ₱169.9 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.

As of December 31, 2017, the future minimum lease commitments within one year under operating lease amounted to ₱0.7 million.

In 2018 and 2017, rental income included under 'Miscellaneous income' amounted to ₱12.7 million and ₱18.1 million, respectively (Note 21). There were no direct costs incurred in relation to these leases.

19. 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, 2018 and 2017 are as follow:

	2018	2017
Discount rate	**7.3%**	5.7%
Future salary increases:		
For officers	**8.0%**	8.0%
For staff	**₱1,993**	₱1,995
Average years of service	**8.0 years**	7.8 years
Average remaining working life	**10.0 years**	12.0 years
Retirement age	**55.0 years**	55.0 years

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

2018

		Retirement Expense				Remeasurement Losses on Retirement Plan						
	January 1, 2018	**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, 2018**
Present value of defined benefit obligation	**₱939,757,441**	**₱106,213,767**	**₱54,692,329**	**₱52,991,556**	**₱213,897,652**	**₱–**	**₱19,188,291**	**(₱171,765,333)**	**(₱152,577,042)**	**(₱26,965,566)**	**₱–**	**₱974,112,485**
Fair value of plan assets	**(711,671,934)**	**–**	**–**	**(44,020,765)**	**(44,020,765)**	**68,064,298**	**–**	**–**	**68,064,298**	**30,052,525**	**(143,600,000)**	**(801,175,876)**
Net defined benefit liability	**₱228,085,507**	**₱106,213,767**	**₱54,692,329**	**₱8,970,791**	**₱169,876,888**	**₱68,064,298**	**₱19,188,291**	**(₱171,765,333)**	**(₱84,512,744)**	**₱3,086,959**	**(₱143,600,000)**	**₱172,936,609**

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

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.*

The Company expects to contribute ₱176.9 million to its defined benefit retirement plan in 2019.

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

	2018		2017	
	Amount	**%**	Amount	%
Deposits in bank	**₱122,163,234**	**15.3**	₱136,018,027	19.1
Equity securities	**147,000**	**–**	159,000	–
Debt securities:				
Government	**519,091,547**	**64.8**	439,102,626	61.7
Private	**85,900,075**	**10.7**	60,945,223	8.6
Unit investment trust fund	**61,672,810**	**7.7**	64,914,502	9.1
Loans	**5,940,000**	**0.7**	5,940,000	0.8
Others	**6,261,208**	**0.8**	4,592,556	0.7
	₱801,175,875	**100.0%**	₱711,671,934	100%

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	**2018**	2017
Discount rate			
	1.0%	**(₱83,172,299)**	(₱96,700,129)
	(1.0%)	**94,964,781**	112,344,933
Future salary increase rate			
	1.0%	**77,708,444**	85,158,667
	(1.0%)	**(73,331,371)**	(74,821,159)
Turnover rate			
	1.3%	**(14,403,185)**	(50,313,707)
	(0.8%)	**15,605,650**	27,796,186

Shown below is the maturity analysis of undiscounted benefits payments:

	2018	2017
Less than one year	**₱32,572,855**	₱33,119,199
More than one year to five years	**273,547,226**	162,284,157
More than five years to 10 years	**866,995,714**	618,584,338
More than 10 years to 15 years	**1,204,121,916**	1,100,306,260
More than 15 years to 20 years	**1,918,362,854**	2,059,346,670
More than 20 years	**1,123,523,559**	1,482,404,562

The average duration of the defined benefit obligation as of December 31, 2018 and 2017 is 14.8 years and 16.3 years, respectively.

20. 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 (4th) 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 2018 and 2017, EAR expenses amounted to ₱1.6 million and ₱1.0 million, respectively.

Deferred Tax Assets - Net

The components of net deferred tax assets follow:

	2018	2017
Deferred tax assets on:		
Allowance for credit losses (Note 7)	**₱1,226,363,991**	₱556,235,209
Provision for credit losses (Note 23)	**274,702,684**	–
Deferred revenue (Note 13)	**320,500,410**	316,743,207
Retirement liability (Note 19)	**51,880,983**	68,425,652
Accrued expenses	**47,970,511**	37,564,659
Unamortized past service cost	**49,003,927**	51,160,667
Unrealized foreign exchange loss	**10,996,036**	–
	1,981,418,541	1,030,129,394
Deferred tax liabilities on:		
Unrealized gain from equity instruments	**(3,476,592)**	–
Deferred acquisition cost (Note 7)	**(50,369,096)**	(34,939,898)
Unrealized foreign exchange gain	–	(12,822,008)
	(53,845,688)	(47,761,906)
	₱1,927,572,853	₱982,367,488

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:

	2018	2017
Statutory income tax	**₱2,130,962,131**	₱2,188,034,686
Tax effects of:		
Nondeductible expenses	**135,959**	3,464,928
Income subjected to final tax	**(254,531)**	(1,009,674)
Effective income tax	**₱2,130,843,559**	₱2,190,489,940

21. 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:
  - Metropolitan

- 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 2018 and 2017 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, 2018 and 2017 (amounts in thousands):

	December 31, 2018		
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Parent Company			
Cash and cash equivalents		**₱468,235**	Current and savings account, and foreign currency deposits with annual interest rates of 0.5% and 0.1%, respectively.
Deposits	**₱927,566,357**		
Withdrawals	**(928,493,406)**		
Short-term placements			
Placements	**15,358,000**	–	Short-term deposits with annual interest rate of 1.50% and term of 5 days.
Maturities	**(15,358,000)**		
Interbank loans receivable			Various overnight placements with terms of 1 to 3 days and bear annual interest rates ranging from 3.0% to 4.9%.
Placements			
Maturities			

(Forward)

Category	December 31, 2018 Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Accounts receivable	**(₱70,419,748)**	**₱26,004**	Billings on merchant discount subsidy, outsourcing fees, Point-of-Sale (POS) rentals and charges for use of Visa Banking Identification Number (BIN)
Accounts payable	–	–	Service fees on availments of bills payable
Accrued expense payable	**1,820**	**2,375**	Accrual of expenses from rentals, membership fees, distribution cost, utilities and other maintenance costs
Accrued interest payable	**(20,524)**	**22,633**	Accrued interest payable on interest-bearing notes
Bills payable		–	Overnight borrowings with annual interest rates ranging from 2.6% to 5.1% and terms of 1 to 5 days.
Availments	**6,711,000**		
Maturities	**(6,711,000)**		
Notes payable		**(6,860,624)**	
Availments	**5,461,624**		Interest-bearing note with an annual interest rate of 3.4 to 4.3% and term of 1 to 3 years.
Maturities	**(8,399,000)**		
Derivative liability	**(28,510)**	**(28,510)**	Cross currency interest rate swaps with annual fixed interest rates ranging from 6.6% to 6.9% and terms of 3 years.
Interest income	**4,229**		Interest earned on bank deposits and overnight lending
Merchant discount	**10,621**		Income earned on merchant discount subsidy
Miscellaneous income	**12,775**		Income earned on outsourcing fees
Interest expense	**186,929**		Interest expense, service fees and facility agent fees on interbank loans payable and interest-bearing notes
Rent, light and water	**39,889**		Rentals and utility expenses from leased premises at Metropolitan Park and Metrobank Plaza
Computer-related expense	**28,433**		Transaction processing charges
Communications	–		Telephone and courier card delivery charges
Distribution cost	**56,785**		Over-the-counter charges for the accommodation of cardholder payments
Security, messengerial and janitorial	**37**		Administrative expenses
Miscellaneous expense	**8,358**		Other membership and maintenance fees
Affiliates			
Cash and cash equivalents		**48,895**	Current and savings account, and foreign currency deposits with annual interest rates of 0.5% and 0.1%, respectively.
Deposits	**5,693,432**		
Withdrawals	**(5,696,852)**		
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	–		
Maturities	–		
Accounts receivable	**1,950**	**4,717**	Accounts receivable from corporate credit card transactions
Prepaid expenses and other current assets	**131,400**	**82,176**	Advance payment for insurance premiums
Bills payable		**346,632**	Overnight borrowings with annual interest rate ranging from 3.0% to 5.0% and terms of 1 to 6 days.
Availments	**10,392,111**		
Maturities	**(39,562,000)**		
Notes payable		–	Interest-bearing note with an interest of 8.5% and term of 5 years (gross of unamortized issuance cost)
Availments	**39,562,000**		
Maturities	**(39,562,000)**		
Accrued interest payable	**801**	**1,434**	Accrued interest payable on deposit substitutes and interest-bearing notes
Accrued expense payable	**(418)**	**873**	Over-the-counter charges for the accommodation of cardholder payments and other accrued expenses
Interest income	**11,166**		Interest earned on bank deposits and overnight lending
Membership fees and dues	**1,635**		Annual membership fee for corporate credit cards
Interest expense	**30,216**		Interest expense on interbank loans payable, deposit substitutes and interest-bearing notes
Distribution cost			Over-the-counter charges for the accommodation of cardholder payments
Rent, light and water	**835**		Rentals and utility expenses
Insurance expense	**5,388**		Insurance expenses

(Forward)

Category	December 31, 2017 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	
Placements	1,000,000,000		Short-term deposits with annual interest rate of 1.50% and term of 5 days.
Maturities	–		
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		–	
Availments	–		Interest-bearing note with an annual interest rate of 2.45% and term of 15 days.
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	
Deposits	18,155,094		Current and savings account, and foreign currency deposits.
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)		

(Forward)

Category	December 31, 2017 Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
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)		
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

Terms and Conditions of Transactions with Related Parties

Outstanding balances as of December 31, 2018 and 2017 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 2018 and 2017, 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.

The total carrying value and fair value of the retirement plan assets as of December 31, 2018 and 2017 are disclosed in Note 19.

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:

	2018	2017
Salaries and wages and other short-term benefits	**₱205,416,623**	₱151,404,769
Retirement benefits	**26,965,566**	32,597,987
Management fees	**–**	18,000,000
Directors fees	**6,140,000**	9,745,000
	₱238,522,189	₱211,747,756

The Company's key management personnel includes vice-presidents and above.

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 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:

	2018	2017
Total outstanding DOSRI loans	**₱101,242,492**	₱193,558,735
Percent of DOSRI loans to total loans	**0.14%**	0.30%
Percent of unsecured DOSRI loans to total DOSRI loans	**0.16%**	0.14%
Percent of past due DOSRI loans to total DOSRI loans	**0.16%**	0.14%
Percent of nonperforming DOSRI loans to total DOSRI loans	**0.16%**	0.14%

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, 2018 and 2017, 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.

22. Financial Performance

As of December 31, 2018 and 2017, the basic ratios which measure the financial performance of the Company are as follows:

	2018	2017
Return on average equity	**34.9%**	46.2%
Net interest margin on average earning assets	**14.0%**	14.3%
Return on average assets	**6.3%**	7.5%

23. 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. Even though these obligations are not recognized on the statement of financial position, they contain credit risk and, therefore, formed part of the overall risk of the Company.

As of December 31, 2018 and 2017, credit cardholders' unused credit lines amounted to ₱185.6 billion and ₱160.1 billion, respectively.

An analysis of changes in the gross carrying amount and the corresponding provision arising from unused credit lines is as follows:

	Unused Credit Lines			
	Stage 1	Stage 2	Stage 3	Total
Outstanding exposure				
Beginning exposure	₱155,104,351,896	₱2,524,664,180	₱342,568,701	₱157,971,584,777
New exposures	19,503,230,867	–	–	19,503,230,867
Transfers to Stage 1	4,033,736,864	(3,995,637,301)	(38,099,563)	–
Transfers to Stage 2	(5,321,847,427)	5,353,297,952	(31,450,525)	–
Transfers to Stage 3	(559,610,336)	(315,998,815)	875,609,151	–
Movements in unused credit lines (excluding write-offs)	10,028,608,605	(905,636,326)	(913,770,020)	8,209,202,259
Accounts written-off	–	–	(88,252,899)	(88,252,899)
Exposure at end of year	**₱182,788,470,469**	**₱2,660,689,690**	**₱146,604,845**	**₱185,595,765,004**
Provisions				
Beginning exposure	₱522,949,780	₱308,232,125	₱–	₱831,181,905
New exposures	181,609,089	–	–	181,609,089
Transfers to Stage 1	508,647,214	(508,647,214)	–	–
Transfers to Stage 2	(87,551,710)	87,551,710	–	–
Movements in unused credit lines	(59,313,524)	68,478,643	–	9,165,119
Impact on year-end ECL of exposures transferred during the year	(476,722,167)	370,441,666	–	(106,280,501)
Exposure at end of year	**₱589,618,682**	**₱326,056,930**	**₱–**	**₱915,675,612**

Various suits and claims by the Company against cardholders, and vice-versa remain unsettled as of December 31, 2018 and 2017. 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.

24. 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, 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. As lessee, it will affect the lease contract with the parent company for the office space being leased at Metropark building, Cebu and Davao.

- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*
- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*
- *Annual Improvements to PFRSs* 2015-2017 Cycle
  - Amendments to PFRS 3, *Business Combinations, and PFRS 11, Joint Arrangements, Previously Held Interest in a Joint Operation*
  - Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*
  - Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business*

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

Deferred Effectivity

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

25. Subsequent Events

Appropriations

On March 8, 2019, the BOD approved the appropriation of retained earnings in the amount of ₱7.0 billion as capital reserves. The appropriation, in line with the capital management policy, will ensure that the Company will meet requirements set by the SEC on capital retention, the BSP on capital ratios, and existing loan covenants on maintaining debt-to-equity ratio to be within the maximum of 7.5:1.

1. Appropriation of retained earnings for capital retention on the Tier 2 notes in compliance with BSP's capital adequacy ratio amounting to ₱1.0 billion.
2. Appropriation of retained earnings for compliance with BASEL III net stable funding ratio amounting to ₱5.5 billion
3. Appropriation of retained earnings for capital expenditure projects amounting to ₱500.0 million.

26. 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 8, 2019.

27. Notes to the Statement of Cash Flows

The changes in liabilities arising from financing activities in 2018 and 2017 are as follows:

			Non-cash Changes		
	January 1, 2018	**Cash Flows**	**Amortization of Debt Issuance Costs**	**Foreign Exchange Movement**	**December 31, 2018**
Notes payable	**₱20,774,613,897**	**₱10,594,846,461**	**₱7,534,200**	**(₱59,568,491)**	**₱31,317,426,067**
Subordinated debt	**1,163,519,811**	**–**	**1,091,324**	**–**	**1,164,611,135**

			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
Subordinated debt	1,162,428,486	–	1,091,325	–	1,163,519,811

28. Supplementary Information Required Under Revenue Regulations 15-2010

In 2018, the Company reported and/or paid the following taxes which are included under 'Taxes, duties and license fees' in the statement of income:

	2018	2017
GRT	**₱956,711,006**	₱840,975,086
DST	**207,795,367**	208,183,747
Local taxes	**33,665,170**	30,317,113
Fringe benefit tax	**15,288,308**	7,909,235
License fee	**7,572,945**	13,412,602
Others	**15,647,489**	26,708,603
	₱1,236,680,285	₱1,127,506,386

Withholding Taxes

As of December 31, 2018, total remittances and balance of withholding taxes are as follows:

	Total Remittances	Balance
Expanded withholding tax	₱656,337,826	₱87,147,756
Withholding tax on compensation and benefits	218,292,696	9,360,783
Withholding value-added tax	7,002,033	106,888
Final withholding tax	319,858,947	61,266,543
	₱1,201,491,502	₱157,881,970

SCHEDULE OF RETAINED EARNINGS
AVAILABLE FOR DIVIDEND DECLARATION
DECEMBER 31, 2018

Unappropriated Retained Earnings, Beginning	₱6,147,395,141
Prior year adjustments	(1,886,014,238)
Less: Non-actual/unrealized income, net of tax	
Unrealized foreign exchange gain – net (except those attributable to Cash and Other Cash Items)	(22,915,036)
Effect of deferred income tax	(1,900,026,597)
Unappropriated Retained Earnings, *as adjusted to available for dividend distribution, beginning*	2,338,439,270
Add: Net income during the period closed to Retained Earnings	4,972,363,545
	7,310,802,815
Less: Nonactual/unrealized income, net of tax	
Unrealized foreign exchange gain – net (except those attributable to Cash and Other Cash Items)	(42,740,027)
Effect of deferred income tax	(165,743,966)
	7,102,318,822
Less: Dividends paid during the period	(1,975,000,000)
Appropriations of Retained Earnings during the period	600,000,000
Total Retained Earnings, End Available for Dividend	₱5,727,318,822

SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS
DECEMBER 31, 2018

	2018	2017
Current ratio	**149.33%**	130.32%
Debt-to-equity ratio	**458.49%**	450.14%
Asset-to-equity ratio	**558.49%**	550.14%
Interest rate coverage ratio	**421.30%**	542.08%
Profitability ratios:		
Return on assets	**6.30%**	7.53%
Return on equity	**34.94%**	46.24%

SCHEDULE OF OTHER FINANCIAL RATIOS
DECEMBER 31, 2018

	2018	2017
Total real estate investments to total assets	**0.78%**	0.60%
Total receivables to total assets	**80.67%**	79.55%
Total DOSRI receivables to net worth	**0.68%**	0.95%

LIST OF PHILIPPINE FINANCIAL REPORTING STANDARDS (PFRS)
EFFECTIVE AS OF DECEMBER 31, 2018

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable	Not Early Adopted
Framework for the Preparation and Presentation of Financial Statements		✓			
Conceptual Framework Phase A: Objectives and Qualitative Characteristics		✓			
PFRSs Practice Statement Management Commentary		✓			
Philippine Financial Reporting Standards					
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards			✓	
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓	
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓	
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓	
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓	
	Amendments to PFRS 1: Government Loans			✓	
	Amendment to PFRS 1: Meaning of Effective PFRSs	✓			
PFRS 2	Share Based Payment			✓	
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓	
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓	
	Amendment to PFRS 2: Definition of Vesting Condition			✓	
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions				✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable	Not Early Adopted
PFRS 3 (Revised)	Business Combinations			✓	
	Amendment to PFRS 3: Accounting for Contingent Consideration in a Business Combination			✓	
	Amendment to PFRS 3: Scope Exceptions for Joint Arrangements			✓	
PFRS 4	Insurance Contracts			✓	
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓	
	Amendments to PFRS 4: Applying PFRS 9 with PFRS 4			✓	
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓	
	Amendment to PFRS 5: Changes in Methods of Disposal			✓	
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓	
PFRS 7	Financial Instruments: Disclosures	✓			
	Amendments to PFRS 7: Transition	✓			
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓			
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓			
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓			
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓			
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓			
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓			✓
	Amendments to PFRS 7: Additional Hedge Accounting Disclosures (and Consequential Amendments) Resulting from the Introduction of the Hedge Accounting Chapter in PFRS 9	✓			✓
	Amendments to PFRS 7: Servicing Contracts and Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements			✓	

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable	Not Early Adopted
	Amendments to PFRS 7: Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements			✓	
PFRS 8	Operating Segments			✓	
	Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets			✓	
	Amendment to PFRS 8: Aggregation of Segments, Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets			✓	
PFRS 9	Financial Instruments	✓			
	Financial Instruments: Classification and Measurement of Financial Assets	✓			
	Financial Instruments: Classification and Measurement of Financial Liabilities	✓			
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓			
	Reissue to incorporate a hedge accounting chapter and permit early application of the requirements for presenting in other comprehensive income the "own credit" gains or losses on financial liabilities designated under the fair value option without early applying the other requirements of PFRS 9	✓			
	Prepayment Features with Negative Compensation				✓
PFRS 10	Consolidated Financial Statements			✓	
	Amendments to PFRS 10: Transition Guidance			✓	
	Amendments to PFRS 10: Investment Entities			✓	
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture			✓	
	Amendments to PFRS 10: Investment Entities – Applying the Consolidation Exception			✓	
PFRS 11	Joint Arrangements			✓	

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable	Not Early Adopted
	Amendments to PFRS 11: Transition Guidance			✓	
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			✓	
PFRS 12	Disclosure of Interest in Other Entities			✓	
	Amendments to PFRS 12: Transition Guidance			✓	
	Amendments to PFRS 12: Investment Entities			✓	
	Amendments to PFRS 12: Clarification of the Scope of the Standard			✓	
PFRS 13	Fair Value Measurements	✓			
	Amendment to PFRS 13: Short-term Receivables and Payables	✓			
	Amendment to PFRS 13: Portfolio Exception			✓	
PFRS 14	Regulatory Deferral Accounts			✓	
PFRS 15	Revenue from contracts with customers	✓			
PFRS 16	Leases				✓
Philippine Accounting Standards					
PAS 1 (Revised)	Presentation of Financial Statements	✓			
	Amendment to PAS 1: Capital Disclosure	✓			
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓	
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓			
	Amendments to PFRS 10: Investment Entities – Applying the consolidation exception			✓	
	Amendments to PAS 1: Disclosure Initiative	✓			
PAS 2	Inventories			✓	
PAS 7	Statement of Cash Flows	✓			
	Amendments to PAS 7: Disclosure Initiative	✓			
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓			

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable	Not Early Adopted
PAS 10	Events after the Reporting Period			✓	
PAS 11	Construction Contracts			✓	
PAS 12	Income Taxes	✓			
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓			
	Amendments to PAS 12 – Recognition of Deferred Tax Assets for Unrealized Losses				✓
PAS 16	Property, Plant and Equipment	✓			
	Amendment to PAS 16: Revaluation Method – Proportionate Restatement of Accumulated Depreciation on Revaluation			✓	
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization			✓	
	Amendments to PAS 16 and PAS 41, Agriculture: Bearer Plants			✓	
PAS 17	Leases	✓			
PAS 19 (Revised)	Employee Benefits			✓	
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures			✓	
	Amendments to PAS 19: Defined Benefit Plans: Employee Contribution			✓	
	Amendments to PAS 19: Discount Rate: Regional Market Issue			✓	
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓	
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓			
	Amendment: Net Investment in a Foreign Operation			✓	
PAS 23 (Revised)	Borrowing Costs			✓	
PAS 24 (Revised)	Related Party Disclosures	✓			
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓	
PAS 27 (Amended)	Separate Financial Statements	✓			
	Amendments for investment entities			✓	

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable	Not Early Adopted
	Amendments to PAS 27: Equity Method in Separate Financial Statements			✓	
PAS 28 (Amended)	Investments in Associates and Joint Ventures			✓	
	Amendments to PAS 28: Investment Entities – Applying the Consolidation Exception			✓	
	Amendments to PAS 28: Measuring an Associate or Joint Venture at Fair Value			✓	
	Long-term Interests in Associates and Joint Ventures			✓	
PAS 29	Financial Reporting in Hyperinflationary Economies			✓	
PAS 31	Interests in Joint Ventures			✓	
PAS 32	Financial Instruments: Disclosure and Presentation	✓			
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓	
	Amendment to PAS 32: Classification of Rights Issues			✓	
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓			
PAS 33	Earnings per Share			✓	
PAS 34	Interim Financial Reporting			✓	
	Amendment to PAS 34: Disclosure of information ‘Elsewhere in the Interim financial report’			✓	
PAS 36	Impairment of Assets	✓			
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓			
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓			
PAS 38	Intangible Assets	✓			
	Amendments to PAS 38 : Proportionate Restatement of Accumulated Depreciation on Revaluation			✓	
	Amendments to PAS 38 : Revaluation Method – Proportionate Restatement Of Accumulated Amortization			✓	
	Amendments to PAS 16 and PAS			✓	

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		**Adopted**	**Not Adopted**	**Not Applicable**	**Not Early Adopted**
	38: Clarification of Acceptable Methods of Depreciation and Amortization				
PAS 40	Investment Property			✓	
	Amendments to PAS 40: Clarifying the Interrelationship between PFRS 3 and PAS 40 when Classifying Property as Investment Property or Owner-Occupied Property			✓	
	Amendments to PAS 40: Transfers of Investment Property			✓	
PAS 41	Agriculture			✓	
	Amendments to PAS 16 and PAS 41, Agriculture: Bearer Plants			✓	
Philippine Interpretations					
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓	
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓	
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓			
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓	
IFRIC 6	Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓	
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓	
IFRIC 8	Scope of PFRS 2			✓	
IFRIC 9	Reassessment of Embedded Derivatives			✓	
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓	
IFRIC 10	Interim Financial Reporting and Impairment			✓	
IFRIC 11	PFRS 2- Group and Treasury Share Transactions (Replaced by amendments to PFRS 2)			✓	

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable	Not Early Adopted
IFRIC 12	Service Concession Arrangements			✓	
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓	
	Amendments to Philippine Interpretations IFRIC - 14, Prepayments of a Minimum Funding Requirement			✓	
IFRIC 15	Agreements for the Construction of Real Estate			✓	
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓	
IFRIC 17	Distributions of Non-cash Assets to Owners			✓	
IFRIC 18	Transfers of Assets from Customers			✓	
IFRIC 19	Extinguishing Financial Liabilities with Equity Investment			✓	
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓	
IFRIC 21	Levies			✓	
IFRIC 22	Foreign Currency Transactions and Advance Consideration				✓
IFRIC 23	Uncertainty over Income Tax Treatments				✓
SIC - 7	Introduction of the Euro			✓	
SIC - 10	Government Assistance - No Specific Relation to Operating Activities			✓	
SIC - 15	Operating Leases - Incentives			✓	
SIC - 25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓	
SIC - 27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓			
SIC - 29	Service Concession Arrangements: Disclosures			✓	
SIC - 31	Revenue - Barter Transactions Involving Advertising Services			✓	
SIC - 32	Intangible Assets - Web Site Costs			✓	

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