
IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the attached offering circular. You are therefore advised to read this disclaimer carefully before reading, accessing or making any other use of the attached offering circular. In accessing the attached offering circular, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us.

Confirmation of your representation: You have accessed the attached document on the basis that you have confirmed to Metropolitan Bank & Trust Company (the “**Bank**”), First Metro Investment Corporation (“**First Metro**”), ING Bank N.V., Manila Branch (“**ING**”) and Standard Chartered Bank (“**SCB**”, and together with First Metro and ING, the “**Arrangers**”) and First Metro, ING, SCB, and, to the extent allowed under Philippine law, the Bank (together with First Metro, ING and SCB, in their capacities as selling agents, the “**Selling Agents**” and each a “**Selling Agent**”) that (1) you are not a resident in a country where delivery of this document by electronic transmission may not be lawfully delivered in accordance with the laws of the jurisdiction in which you are located, AND (2) that you consent to delivery of this document by electronic transmission.

This document has been made available to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently none of the Bank, the Arrangers or the Selling Agents and their respective affiliates accept no liability or responsibility whatsoever in respect of any difference between the document distributed to you in electronic format and the hard copy version.

You understand that: The information in the offering circular has been provided by the Bank for its ₱54,500,000,000 Bond and Commercial Paper Programme (the “**Programme**”). The Arrangers and Selling Agents have not independently verified all the information contained in the offering circular. The Arrangers and Selling Agents (1) accept no liability or responsibility for (a) the contents of this offering circular or for any other statement, made or purported to be made by the Arrangers or a Selling Agent or on its behalf in connection with the Bank, (b) the accuracy or completeness of the information contained in the offering circular or on which the offering circular is based, or (c) the issue and offering of the Bonds and Commercial Papers, (2) nor make any representation or warranty, express or implied, with respect to the information contained in the offering circular or on which the offering circular is based. The Arrangers and each Selling Agent accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this offering circular or any such statement.

This offering circular should not be considered as a recommendation by the Arrangers and Selling Agents or any of their affiliates to any recipient of the offering circular in relation to the Transaction. Each person to whom the offering circular is made available by the Arrangers and Selling Agents must make its own independent assessment of the Transaction after making such investigation as it deems necessary.

If you have gained access to this transmission contrary to the foregoing restrictions, you will be unable to purchase any of the securities described herein.

You are reminded that you have accessed the attached offering circular on the basis that you are a person into whose possession this offering circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located.

THE FOLLOWING OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORIZED.

You are responsible for protecting against viruses and other destructive items. Your use of this electronic document is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

OFFERING CIRCULAR

2 June 2020



Metropolitan Bank & Trust Company

(incorporated with limited liability in the Republic of the Philippines)

₱54,500,000,000

Bond and Commercial Paper Programme

Under this ₱54,500,000,000 Bond and Commercial Paper Programme (the “**Programme**”), Metropolitan Bank & Trust Company (“**Metrobank**”, “**MBT**”, the “**Bank**” or the “**Issuer**”) may offer from time to time, in one or more series of tranches, Bonds and Commercial Papers, pursuant to Bangko Sentral ng Pilipinas (“**BSP**”) Circular No. 1010 (Series of 2018) and Circular No. 1062 (Series of 2019), and any other circulars and regulations as may be relevant for the transaction, as amended from time to time.

The maximum aggregate nominal amount of all Bonds and Commercial Papers from time to time outstanding under the Programme will not exceed ₱54,500,000,000, subject to increase as described herein.

The Bonds and Commercial Papers may be issued by the Issuer on a continuing basis through one or more of the Arrangers and Selling Agents specified under “Summary of the Programme” and any additional Arranger (each an “**Arranger**” and together the “**Arrangers**”) or Selling Agent (each a “**Selling Agent**” and together the “**Selling Agents**”) appointed under the Programme from time to time by the Issuer, which appointment may be for a specific issue or on an ongoing basis. References in this Offering Circular to the **relevant Arranger** or the **relevant Selling Agent** shall, in the case of an issue of Bonds and/or Commercial Papers being (or intended to be) issued through more than one Arranger and/or Selling Agent, be to all Arrangers and/or Selling Agents agreeing to subscribe to such Bonds and/or Commercial Papers.

The Bonds and Commercial Papers will constitute direct, unconditional, unsecured and unsubordinated obligations of the Issuer. The Bonds and Commercial Papers shall, at all times, rank *pari passu* and ratably without any preference or priority amongst themselves, and at least *pari passu* with all other present and future direct, unconditional, unsecured, and unsubordinated obligations of the Bank, except for any obligation enjoying a statutory preference or priority established under Philippine laws. See “General Terms and Conditions”.

The Bonds and Commercial Papers will not be rated. However, the Bank has a “Baa2” rating for its long-term local currency bank deposits from Moody’s Investor Service (“**Moody’s**”). The Bank also has a Long-Term Local Currency Issuer Default Rating of “BBB-” from Fitch Ratings (“**Fitch**”). A rating is not a recommendation to buy, sell, or hold securities and may be subject to revision, suspension, or withdrawal at any time by the assigning rating organization.

See “Investment Considerations” for a discussion of certain factors to be considered in connection with an investment in the Bonds and Commercial Papers.

The Bonds and Commercial Papers will be issued in scripless form. The Bonds and Commercial Papers will be represented by a Master Certificate of Indebtedness which will be deposited with the Trustee. It is intended that, upon issuance, the Bonds and Commercial Papers will be immobilized and lodged with the Registrar. A Registry Confirmation will be issued by the Registrar in favor of the holders of the Bonds and Commercial Papers in accordance with the regulations of the BSP. Once lodged, the Bonds and Commercial Papers will be eligible for electronic book-entry transfers in the Registry Book without the issuance of other evidences of certificates, and any sale, transfer, or conveyance of the Bonds and Commercial Papers shall be coursed through an accredited exchange.

The Bonds or Commercial Papers will be listed in the trading platform of the Philippine Dealing & Exchange Corp. (“**PDEX**”) for secondary market trading pursuant to the BSP rules. Upon listing of the Bonds and Commercial Papers in the PDEX, investors shall course their secondary market trades through the trading participants of the PDEX for execution in the PDEX Trading Platform in accordance with the PDEX Trading Rules, Conventions and Guidelines, as these may be amended or supplemented from time to time, and shall settle such trades on a Delivery versus Payment (“**DvP**”) basis in accordance with PDEX Settlement Rules and Guidelines.

Arrangers and Selling Agents



Selling Agent



The Bonds and Commercial Papers will be issued pursuant to BSP Circular No. 1010 (Series of 2018) and Circular No. 1062 (Series of 2019) and other related circulars and issuances of the BSP (the "**BSP Rules**"). The issuance of the Bonds is exempt from the registration requirement under the Securities Regulation Code pursuant to Section 9.1(e) of the said law.

No offer or invitation or solicitation shall be made or received, and no agreement shall be made, on the basis of this document, to purchase or subscribe for any of the Bonds and Commercial Papers.

The Bank confirms that this document contains all information with respect to the Bank and its subsidiaries and associates (collectively, the "**Group**" or "**MBT Group**") and the Bonds and Commercial Papers which is material in the context of the issue and offering of the Bonds and Commercial Papers, that the information contained herein is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed herein are honestly held and have been reached after considering all relevant circumstances and are based on reasonable assumptions, that there are no other facts, the omission of which would, in the context of the issue and offering of the Bonds and Commercial Papers, make this document as a whole or any such information or the expression of any such opinions or intentions misleading in any material respect and that all reasonable enquiries have been made by the Bank to verify the accuracy of such information. The Bank accepts responsibility accordingly.

In making an investment decision, you must rely on your own examination of the Bank and the terms of the offering of Bonds and Commercial Papers, including the merits and risks involved. By receiving this Offering Circular (the "**Offering Circular**"), you acknowledge that (i) you have not relied on First Metro Investment Corporation ("**First Metro**"), ING Bank N.V., Manila Branch ("**ING**") and Standard Chartered Bank ("**SCB**", and together with First Metro and ING, the "**Arrangers**") or any person affiliated with the Arrangers in connection with your investigation of the accuracy of any information in this Offering Circular or your investment decision, and (ii) no person has been authorized to give any information or to make any representation concerning the Bank, the Group or the Bonds and Commercial Papers other than as contained in this Offering Circular and, if given or made, any such other information or representation should not be relied upon as having been authorized by the Bank, the Arrangers or the Selling Agents (as defined below).

To the fullest extent permitted by law, none of the Arrangers and First Metro Investment Corporation, ING, Metropolitan Bank & Trust Company, and SCB (in their capacity as selling agents, the "**Selling Agents**" and each, a "**Selling Agent**") accepts any responsibility for the contents of this Offering Circular or for any other statement, made or purported to be made by the Arrangers and Selling Agents or on its behalf in connection with the Bank, or the issue and offering of the Bonds and Commercial Papers. The Arrangers and Selling Agents accordingly disclaim all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Offering Circular or any such statement.

No representation or warranty, express or implied, is made by the Arrangers and Selling Agents as to the accuracy or completeness of the information contained in this Offering Circular. Neither the delivery of this Offering Circular nor the offer of Bonds and Commercial Papers shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Bank or the Group since the date of this Offering Circular or that any information contained herein is correct as at any date subsequent to the date hereof.

None of the Bank, the Arrangers and Selling Agents or any of its respective affiliates or representatives is making any representation to any purchaser of Bonds and Commercial Papers regarding the legality of an investment by such purchaser under applicable laws. In addition, you should not construe the contents of this Offering Circular as legal, business or tax advice. You should be aware that you may be required to bear the financial risks of an investment in the Bonds and Commercial Papers for an indefinite period. You should consult with your own advisers as to the legal, tax, business, financial and related aspects of a purchase of Bonds and Commercial Papers.

The Arrangers and Selling Agents and their affiliates are full service financial institutions engaged in various activities which may include securities trading, commercial and investment banking, financial advice, investment management, principal investment, hedging, financing and brokerage activities. In the ordinary course of their various business activities, the Arrangers and Selling Agents and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investments and securities activities may involve securities and instruments of the Bank.

The Arrangers and Selling Agents and/or their affiliates may purchase Bonds and Commercial Papers for their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Bonds and Commercial Papers and/or other securities of the Bank or its respective subsidiaries or associates at the same time as the offer and sale of the Bonds and Commercial Papers, or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Bonds and Commercial Papers to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of the Bonds).

This document does not constitute an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or to any person to whom it is unlawful to make any such offer or solicitation. Each investor in the Bonds and Commercial Papers must comply with all applicable laws and BSP rules in force in the jurisdiction in which it purchases or offers to purchase such Bonds and Commercial Papers, and must obtain the necessary consent, approval, or permission for its purchase, or offer to purchase such Bonds and Commercial Papers under the laws and BSP rules in force in any jurisdiction to which it is subject or in which it makes such purchase or offer, and neither the Bank nor the Arrangers and Selling Agents shall have any responsibility thereof. Interested investors should inform themselves as to the applicable legal requirements under the laws and

BSP rules of the countries of their nationality, residence, or domicile and as to any relevant tax or foreign exchange control laws and BSP rules that may affect them. See “Distribution and Sale”.

CONVENTIONS WHICH APPLY TO THIS OFFERING CIRCULAR

In this Offering Circular, unless otherwise specified or the context otherwise requires, all references to the “Philippines” are references to the Republic of the Philippines. All references to the “Government” herein are references to the Government of the Philippines. All references to “United States” or “U.S.” herein are to the United States of America. All references to “Peso” and “P” herein are to the lawful currency of the Philippines and all references to “U.S. dollars” or “US\$” herein are to the lawful currency of the United States.

FORWARD-LOOKING STATEMENTS

Certain statements in this Offering Circular constitute “forward-looking statements”, including statements regarding the Bank’s expectations and projections for future operating performance and business prospects. The words “believe”, “expect”, “anticipate”, “estimate”, “project”, “will”, “aim”, “will likely result”, “will continue”, “intend”, “plan”, “contemplate”, “seek to”, “future”, “objective”, “goal”, “should”, “will pursue” and similar expressions or variations of these expressions identify forward-looking statements. In addition, all statements other than statements of historical facts included in this Offering Circular, including, without limitation, those regarding the Bank’s financial position and results, business strategy, plans and objectives of management for future operations, including development plans and objectives relating to the Bank’s products and services, are forward-looking statements.

Such forward-looking statements and any other projections contained in this Offering Circular (whether made by the Bank or any third party) involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to be materially different from the future results, performance or achievements expressed or implied by forward-looking statements. Such forward-looking statements are based on current beliefs, assumptions, expectations, estimates and projections regarding the Bank’s present and future business strategies and the environment in which the Bank will operate in the future. Among the important factors that could cause some or all of those assumptions not to occur or cause the Bank’s actual results, performance or achievements to differ materially from those in the forward-looking statements include, among other things, the Bank’s ability to successfully implement its business strategy, the condition of and changes in the Philippine, Asian or global economies, future levels of non-performing loans, the Bank’s growth and expansion, including whether the Bank succeeds in its business strategy, changes in interest rates and changes in government regulation and licensing of its businesses in the Philippines and in other jurisdictions where the Bank may operate, and competition in the banking and financial services industry. Additional factors that could cause the Bank’s actual results, performance or achievements to differ materially include, but are not limited to, those discussed under “Investment Considerations”.

Any forward-looking statements contained in this Offering Circular speak only as at the date of this Offering Circular. Each of the Bank, the Arrangers and the Selling Agents expressly disclaims any obligation or undertaking to release, publicly or otherwise, any updates or revisions to any forward-looking statement contained herein to reflect any change in the Bank’s expectations with regard thereto or any change in events, conditions, assumptions or circumstances on which any such statement was based.

INDUSTRY AND MARKET DATA

Unless otherwise indicated, all industry and market data with respect to the Philippine banking and financial services industries was derived from information compiled and made available by the BSP or other public sources. While the Bank has ensured that such information has been extracted accurately and is believed by the Bank to be reasonable and presented in its proper context, the Bank has not independently verified any of the data from third-party sources or ascertained the correctness of the underlying economic assumptions relied upon therein.

Unless otherwise indicated, the description of the Bank’s business activities in this Offering Circular is presented on a consolidated basis. For further information on the Group, see “Description of the Bank — Subsidiaries and Associates”.

TABLE OF CONTENTS

DOCUMENTS INCORPORATED BY REFERENCE	6
GENERAL DESCRIPTION OF THE PROGRAMME	7
OFFERING CIRCULAR SUMMARY	8
FORM OF PRICING SUPPLEMENT	21
INVESTMENT CONSIDERATIONS	24
GENERAL TERMS AND CONDITIONS	50
CAPITALIZATION	70
DESCRIPTION OF THE BANK	71
SELECTED STATISTICAL DATA	116
MANAGEMENT	135
THE PHILIPPINE BANKING INDUSTRY	141
BANKING REGULATION AND SUPERVISION	146
TAXATION	175
DISTRIBUTION AND SALE	178
INDEX TO FINANCIAL STATEMENTS	F

DOCUMENTS INCORPORATED BY REFERENCE

The following documents published or issued from time to time after the date hereof shall be deemed to be incorporated in, and to form part of, this Offering Circular:

- (a) the most recently published audited non-consolidated and (if produced) consolidated annual financial statements and, if published later, the most recently published unaudited interim non-consolidated and (if produced) consolidated financial results of the Issuer; and
- (b) all supplements or amendments to this Offering Circular prepared by the Issuer from time to time.

Any statement contained herein or in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Offering Circular to the extent that a statement contained in any such subsequent document which is deemed to be incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Offering Circular.

Any published unaudited interim financial statements of the Issuer which are, from time to time, deemed to be incorporated by reference in this Offering Circular will not have been audited or subjected to review by the auditors of the Issuer, as the case may be. Accordingly, there can be no assurance that, had an audit or review been conducted in respect of such financial statements, the information presented therein would not have been materially different, and investors should not place undue reliance upon them (see “*Investment Considerations – Considerations relating to the Bonds and Commercial Papers – Risks relating to unaudited interim financial statements deemed incorporated by reference*”).

The Issuer will provide, without charge, to each person to whom a copy of this Offering Circular has been delivered, upon the request of such person, a copy of any or all of the documents deemed to be incorporated herein by reference unless such documents have been modified or superseded as specified above. Requests for such documents should be directed to the Issuer at its office set out at the end of this Offering Circular.

If the terms of the Programme are modified or amended in a manner which would make this Offering Circular, as so modified or amended, inaccurate or misleading, to an extent which is material in the context of the Programme, a new offering circular will be prepared.

GENERAL DESCRIPTION OF THE PROGRAMME

Under the Programme, the Issuer, subject to compliance with all relevant laws, regulations, and directives, may from time to time issue Bonds and Commercial Papers, subject as set out herein. A summary of the terms and conditions of the Bonds and Commercial Papers appears in the section “General Terms and Conditions”. The applicable terms of any Bond and Commercial Papers will be agreed between the Issuer and the relevant Arrangers prior to the issuance and will be set out in the Terms and Conditions of the Bonds and Commercial Papers endorsed on, attached to, or incorporated by reference into, the Bonds and Commercial Papers, as modified and supplemented by the applicable Pricing Supplement attached to, or endorsed on, such Bonds and Commercial Papers.

The net proceeds of the issuances of Bonds and Commercial Papers under the Programme are intended to be used to support Bank’s lending activities and diversify funding sources.

This Offering Circular and any supplement will only be valid for listing Bonds and Commercial Papers on PDS in an aggregate nominal amount which, when added to the aggregate nominal amount then outstanding of all Bonds and Commercial Papers previously or simultaneously issued under the Programme, does not exceed ₱54,500,000,000

OFFERING CIRCULAR SUMMARY

This summary highlights information contained elsewhere in this Offering Circular. This summary is qualified by, and must be read in conjunction with, the more detailed information and financial statements appearing elsewhere in this Offering Circular. You should read this entire Offering Circular carefully, including the Bank's consolidated financial statements and related notes and "Investment Considerations".

OVERVIEW

Metropolitan Bank & Trust Company (the **Bank**) is a universal bank based in the Philippines which provides, through itself and other members of the Group, a wide range of banking and other financial products and services including corporate, commercial and consumer banking products and services as well as credit card, investment banking and trust services. As at 31 December 2019, the Group was the second largest Philippine bank by asset size, with total assets of ₱2.5 trillion and capital of ₱309.6 billion, and believes that it was among the top three Philippine banks in terms of net loans and receivables with an outstanding balance of ₱1.5 trillion. The Bank also believes that the Group was among the top three largest Philippine banks by total deposits with ₱1.7 trillion as at 31 December 2019, and, according to the BSP, also controlled 14.5% of the Philippine universal and commercial banking system's total asset base as at 31 December 2019.

The Group offers corporate and commercial banking products and services throughout the Philippines. The Group's corporate banking services consist of banking services provided to corporate customers (generally recognized by the Bank as the top 1,000 Philippine companies, multinational companies and Government-owned and controlled companies). The Group's commercial banking services consist of banking services provided to mid-market, micro industries and SMEs. As at 31 December 2017, 2018 and 2019, corporate and commercial loans represented 75.7%, 76.4% and 76.7% of the Group's total loan portfolio, respectively.

The Group, through the Bank and PSBank (an 88.4%-owned subsidiary of the Bank), is also a leading provider of consumer banking products and services in the Philippines. Through its network of branches, the Group offers a wide range of deposit, mortgage and vehicle finance products and services, targeted primarily at its existing customers. The Bank offers a variety of products to high net worth individuals, which is a growing demographic group in the Philippines.

The Group offers trust banking services, credit card services and investment banking services through subsidiaries of the Bank, and is also engaged in other businesses, some of which are unrelated to the financial services sector. See "Description of the Bank — Subsidiaries and Associates".

As at 31 December 2019, the Group had a total of 957 branches in the Philippines, of which 707 were operated by the Bank and 250 were operated by PSBank. The Group had a total of 2,345 ATMs as at 31 December 2019. The Bank's international operations consist of branches in Taipei, New York, Tokyo, Seoul, Pusan and Osaka, together with representative offices in Beijing and Hong Kong. The Bank also has an extensive network of remittance centers in Asia, Europe and North America which has enabled it to become a leading provider of remittance services to OFWs. As at 31 December 2017, 2018 and 2019, the Group's total assets amounted to ₱2.1 trillion, ₱2.2 trillion and ₱2.5 trillion, respectively, while equity attributable to equity holders of the Bank amounted to ₱202.0 billion, ₱283.0 billion and ₱309.6 billion, respectively. Consolidated net income attributable to equity holders of the Bank for the years ended 31 December 2017, 2018 and 2019, amounted to ₱18.2 billion, ₱22.0 billion and ₱28.1 billion, respectively.

The Bank has been listed on the PSE since February 1981 after its initial public offering. The Bank's market capitalization as at 31 December 2019 was ₱298.2 billion. The Bank was founded by the late Dr. George S.K. Ty. GT Capital Holdings, Inc. (**GT Capital**) is the single largest shareholder of the Bank, owning 36.6% of the Bank's outstanding shares as at 31 December 2019. As at 31 December 2017, 2018 and 2019, the Group's Tier 1 and total capital adequacy ratios as reported to the BSP were 11.8%, 14.6% and 16.2%, and 14.4%, 17.0% and 17.5%, respectively.

Over the years, the Bank has consistently received accolades from local and international award-giving bodies. Over the past three years, the Bank was recognised by The Asian Banker as the Best Managed Bank in the Philippines in 2019, the Best Trade Finance Bank in the Philippines in 2017, 2018, and 2019, the Best Transaction Bank in the Philippines in 2018 and 2019, the Best Foreign Exchange Bank in the Philippines in 2018 and 2019, the Remittance

OFFERING CIRCULAR SUMMARY

Product of the Year in 2019, the Retail Payment Product of the Year in 2017. The Bank was also conferred the Best Service Provider in Cash Management in 2019 and the Best Service Provider – Supply Chain – Rising Star in the Philippines in 2018 by The Asset, the Best Investor Relations Company in 2019 by Corporate Governance Asia, the Cesar EA Virata Award for Best Securities House (Bank Category) for the sixth consecutive year and other recognitions by the Philippine Dealing System, various trading desk-related awards from the Fund Managers Association of the Philippines and The Asset, and Best Companies to Work For in Asia in 2019 by HR Asia.

Each of the Bank's product segments is among the leaders in the Philippine banking industry. In retail banking, the Group has the largest car financing portfolio and the third largest housing portfolio based on internal and analyst estimates. In addition, it has the third largest number of credit cards in force, through Metrobank Card Corporation (**MCC**), which has been merged into the Bank effective 3 January 2020, based on the December 2019 report of the Credit Card Association of the Philippines, with 1.5 million cards in force. The Group has the third largest trust business with assets under management (**AUM**) of ₱491.7 billion based on publicly available reports submitted by Philippine banks to the BSP, as at 31 December 2019. For the 2019 PDS Annual Awards, the Bank will be awarded the Cesar E.A. Virata Award for the best securities house in the Bank Category along with awards for being the Top Dealing Participant in Corporate Securities, Top Fixed Income Dealing Participant, Top 5 Spot Foreign Exchange Dealers (#2), and Top Brokering Bank for Retail Transactions. In addition, the Bank was named Top Sellside firm in Corporate Bonds, Top Sellside firm in Government Bonds (#3), and Top Investment House (#3) by The Asset in the Asset's Benchmark Research Awards 2018. The Bank has been awarded Top Performing Government Securities Eligible Dealer in 2014 (#4), in 2015 (#2), and in 2016 (#2). In the trust banking space, the Bank was awarded the Best Managed Funds of the Year (Peso Medium-Term Bond Category) in 2019 by the Chartered Financial Analyst (CFA) Society of the Philippines, and the Best UITF Fund Provider in 2017 by Wealth & Finance International. In addition, the Group is also a leading provider of trade finance services to large corporates and middle market companies and one of the leading providers of remittance services. With ₱35.6 billion in total assets as at 31 December 2019, the Bank's subsidiary, First Metro Investment Corporation (**First Metro**) is the largest investment bank in the Philippines based on asset size. First Metro successfully participated in 18 Philippine capital market transactions in 2019. First Metro continues to be a leader in the domestic bond market with landmark deal in the debt capital markets. A concrete testament to First Metro's industry leadership is the string of awards and recognitions it has received over recent years. First Metro has consistently received recognition, and most recently was recognised as the Best Corporate & Investment Bank in the Philippines in 2019 by Asiamoney, and as the Best Equity House in the Philippines in 2018 and 2019, the Best M&A House in the Philippines in 2018 and the Best Investment Bank in 2017 by Alpha Southeast Asia. At the 2019 PDS Annual Awards, First Metro and its stockbrokerage arm, First Metro Securities Brokerage Corporation (First Metro Securities), reaped awards at the 2019 PDS Annual Awards. First Metro bagged the Top Corporate Securities Market Maker and ranked fifth in both the Top 5 Fixed Income Dealing Participant and Top 5 Corporate Issue Managers/Arrangers, while First Metro Securities placed fourth in the Top 5 Depository Brokering Participant award. First Metro has consistently received recognition at the 19th FMAP (Fund Managers Association of the Philippines) Awards. It ranked third in the Best Fixed Income House category and its officers were recognized as among the top traders and salespersons. First Metro remained the country's leading bond house as it received another slew of awards from The Asset Benchmark Research (ABR) of Hong Kong. In ABR's 2019 Asia Local Currency Bond Benchmark Review, First Metro ranked first among the Top Sell-Side Firms in Secondary Market – Corporate Bonds and the Top Sell-Side Firms in Secondary Market – Government Bonds. It ranked second as Top Arranger – Investors' Choice for Primary Issues – Government Bonds and fourth as Top Arranger – Investors' Choice for Primary Issues. PSBank is a leading savings bank in the Philippines that focuses on attracting deposits from the general public. The Bank co-operates with PSBank to help ensure wide market coverage for the Group. PSBank was conferred with several awards both in the local and international setting, like the Outstanding Partner in Digital Transformation in 2019 and the Pagtugon Award in 2015, 2016, 2018, and 2019 by the Bangko Sentral ng Pilipinas (BSP), and various customer experience recognitions in the 2017, 2018 and 2019 Customer Experience (CX) Asia Excellence Awards of the International Quality and Productivity Center (IQPC). The Bank believes that its strong positions across diverse product segments allow it to cross-promote each segment to its customers to increase revenues and the flexibility to invest in new products and services. The Bank believes that its leading position across a wide range of product categories allows it to serve as a "one-stop" financial centre for its customers.

HISTORY

The Bank was established on 5 September 1962 by a group of Filipino businessmen led by the late Chairman Emeritus, Dr. George S. K. Ty, principally to provide financial services to the Filipino-Chinese community. The Bank has continuously sought to diversify its business and now provides a broad range of banking products and services to

OFFERING CIRCULAR SUMMARY

all sectors of the Philippine economy through an extensive domestic branch network and internationally through a network of foreign branches and representative offices.

The Bank was one of the first banks in the Philippines to gain a universal banking license, which was granted by the BSP in August 1981. This license allows the Bank to engage in finance-related businesses such as savings and consumer banking, credit card and leasing products and services as well as “non-allied undertakings”.

Since the establishment of its first office in Manila, the Bank’s operations in the Philippines, and in particular its domestic branch network, have expanded organically and through a series of acquisitions and mergers, including its acquisition of PSBank in 1983. Increased expansion of the Bank’s domestic branch network occurred following a change in 1993 to the BSP’s policy of restricting the opening of additional bank branches in the Philippines and the liberalization of the Philippine banking industry.

The Bank’s international network of foreign branches and representative offices has grown since the opening of its first international branch in Taipei in 1975. Such growth was principally in response to the increased volume of remittances by OFWs. As a result of the growth in the Bank’s international network, the Bank has been able to augment its foreign exchange sources during periods of political instability in the Philippines in which access to foreign exchange has been otherwise limited.

Recent Developments

On 1 June 2020, the Philippine Government transitioned to the general community quarantine in Metro Manila as well as other parts of the country, following the two-week modified enhanced community quarantine, and previously imposed enhanced community quarantine which started on 16 March 2020. Amid the two-month enhanced community quarantine, the Bank kept its banking services available to clients, without compromising the health and safety of its employees. On average, about 50% to 60% of consolidated branches stayed open, with corresponding adjustments in banking hours and cut-off times similar to the adjustments instituted by the BSP and the Bankers Association of the Philippines (**BAP**). Consequently, the Bank further intensified its campaign to encourage clients to transact through digital channels with constant reminders on how to keep their accounts secure. The Bank also provided grace period for credit card, and auto and home loan payments, and waived interbank fund transfer fees thru InstaPay and PesoNet. In support of the efforts to combat the pandemic, Metrobank Group and GT Capital Group pledged ₱200.0 million worth of donations. As part of the Bank’s preventive measures, full disinfection of offices and branches was conducted nationwide. Additionally, the Bank has alternative communication channels which allow employees to continuously work remotely. The Bank will remain vigilant and will constantly adapt as new developments arise.

On 27 May 2020, the Bank’s Board of Directors decided not to pursue with their previously approved amendment of Articles of Incorporation to create a new class of shares, citing that it is not the appropriate time to present the matter to the Shareholders. The amendment proposed to convert a portion of the non-voting preferred shares forming part of the Bank’s authorised capital stock (ACS). Out of the Bank’s 1,000,000,000 non-voting preferred shares with par value of ₱20 per share (or an aggregate value of ₱20 billion), the Bank intends to convert ₱1.2 billion worth of such non-voting preferred shares into 6,000,000,000 voting preferred shares with a par value of ₱0.20 per share, leaving 940 million non-voting preferred shares with a par value of ₱20 per share (or an aggregate amount of ₱18.8 billion). There will be no change to the Bank’s authorised capital stock as a result of such amendment, which will still comprise ₱140 billion in the aggregate, consisting of ₱120 billion for common shares and ₱20 billion for preferred shares (both voting and non-voting).

On 8 May 2020, the Bank received BSP’s approval on the Bank’s application to exercise the call option on the ₱6.5 Billion 2025 Notes on August 8, 2020 in accordance with the terms and conditions of the notes. The same was earlier approved by the Bank’s Board of Directors on 19 February 2020.

On 19 February 2020, the Bank’s Board of Directors approved the exercise of its call option on its ₱6.5 billion 2025 Notes on 8 August 2020 in accordance with the terms and conditions of the notes, subject to BSP’s approval.

On 10 January 2020, the BSP approved the Bank’s application to issue up to ₱25.0 billion of LTNCDs over a period of one year from the date of BSP’s approval.

OFFERING CIRCULAR SUMMARY

The Philippine Securities and Exchange Commission (Philippine SEC) approved the Bank's proposal to merge MCC, a finance company and general insurance agency that is 100% owned by the Bank, into the Bank, effective 3 January 2020. The merger was approved by the Board of Directors of the Bank on 13 March 2019, was ratified by the stockholders of the Bank on 24 April 2019, and was approved by the BSP on 23 October 2019. MCC was originally a joint venture between the Bank and ANZ Funds. The Bank acquired ANZ Funds' stake in MCC in 2018.

On 13 February 2019, the Board of Directors of the Bank approved the amendment of its Articles of Incorporation to increase its ACS from ₱100 billion to ₱140 billion consisting of 6,000,000,000 common shares and 1,000,000,000 non-voting preferred shares, both with par values of ₱20.0 per share. The Bank believes that the proposed increase in ACS will give it flexibility to take advantage of opportunities in the future to further expand its business. The Board of Directors also approved the declaration of a 13% stock dividend, equivalent to ₱10.3 billion, or 517,401,955 common shares at par value, which also complies with the 25% subscription and paid-up requirement on increases in authorised capital stock. Both proposals were approved by stockholders during the Annual Stockholders' Meeting held on 24 April 2019, and were subsequently approved by the BSP on 8 August 2019 and by the Philippine SEC on 4 October 2019. On 16 October 2019, the Bank received the order from the Philippine SEC fixing the record date of the 13% stock dividend on 31 October 2019. The 13% stock dividend was issued on 26 November 2019 and was approved for listing by the PSE on 19 November 2019.

On 24 October 2019, the Bank issued ₱13.75 billion fixed rate bonds with issue price at 100% face value, at a rate of 4.50% per annum, payable quarterly, with a tenor of three and a half years maturing on 24 April 2023.

On 3 July 2019, the Bank issued ₱11.25 billion fixed rate bonds with issue price at 100% face value, at a rate of 5.50% per annum, payable quarterly, with a tenor of two years maturing on 3 July 2021.

As approved by the BSP on April 25, 2019, on 27 June 2019, the Bank redeemed its 2024 Peso Notes amounting to ₱16.0 billion.

On 11 April 2019, the Bank issued ₱17.5 billion fixed rate bonds with issue price at 100% face value, at a rate of 6.30% per annum, payable quarterly, with a tenor of three years maturing on 11 April 2022.

COMPETITIVE STRENGTHS

The Group believes that it has certain key strengths that provide competitive advantages over many of its competitors, including, among others:

Top three player in the Philippines

As at 31 December 2019, the Group was the second largest Philippine bank by asset size, with total assets of ₱2.5 trillion and capital of ₱309.6 billion, and, according to the BSP, also controlled 14% of the Philippine universal and commercial banking system's total asset base.

As at 31 December 2019, the Group was also among the top three largest listed Philippine banks in terms of net loans and receivables with an outstanding balance of ₱1.5 trillion, and by total deposits with ₱1.7 trillion. The Bank believes its financial strength contributes to its strong market position. The Bank's strong financial condition gives the Group flexibility to invest in new products, services, branches, information technology and other infrastructure required for the execution of its growth strategy.

Metrobank also derives significant synergies from the diversified Group and affiliated franchises such as First Metro Investment Corporation, one of the largest Philippine investment banks in terms of assets; Metrobank Card Corporation, the third largest card issuer, with 1.5 million cards in force and in terms of receivables, based on data from the Credit Card Association of the Philippines as at 31 December 2019; Philippine Savings Bank the second largest savings bank in terms of assets with ₱224.9 billion as at 31 December 2019; and Philippine AXA Life Insurance Corporation, an associate of the Bank, which is ranked second in premium income among life insurance companies with a 12.8% market share and ranked fourth among insurance providers in the country based on total assets, and, according to the latest data from the Philippine Insurance Commission, as at 31 December 2018. The Bank's scale of operations, together with the Group's financial resources, allows the Group to cross-sell a wide range of financial products and services to its existing customers, as well as to potentially capture a broader range of new clients.

Extensive and strategically located domestic ATM and branch network backed by a strong sales force

The Bank believes its branch network is strategically located, both in Metro Manila and outside of Metro Manila, to take advantage of the economic growth potential throughout the country.

The Group, through the Bank and PSBank, operates one of the largest branch networks in the Philippines based on public filings, with a total of 957 domestic branches as at 31 December 2019. Of this, 517 branches are in the countryside, representing 54% of the Group's total network, and are strategically located in high growth areas outside the greater Metro Manila area.

Complementing the Group's extensive domestic branch network is the ATM network, which is the third largest in the Philippines, with 2,345 ATMs as at 31 December 2019. The Bank believes that its extensive domestic ATM and branch network provides for substantial coverage across the archipelago and allows it to tap into emerging high growth potential areas to diversify its customer base.

Middle-market, SMEs and consumer segments as key drivers of growth

The Group maintains a balanced loan portfolio providing corporate and commercial banking products and services to a significant number of large and middle market corporations, as well as to SMEs, through a multi-channel distribution system, including its extensive branch network. Further, the Bank and PSBank have focused on expanding their consumer banking business, principally through a directed marketing strategy, using their extensive domestic branch network and by direct sales channels.

The Group has enjoyed strong loan portfolio growth over the past three years, with its total loan portfolio growing from ₱1.3 trillion as at 31 December 2017 to ₱1.5 trillion as at 31 December 2019, representing a compound annual growth rate of 8.5%. The Group's loan portfolio consists mainly of corporate and commercial loans which comprised 75.7%, 76.4% and 76.7% of the Group's total loan portfolio as at 31 December 2017, 2018 and 2019, respectively. As at 31 December 2019, the Group's corporate loan portfolio was highly concentrated on wholesale and retail trade, real estate activities, manufacturing, and private households, comprising 16.5%, 15.6%, 14.7% and 11.1% of the Group's total corporate and commercial loan portfolio.

Given the attractiveness of the SME and middle-market segment, the Group has increased its growth into such segment in the past three years, which achieved a compound annual growth rate of 7.9% from 31 December 2017 to 31 December 2019. The SME and middle-market segment is characterised by its high profitability and relatively low risk, coupled with strong customer loyalty and cross-selling opportunities that would present further upside for the Group.

Based on industry data from the BSP on the Philippine banking system, the Group had a 20.0% market share of aggregate auto, mortgage and credit card loans in the Philippine banking industry as at 31 December 2019. The Group continued to report significant growth in the residential mortgage, auto finance and credit card sectors of the Group's consumer loan portfolio, which grew at compounded annual growth rate of 5.0%, 1.4% and 19.5%, respectively, from 31 December 2017 to 31 December 2019. The Group maintains a balanced and diversified consumer loan portfolio, with home mortgage loans, auto loans, credit cards, and others, comprising 31.7%, 42.2%, 25.0%, and 1.1%, respectively, of the Group's total consumer loan portfolio as at 31 December 2019.

Industry leading margins with operating leverage and a well-balanced loan portfolio

The Group has maintained healthy operating income levels (net interest income, other operating income and share in net income of associates and a joint venture), with ₱84.2 billion, ₱92.6 billion, and ₱106.9 billion for the years ended 31 December 2017, 2018 and 2019, respectively. The Group's operating income is underpinned by the Group's strong net interest income base, which accounted for 72.9%, 74.3%, and 72.0% of its total operating income for the years ended 31 December 2017, 2018 and 2019, respectively.

The Group's balanced mix of interest earning assets and low cost of funding have also enabled the Group to maintain its net interest margin at 3.8% for each of the years ended 31 December 2017, 2018 and 2019. The Bank believes its net interest margin is one of the highest among its peer domestic banks.

OFFERING CIRCULAR SUMMARY

The Group believes that it has a low cost of funding as compared to many of its key competitors. Through its extensive and strategically located branch network, the Group is able to attract a large number of low-cost depositors. From 31 December 2017 to 31 December 2019, total deposits of the Group increased from ₱1.5 trillion to ₱1.7 trillion, representing a compound annual growth rate of 5.9%. In addition, the Group believes that its strong brand name and perceived financial strength allows it to attract higher levels of deposits at lower rates than many of its competitors. As at 31 December 2019, saving and demand deposits, which typically represent the lowest cost of funding for a bank, increased to 62.9% of the Group's total deposit base, compared to 62.2% as at 31 December 2017. The Group's savings and demand deposits expanded at an average annual growth rate of 6.5% over the same period. Because the Group's low-cost deposits are primarily comprised of working capital accounts of its commercial clients, the Group believes that it will be able to maintain its low funding cost despite a potential increase in interest rates or an increase in competitive pressure.

Similarly, the Group believes based on public filings of Philippine banks, that it maintains relatively higher asset yields compared to its peers mainly due to the composition of its loan portfolio. As at 31 December 2019, the Group's total loan portfolio (receivables from customers), amounted to ₱1.5 trillion, representing 60.5% of total assets. Of the Group's total outstanding loans as at 31 December 2019, corporate loans represented 68.2%, commercial loans represented 8.5%, and consumer loans represented 23.3%. Moreover, as at 31 December 2019, 46.9% of the Group's loan portfolio had a maturity of less than one year. As such, the Group believes that it is well-positioned to capitalise on a rise in interest rates by repricing its loan portfolio, which would further contribute to an improvement in the Group's net interest income.

Superior asset quality

The Group believes it has benefitted from its prudent credit and risk management framework and policies as well as conservative lending practices, as it continues to maintain its high asset quality with NPL ratios of 1.0%, 1.2% and 1.3% as at 31 December 2017, 2018 and 2019, respectively. The Group's NPL ratio for the year ended 31 December 2019 was among the lowest in its peer group, based on publicly filed financial statements of Philippine banks. The Group believes that its NPLs have been maintained at reasonable levels of ₱12.7 billion, ₱16.9 billion and ₱19.3 billion as at 31 December 2017, 2018 and 2019, respectively.

Strong and experienced Board of Directors and management team

The Group has assembled a strong management team. The Bank's senior executive officers (consisting of those officers at the executive vice-president level and above) have, on average, over 30 years of experience in the banking sector.

As at 31 December 2019, the Bank has banking industry leaders on its Board of Directors, including Jesli A. Lapus and Francisco F. del Rosario, Jr., while its other top executives have a proven track record in banking, finance and in other industries given their experience with leading Philippine corporations. The late Dr. George S.K. Ty, the founder of the Bank used to be Chairman Emeritus of the Board.

In addition, the Board of Directors has a strong independent element, with five of its 12 members being independent Directors, and only two Directors related to the Ty Family. The Bank believes that the extensive experience and financial acumen of its management provide the Group with a significant competitive advantage.

STRATEGIES

The Bank's medium-term strategy remains anchored on sustaining and expanding its market relevance through continuous improvement in customer experience, operational efficiency and people development. The Bank intends to focus on enhancing customer experience by continuously undertaking investments and enhancements in key customer touch points, which include face-to-face through branches and front liners, as well as e-channels such as ATMs, phone banking, online and mobile banking. The Bank also intends to continue its efforts in defining customer satisfaction standards and developing new capabilities in complaints resolution. To achieve these goals, the Bank intends to continue allocating resources to improve process and IT capabilities, leadership development, and technical and people management skills. Key milestones under each pillar are set forth below:

Customer experience

OFFERING CIRCULAR SUMMARY

As part of its commitment to enhance overall customer experience, the Bank established a Service Excellence Group (SEG) to act as customer advocate and driver of service excellence across the Bank, providing a comprehensive and authoritative view of the customer and ensuring that the voice of the customer is considered in every business decision. The Bank regularly conducts “branch mystery shopper” and “net promoter score” surveys through the SEG. “Branch mystery shopper”, which aims to monitor the customer service delivery of the branches, is embedded in the performance scorecards of the branches and have been at satisfactory levels in the last three years. The “net promoter score” (NPS) measures the probability of a customer recommending a firm’s products and services to others. The Bank’s retail NPS has continuously improved from 2015 to 2019. The SEG also oversees customer complaints resolution across the Bank’s customer touch points.

Moreover, the Bank established a Customer Experience Committee to drive the development and execution of customer experience (CX) projects, monitor the Bank’s performance on customer service metrics, and to direct the formulation of the Bank’s customer protection program in compliance with regulatory requirements.

The Bank has recently initiated a service culture transformation program, which included (i) the crafting and refinement of the Bank’s service levels to its customers, and (ii) the definition of both the basic and differentiating customer experiences that the Bank’s customer touch points, including branch employees, relationship managers, e-channels and contact centre personnel, are able to offer. The Bank has also prioritised process improvements in consumer loans and branch queue management, which has resulted in more efficient decision-making for MetroCar and MetroHome applications as well as improvement in customer wait times.

The Bank’s ongoing migration campaign to electronic channels has resulted in increased transaction volumes for cash acceptance machines and internet banking. The Bank is further preparing to serve technology-enabled clients and next generation business owners with the creation of a digital platform ideation and development team. Meanwhile, the Bank continues to rationalise its geographic footprint with calibrated hiring of both frontline and backroom headcount to balance scalability, productivity and profitability.

Process and information technology

In the process and information technology front, the Bank has established its Information Technology Group’s Enterprise Architecture Department tasked with crafting and rolling out the Bank’s information technology (IT) architecture blueprint to ensure that it is aligned with, and supports, the Bank’s overall customer experience strategy and the Bank’s push towards further rolling out digital banking services. The Bank’s IT strategy includes (i) building the digital platform and services to serve as the foundation of the Bank’s “next wave” applications, and increase utility and add value to the customer’s experience, (ii) creating a robust scalable technology base to quickly deliver key systems and technology, and (iii) developing enhanced IT capabilities that allows the Bank’s Information Technology Group to scale the delivery of services, and help the Bank deliver key features and products to the customer. Further, a re-engineering team under the SEG continues to focus on (a) reducing turnaround time and improving efficiency, (b) improving work queue management and service delivery, (c) reducing customer wait-time and increasing contact rate, (d) maximising use of self-service portals, and (e) eliminating and reducing errors through implementation of “Lean Six Sigma” methodologies and robotic process automation (RPA). The Group’s ongoing core banking replacement project is at the centre of both the Bank’s and PSBank’s information technology strategy. As the Group moves towards the implementation of the system by 2021, the Group’s core banking efforts will be focused on stability and further simplification.

Leadership development

Among the key measures of the success of the Bank’s leadership development strategic focus is the ability to build its leadership team. The Bank’s “ASCEND” leadership development framework has been put in place to achieve this, combining succession planning, development planning and mentoring under one umbrella. The Bank’s Human Resource Management Group and Learning and Development Division also continue to (a) identify successors to the Bank’s key roles, and support their personal development plans, (b) increase employee engagement satisfactory ratings, and (c) ensure that the Bank’s attrition rate remains better than current market standards.

Operationally, the Group’s strategy is focused on (a) improving margins by generating low-cost funding to further fuel loan growth, (b) increasing efficiency and productivity, (c) ensuring prudent credit risk expansion in priority segments, particularly the commercial middle-market, through rigorous risk management practices, and (d) expanding its suite of products and services in the retail and wealth management segments.

Improving margins by generating low-cost funding to support loan growth

For the last four years, the Group's reported net interest margins have been one of the highest among its peer domestic banks, according to publicly filed financial statements of Philippine banks. The Group reported a consistent net interest margin of 3.8% for the years ended 31 December 2017, 2018 and 2019. The Bank is confident in its ability to maintain and improve this advantage under current market conditions.

The Bank believes that it is well positioned to take advantage of growth areas in the countryside. In the past three years, approximately 54% of the Bank's domestic branches have been located outside Metro Manila, thereby enhancing the Bank's ability to generate low-cost funding and to further expand its commercial loan segment particularly in high growth areas in the countryside.

The Bank also believes that its strong and stable low-cost funding base will allow the Bank to safeguard and improve margins. The Group's low-cost deposits accounted for 62.9% of total deposits as at 31 December 2019. The Group has managed to grow its low-cost deposits despite the challenging environment, with a compound annual growth rate of 6.5% from 31 December 2017 to 31 December 2019. As at 31 December 2019, the Group's savings and demand deposits amounted to ₱1.1 trillion. These deposits are mainly comprised of working cash accounts of commercial clients and have proven to be stable despite movements in interest rates. As such, the Group believes that it will continue to maintain an advantage over other banks whose funding costs may be more likely to increase in a rising interest rate environment or under stronger competitive pressure.

Further, the Group is confident of its ability to reprice its loan yields. As at 31 December 2017, 2018 and 2019, 83.1%, 83.2% and 82.5% of the Group's loans, respectively, are on a floating rate basis and can be repriced within periods of typically 30 to 90 days. Additionally, the strong growth prospects for the Philippines are expected to bode well for the Group's commercial portfolio, which has been growing at a compound annual growth rate of 12.9% from 31 December 2017 to 31 December 2019.

With the combination of its large network and well diversified geographic footprint, stable funding base and loan composition, the Bank believes it is in the strong position to maintain or even increase net interest margins going forward.

Increase efficiency and productivity

The Group believes that it currently has an optimal number of branches nationwide and plans to maximise the use of its strategically located network in order to increase the efficiency and productivity of its branches and loan officers.

In previous years, the Bank and PSBank had opened close to 10 branches annually until the total domestic branch network of the Group reached 957 as at 31 December 2019. Additionally, from 2015 to 2017, the Group completed a hiring program of approximately 1,000 frontliners for its branches. The Group believes that it has reached an optimal state in terms of its branch network and branch personnel headcount, and is confident that it has the size and scale to pursue its future growth plans.

The Group's profitability metrics have begun to exhibit positive results, with deposits per branch increasing from ₱1.6 billion as at 31 December 2017 to ₱1.8 billion as at 31 December 2019. On the other hand, outstanding loans per employee of the Bank has also increased from ₱71.9 million as at 31 December 2017 to ₱78.8 million as at 31 December 2019.

Going forward, the Group does not anticipate that it will open a significant number of branches or substantially increase its current headcount. The Group believes that its productivity metrics will further improve as a result of its continued growth plans for both loans and deposits.

Ensure prudent credit expansion

The Bank recognises that good risk management goes beyond regulatory compliance and must be part of its growth strategy and day-to-day business. With increasingly strict corporate governance requirements and compliance targets under Basel III, the Bank aims to promote continued focus on credit excellence, detailed attention on market

OFFERING CIRCULAR SUMMARY

and operational risks, and account for other important risks. It will continue to apply rigorous risk management practices that are supported by high quality information systems and risk management tools.

To promote credit excellence, the Bank implemented the Achieving Credit Excellence Project to automate and accelerate credit processing as well as minimise attendant credit-related risks. A main component of the said project is the roll-out of an electronic credit approval and central liability system, a manifestation of the Bank's commitment to credit risk management. Supporting tools such as the Internal Credit Risk Rating System (ICRRS) have been developed to rate the overall borrower and facility risk of a particular corporate or commercial counterparty. Likewise, statistically based rating models depending on market-segment have been developed and deployed on parallel run with ICRRS to ensure the Bank's credit accommodations are sensitive to the risks inherent in each market segment. These tools are expected to enable the Bank to gain a more robust credit risk-based capital assessment and allocation.

To minimise market and operational risks, the Bank has completed the upgrade of its automated market risk management and asset-liability management systems, the refinement of all its market risk models, such as value-at-risk, interest rate repricing gap and earnings-at-risk, the implementation of risk documentation and a risk database to track loss events and fraud cases, and the tightening of its business continuity plan. To safeguard asset quality, the management of its NPAs remains a top priority.

Ultimately, the Bank believes that this would allow it to maintain its strong asset quality and high capital efficiency. In recent years, based on available industry data, the Group's NPL ratio has been relatively lower compared to many of its peer banks at 1.0% as at 31 December 2017, 1.2% as at 31 December 2018 and 1.3% as at 31 December 2019.

Expand product suite to boost fee income

The Bank, also via PSBank, currently offers a wide range of consumer deposit, mortgage and vehicle finance products and services, targeted primarily at its existing customers. The Bank intends to introduce new products and services to its existing customers and attract new customers. Apart from offering more consumer financing solutions, the Bank intends to focus on providing more value-added services such as investments and foreign exchange products and services, as well as insurance, which would target both the retail and high net worth segments.

As part of this strategy, the Bank has been training more sales officers for its Institutional Banking and Financial Markets sectors to boost coverage. Moving forward, the Bank aims to offer existing products and services and introduce new products and services to customers to drive higher transaction volume, and promote cross-selling of the Bank's financial products and services to increase its customers' wallet share. Ultimately, the Bank believes that these initiatives would increase the loyalty of its retail and high net worth individual customers, and create new sustainable revenue streams to bolster the Bank's fee income.

OFFERING CIRCULAR SUMMARY

SUMMARY CONSOLIDATED FINANCIAL INFORMATION AND OPERATING DATA

The following tables present selected consolidated financial information of the Group and should be read in conjunction with the consolidated financial statements and the related notes included elsewhere in this Offering Circular and the section entitled “Description of the Bank” in this Offering Circular. The selected financial information presented below as at and for the years ended 31 December 2017, 2018 and 2019 were derived from the consolidated financial statements prepared by the Group in accordance with Philippine Financial Reporting Standards and audited by SyCip Gorres Velayo & Co. (SGV) in accordance with Philippine Standards on Auditing. The selected financial information set out below does not purport to project the consolidated results of operations or financial position of the Group for any future period or date.

CONSOLIDATED STATEMENTS OF INCOME

	For the years ended 31 December		
	2017	2018	2019
	(audited)		
	(₱ millions except for earnings per share)		
Interest income on			
Loans and receivables	63,391	79,659	95,847
Investment securities at FVOCI/AFS investments and at amortized cost	13,480	14,610	16,573
Investment securities at FVTPL	1,585	1,170	1,936
Interbank loans receivables and securities purchased under resale agreements	1,231	1,092	941
Deposits with banks and others	635	655	886
	<u>80,322</u>	<u>97,186</u>	<u>116,183</u>
Interest and finance charges			
Deposit liabilities	12,613	18,968	23,407
Bills payable and securities sold under repurchase agreements, bonds payable, subordinated debts and others	6,303	9,396	15,779
	<u>18,916</u>	<u>28,364</u>	<u>39,186</u>
Net interest income	<u>61,406</u>	<u>68,822</u>	<u>76,997</u>
Provision for credit and impairment losses	<u>7,507</u>	<u>7,770</u>	<u>10,078</u>
Net interest income after provision for credit and impairment losses	<u>53,899</u>	<u>61,052</u>	<u>66,919</u>
Other income			
Trading and securities and foreign exchange gains — net	3,855	2,751	9,270
Service charges, fees and commissions	11,045	12,695	14,266
Miscellaneous	7,936	8,338	6,386
	<u>22,836</u>	<u>23,784</u>	<u>29,922</u>
Other expenses			
Compensation and fringe benefits	20,218	22,368	23,706
Occupancy and equipment-related costs	2,929	3,193	1,867
Miscellaneous	24,328	28,095	32,333
	<u>47,475</u>	<u>53,656</u>	<u>57,906</u>
Income before income tax	<u>29,260</u>	<u>31,180</u>	<u>38,935</u>
Provision for income tax	<u>7,990</u>	<u>7,745</u>	<u>10,061</u>
Net income	<u>21,270</u>	<u>23,435</u>	<u>28,874</u>
Attributable to:.....			
Equity holders of the Bank	18,223	22,008	28,055
Non-controlling Interest	3,047	1,427	819
	<u>21,270</u>	<u>23,435</u>	<u>28,874</u>
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Bank	<u>₱4.97⁽¹⁾</u>	<u>₱5.16⁽¹⁾</u>	<u>₱6.24</u>

Note:

(1) Earnings per share for the years ended 31 December 2018 and 2017 have been restated to reflect the effect of the stock dividends issued in 2019 and shares issued pursuant to the stock rights offering in 2018.

OFFERING CIRCULAR SUMMARY

(2) The Group applied for the first time, Philippine Financial Reporting Standards (PFRS) 16, Leases, which supersedes PAS 17, Leases, Philippine Interpretation IFRIC 4, Determining Whether an Arrangement Contains a Lease, SIC-15, Operating Leases – Incentives, and SIC-27, Evaluating the Substance of Transactions Involving the Legal Form of a Lease. PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model. The Group adopted the modified retrospective approach with certain transition reliefs with the date of initial application of 1 January 2019. Therefore, the comparative information for 2018 and 2017 are reported under the previous standard and interpretations and are not comparable to the information presented in 2019. See Notes 2, 10 and 16 of the audited consolidated financial statements of the Group as at 31 December 2018 and 2019 and for the three years ended 31 December 2019 included elsewhere in this Offering Circular.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As at 31 December		
	2017	2018	2019
		(₱ millions)	
		(audited)	
Assets			
Cash and Other Cash Items	27,631	33,091	32,956
Due from <i>Bangko Sentral ng Pilipinas</i>	261,959	240,134	219,994
Due from Other Banks	31,291	45,802	54,767
Interbank Loans Receivable and Securities Purchased Under Resale Agreements.....	45,475	50,719	72,174
Investment Securities:			
At FVTPL	43,887	39,689	61,867
At FVOCI/AFS	343,910	111,288	202,520
At Amortized Cost	—	265,376	251,628
Loans and Receivables	1,265,469	1,391,034	1,483,568
Investments in Associates and a Joint Venture	5,764	5,947	6,591
Property and Equipment	22,362	21,954	25,700
Investment Properties	7,717	7,500	7,762
Deferred Tax Assets	9,161	10,238	10,512
Goodwill	5,200	5,200	5,200
Other Assets	10,466	15,721	15,574
Total Assets	2,080,292	2,243,693	2,450,813
Liabilities and Equity			
Liabilities			
Deposit Liabilities			
Demand	344,708	355,473	411,873
Savings	605,508	609,471	665,634
Time	547,721	548,019	592,897
Long Term Negotiable Certificates	30,025	43,790	43,740
	1,527,962	1,556,753	1,714,144
Bills Payable and Securities Sold Under Repurchase Agreements .	227,835	259,607	238,281
Derivative Liabilities	5,352	6,537	7,427
Manager's Checks and Demand Drafts Outstanding	8,054	7,565	6,806
Income Taxes Payable	3,381	2,830	4,188
Accrued Interest and Other Expenses	6,973	9,619	10,499
Bonds Payable	2,910	30,743	80,486
Subordinated Debts	26,580	26,618	7,660
Deferred Tax Liabilities	277	357	108
Non-equity Non-controlling Interest	8,002	6,747	6,553
Other Liabilities	58,876	45,613	56,170
	1,876,202	1,952,989	2,132,322
Equity			
Attributable to Equity Holders of the Bank	201,955	282,960	309,554
Other Equity Reserves	(7,400)	—	—
Non-controlling Interest	9,535	7,744	8,937

OFFERING CIRCULAR SUMMARY

	As at 31 December		
	2017	2018	2019
		(₱ millions) (audited)	
Total Liabilities and Equity	2,080,292	2,243,693	2,450,813

(1) The Group applied for the first time, PFRS 16, Leases, which supersedes PAS 17, Leases, Philippine Interpretation IFRIC 4, Determining Whether an Arrangement Contains a Lease, SIC-15, Operating Leases – Incentives, and SIC-27, Evaluating the Substance of Transactions Involving the Legal Form of a Lease. PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model. The Group adopted the modified retrospective approach with certain transition reliefs with the date of initial application of 1 January 2019. Therefore, the comparative information for 2018 and 2017 are reported under the previous standard and interpretations and are not comparable to the information presented in 2019. See Notes 2, 10 and 16 of the audited consolidated financial statements of the Group as at 31 December 2018 and 2019 and for the three years ended 31 December 2019 included elsewhere in this Offering Circular.

SELECTED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the years ended 31 December		
	2017	2018	2019
		(₱ millions) (audited)	
Net cash provided by (used in) operating activities	(51,968)	(103,846)	84,404
Net cash used in investing activities	(29,504)	(23,897)	(63,652)
Net cash provided by (used in) financing activities	49,547	132,539	(4,130)
Cash and cash equivalents at beginning of the year	385,542	353,617	358,413
Cash and cash equivalents at end of the year	353,617	358,413	375,035

SELECTED FINANCIAL RATIOS

	For the years ended 31 December		
	2017	2018	2019
	(₱ in millions, except for %) (unaudited)		
Return on average assets ^{*(1)}	0.9%	1.0%	1.2%
Return on average equity ^{*(2)}	9.2%	9.1%	9.5%
Net interest margin ⁽³⁾	3.8%	3.8%	3.8%
Other Operating Expenses	47,475	53,656	57,906
Total Operating Income	83,553	91,732	106,051
Net Interest Income	61,406	68,822	76,977
Other Operating Income	22,147	22,910	29,054
Cost-income ratio ⁽⁴⁾	56.8%	58.5%	54.6%
Total Gross Loans.....	1,262,115	1,393,080	1,485,636
Total Deposits.....	1,527,962	1,556,753	1,714,144
Loans to deposit ratio ⁽⁵⁾	82.6%	89.5%	86.7%
Common Equity Tier 1 capital ratio ⁽⁶⁾	11.8%	14.6%	16.2%
Capital conservation buffer ⁽⁶⁾	5.8%	8.6%	10.2%
Tier 1 capital ratio ⁽⁶⁾	11.8%	14.6%	16.2%
Total capital ratio ⁽⁶⁾	14.4%	17.0%	17.5%
Total NPLs to total loans — excluding interbank loans (NPL Ratio)	1.0%	1.2%	1.3%
Total NPLs to total loans — including interbank loans	1.0%	1.2%	1.2%
Allowance for credit losses to total loans	0.9%	1.3%	1.3%
Allowance for credit losses – loans	11,356	17,629	19,863
Total NPLs	12,716	16,866	19,277
Allowance for credit losses - loans to total NPLs (NPL coverage ratio)	89.3%	104.5%	103.0%
Earnings per share	₱4.97	₱5.16	₱6.24

OFFERING CIRCULAR SUMMARY

Notes:

* Average is current balance plus previous year's balance divided by two

- (1) Net income divided by average total assets.
- (2) Net income divided by average total equity.
- (3) Net interest income divided by average interest-earning assets (including due from the BSP, due from other banks, interbank loans receivable and securities purchased under repurchased agreements (SPURA), investment securities, current gross receivables from customers, sales contract receivable, unquoted debt instruments and bills purchased).
- (4) Other operating expenses (excluding provisions for credit and impairment losses and for income tax) divided by total operating income (computed as sum of net interest income and other operating income).
- (5) Total gross loans divided by total deposits. Total gross loans comprise of receivables from customers before deducting unearned discount and capitalized interest and allowance for credit losses.
- (6) Capital adequacy ratios as at 31 December 2017, 2018 and 2019 were computed based on Basel III standards.
- (7) Earnings per share for the years ended 31 December 2017 and 2018 have been restated to reflect the effect of the stock dividends issued in 2019 and common shares issued pursuant to the stock rights offering of the Bank in 2018.

FORM OF PRICING SUPPLEMENT



PRICING SUPPLEMENT DATED [●]

**OFFER OF TRANCHE [●]
[BONDS / COMMERCIAL PAPERS]
BY METROPOLITAN BANK & TRUST COMPANY
OF UP TO ₱[●]**

Under its ₱54.5 Billion Programme

This document constitutes the Pricing Supplement relating to Tranche [●] [Bonds/Commercial Papers] being offered and described herein (the “Offer”). Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions (the “General Terms and Conditions”) set forth in the Trust Indenture and the Offering Circular dated [●] 2020 (the “Offering Circular”). This Pricing Supplement contains the final terms of this Offer and the Tranche [●] [Bonds/Commercial Papers] and must be read in conjunction with the Offering Circular. Full information on the Bank and the Offer is contained in the Offering Circular and in this Pricing Supplement. All information contained in the Offering Circular are deemed incorporated by reference in this Pricing Supplement.

Issuer	Metropolitan Bank & Trust Company (the “Bank”)
Issue	[Bonds /Commercial Papers] constituting the direct, unconditional, unsecured and unsubordinated obligations of the Bank
Specified Currency or Currencies	Philippine Peso
The Offer Size	[₱●]
Manner of Distribution	[Public Offer / Private Issuance]
Issue Price	At par (or 100% of face value)
Form and Denomination of the Bonds/Commercial Papers	The Tranche [●] [Bonds /Commercial Papers] shall be issued in scripless form in minimum denominations of [₱●] each, and in multiples of [₱●] thereafter, and traded in denominations of [₱●] in the secondary market
Offer Period	The offer of the [Bonds /Commercial Papers] shall commence at 9:00 am on [●] and end at 12:00 pm on [●]
Issue Date	[●]
Interest	
(a) For Fixed Rate: Interest Commencement Date	[●]

FORM OF PRICING SUPPLEMENT

Interest Payment Date (s) [●],[●],[●] and [●] of each year

Interest Rate [●]% per annum

(b) For Floating Rate

Specified Period(s) / Interest Payment Dates [●]

Manner in which the Interest Rate and Interest Amount is to be determined [●]

Party Responsible for calculating the Interest Rate and Interest Amount [●]

Reference Rate [●]

Margin [●]

Interest Determination Date [●]

Day Count Fraction 30/360 day count basis

Maturity Date [●] years from Issue Date or [●]

Rating Unrated

Payment Account Name [●]

Listing The Tranche [●] [Bonds /Commercial Papers] are intended to be listed at the Philippine Dealing & Exchange Corp.

Governing Law Philippine Law

PROVISIONS RELATING TO REDEMEPTION

Issuer Redemption Option [●]

Final Redemption Amount [●]

Early Redemption Date [●]

Early Redemption Amount [●]

PARTIES

Trustee Development Bank of the Philippines

Registrar & Paying Agent Philippine Depository & Trust Corp.

Arrangers [●]

Selling Agents [●]

Market Maker [●]

FORM OF PRICING SUPPLEMENT

ADDITIONAL INFORMATION

Amendment or Supplement to the Offering Circular

[Changes or updates to the Offering Circular]

INVESTMENT CONSIDERATIONS

Before investing in the Bonds or Commercial Papers, prospective investors should carefully consider all the information contained in this Offering Circular, including the investment considerations described below, before making an investment decision. The business, financial condition, and results of operations of the Bank could be materially and adversely affected by any of these investment considerations. The market price of the Bonds and Commercial Papers could decline due to any one of these risks, resulting in loss of all or part of the initial investment in the Bonds or Commercial Papers. The following discussion is not intended to be a comprehensive discussion of the risks and other factors and is not in any way meant to be exhaustive. Investors are encouraged to make their own independent, legal, financial, and business examination of the Bank and the market. Neither the Bank nor the Arrangers make any warranty or representation on the marketability, price, or market increments or profits that may arise out of any investment in the Bonds.

This Offering Circular also contains forward-looking statements that involve risks and uncertainties. The Group's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the considerations described below and elsewhere in this Offering Circular.

CONSIDERATIONS RELATING TO THE PHILIPPINES

Volatility in the value of the Peso against the U.S. dollar and other currencies as well as in the global financial and capital markets could adversely affect the Group's businesses.

The Philippine economy has experienced volatility in the value of the Peso and also limitations to the availability of foreign exchange. In July 1997, the BSP announced that the Peso can be traded and valued freely on the market. As a result, the value of the Peso underwent significant fluctuations between July 1997 and December 2004 and the Peso declined from approximately ₱29.00 to U.S.\$1.00 in July 1997 to ₱56.18 to U.S.\$1.00 by December 2004.

While the value of the Peso has recovered since 2010, its valuation may be adversely affected by certain events and circumstances such as the strengthening of the U.S. economy, the rise of the interest rates in the U.S. and other events affecting the global markets or the Philippines, causing investors to move their investment portfolios from perceived riskier emerging markets such as the Philippines. Consequently, an outflow of funds and capital from the Philippines may occur and may result in increasing volatility in the value of the Peso against the U.S. Dollar and other currencies. As at 27 December 2019, according to BSP data, the Peso has depreciated to ₱50.74 per US\$1.00 from ₱49.81 per U.S.\$1.00 at the end of 2016. As of 30 April 2020, the Peso was at ₱50.59 against the U.S. dollar.

Substantially all of the Group's operations and assets are based in the Philippines and, therefore, a slowdown in economic growth in the Philippines could materially and adversely affect the Group's business, financial position and results of operations.

Substantially all of the Group's business activities and assets are based in the Philippines, which exposes the Group to risks associated with the country, including the performance of the Philippine economy. Historically, the Group has derived substantially all of its revenues and operating profits from the Philippines and, as such, their businesses are highly dependent on the state of the Philippine economy. Demand for banking services, residential real estate, automobiles, electricity and insurance are all directly related to the strength of the Philippine economy (including its overall growth and income levels), the overall levels of business activity in the Philippines as well as the amount of remittances received from OFWs and overseas Filipinos. Factors that may adversely affect the Philippine economy include:

- decreases in business, industrial, manufacturing or financial activities in the Philippines, the Southeast Asian region or globally;
- scarcity of credit or other financing, resulting in lower demand for products and services provided by companies in the Philippines, the Southeast Asian region or globally;
- exchange rate fluctuations and foreign exchange controls;
- rising inflation or increases in interest rates;
- levels of employment, consumer confidence and income;
- changes in the Government's fiscal and regulatory policies;
- Government budget deficits
- adverse trends in the current accounts and balance of payments of the Philippine economy;

INVESTMENT CONSIDERATIONS

- the continued spread of the COVID-19 virus globally;
- re-emergence of Middle East Respiratory Syndrome-Corona virus (MERS-CoV), SARS, avian influenza (commonly known as bird flu), or H1N1, or the emergence of another similar disease (such as Zika) in the Philippines or in other countries in Southeast Asia;
- natural disasters, including but not limited to tsunamis, typhoons, earthquakes, fires, floods and similar events;
- political instability, terrorism or military conflict in the Philippines, other countries in the region or globally; and
- other regulatory, social, political or economic developments in or affecting the Philippines.

There can be no assurance that the Philippines will maintain strong economic fundamentals in the future. Changes in the conditions of the Philippine economy could materially and adversely affect the Group's business, financial condition and results of operations.

Political instability in the Philippines could destabilise the country and may have a negative effect on the Group's businesses.

The Philippines has from time to time experienced severe political and social instability. The Philippine Constitution provides that, in times of national emergency, when the public interest so requires, the Government may take over and direct the operation of any privately-owned public utility or business. In the last few years, there were instances of political instability, including public and military protests arising from alleged misconduct by the previous administration.

On 27 March 2014, the Government and the Moro Islamic Liberation Front (**MILF**) signed a peace agreement, the Comprehensive Agreement on Bangsamoro. On 10 September 2014, the draft of the Bangsamoro Basic Law (**BBL**) was submitted by former President Aquino to Congress. The BBL is a draft law intended to establish the Bangsamoro political entity in the Philippines and provide for its basic structure of government, which will replace the existing Autonomous Region in Muslim Mindanao. Following the Mamasapano incident where high-profile terrorists clashed with armed members of the Bangsamoro Islamic Freedom Fighters and MILF leading to the deaths of members of the Special Action Force (**SAF**) of the Philippine National Police, MILF, the Bangsamoro Islamic Freedom Fighters, and several civilians, the Congress stalled deliberations on the BBL. The Board of Inquiry on the Mamasapano incident and the Senate released their reports on the Mamasapano incident. On 27 March 2015, former President Aquino named a Peace Council consisting of five original members to study the draft BBL. 17 co-convenors were later named as part of the Peace Council. The Council examined the draft law and its constitutionality and social impact. The Council Members testified before the House of Representatives and the Senate, and submitted their report, which endorses the draft BBL but with some proposed amendments. On 13 and 14 May 2015, the Senate conducted public hearings on the BBL in Zamboanga and Jolo, Sulu, with the Zamboanga City government and sultanate of Sulu opposing their inclusion in the proposed Bangsamoro entity. On 6 June 2017, the Bangsamoro Transition Commission approved the final draft of the BBL. The final draft was submitted to President Rodrigo Duterte in the presence of Congress on 17 July 2017. On 20 September 2017, President Duterte gave verbal commitments to certify as urgent the BBL in order to facilitate the immediate passage of the bill. On 30 May 2018 and 31 May 2018, the House of Representatives and the Senate, respectively, approved their final version of the bill. Representatives from the two chambers of Congress met for the bicameral conference committee during recess to iron out differences in their versions of the BBL in meetings from 9 July to 13 July 2018. On 27 July 2018, President Duterte signed Republic Act No. 11054, approving the BBL, which was renamed the "Bangsamoro Organic Law" (**BOL**).

The Philippine Presidential elections were held on 9 May 2016 and on 30 June 2016 President Rodrigo Duterte assumed the presidency with a mandate to advance his "Ten-Point Socio-Economic Agenda" focusing on policy continuity, tax reform, infrastructure spending and countryside development, among others. The Duterte government has initiated efforts to build peace with communist rebels and other separatists through continuing talks with these groups. The shift to the federal-parliamentary form of government is likewise targeted to be achieved in two years. In November 2017, however, the Government terminated peace talks with the communist rebels when President Duterte issued Proclamation No. 360, which declared the formal termination of peace negotiations with the National Democratic Front-Communist Party of the Philippines-New People's Army. President Duterte cites that the communist rebels failed to show sincerity and commitment in pursuing genuine and meaningful peace negotiations as they continued to engage in acts of violence and hostilities during the negotiations. On the other hand, in July 2018, the BOL, which provides for the establishment of the Bangsamoro Autonomous Region in Muslim Mindanao (**BARMM**) in the Philippines' southern island of Mindanao, was passed. The BOL is the result of decades-long peace negotiations between Muslim rebel groups (primarily the MILF) and the Government and grants, among others, greater fiscal autonomy and incentives to Muslim Mindanao. It is expected that the signing of the BOL and the creation of the BARMM will end rebellion in Mindanao as part of the deal for its signing was the decommissioning of MILF troops and the creation in its stead of a political party which will be involved in the governance of the BAR.

INVESTMENT CONSIDERATIONS

Since assuming his post, President Duterte has waged a supposed all-out war against illegal drugs. Led by the Philippine National Police, the Government has continued to extensively pursue thousands of drug suspects all over the country. As at 31 January 2017, police data show that there have been 43,593 police operations conducted; 53,025 drug personalities arrested; 7,069,095 houses visited; and a total of 1,179,462 suspects have surrendered. The drug war, however, has been heavily criticized, both domestically and internationally, for having resulted in a spate of killings. It was reported that at least 4,729 suspects have been killed in police anti-drug operations as of May 2018. Human rights organizations, however, estimate the actual number to be approximately 20,000. Philippine National Police documents also reveal that since the drug war started on 1 July 2016 and up to 11 June 2018, there have been 23,518 Homicide Cases Under Investigation (HCUI) recorded, which is equivalent to an average of 33 killings per day. Church leaders and many civil society organizations have called for an end to the drug war but the extensive police drug operations continue to this date.

On 29 June 2016, son of former dictator Ferdinand E. Marcos and defeated vice-presidential candidate Ferdinand Marcos, Jr., filed an election protest against the election of Vice President Leni Robredo. The recount of ballots for the electoral protest began on 19 March 2018 and it is uncertain when the results of such recount will come out. Notably, however, President Duterte has publicly stated that if Marcos wins his election case against Robredo, he will likely step down as President to pave the way for a Marcos Presidency.

The shift to the federal-parliamentary form of government, which was originally targeted to be achieved in two years, is progressing. President Duterte recently created the Consultative Committee (**Con-Com**) to draft the proposed federal charter. On 9 July 2018, the Con-Com formally turned over its draft federal charter to President Duterte. Under the draft federal charter, the Philippines will be divided into 18 autonomous federal regions which are given more power for self-governance than under the present Philippine Constitution. The federal regions are said to be granted greater powers over socioeconomic planning, land use, financial administration and management. The central government will retain powers over national security and defense, international relations and diplomacy, customs and tariff, federal crimes and implementation of the criminal justice system. In addition to this, the draft federal charter increases the number of Philippine senators from 24 to 36 and Congressmen from 297 to 400. Recently, however, several concerns were raised regarding the financial viability of the proposed shift to federalism.

In March 2018, following President Duterte's highly publicized calls for then Chief Justice Maria Lourdes Sereno's ouster, the Committee on Justice of the Philippines House of Representatives approved six articles of impeachment against Sereno on the basis of a complaint filed by a known Duterte ally. In an unprecedented move, however, on 11 May 2018, the Supreme Court of the Philippines *en banc* voted 8-6 and ousted Chief Justice Maria Lourdes Sereno via a *quo warranto* petition on the basis of an allegedly invalid appointment. The ouster was labelled as political persecution and was heavily marred by controversy as it was not coursed through the constitutional process of impeachment. Following the removal of Chief Justice Sereno, Teresita Lenonardo de Castro was appointed as Chief Justice but had retired on 10 October 2018. The Judicial and Bar Council has opened the nominations for the new Chief Justice who will be appointed by the President.

The Philippine legislative and local elections are scheduled to be held in May 2019. The senators elected in the 2019 elections will join the senators elected in the 2016 elections. There is no assurance that the upcoming elections will be peaceful and free of allegations of fraud and voter disenfranchisement.

There can be no assurance that the current administration will continue to implement social and economic policies favored by the previous administration. Major deviation from the policies of the previous administration or fundamental change of direction, including with respect to Philippine foreign policy, may lead to an increase in political or social uncertainty and instability. The President's unorthodox and radical methods may also raise risks of social and political unrest. Any potential instability could have an adverse effect on the Philippine economy, which may impact the Group's businesses, prospects, financial condition and results of operations.

Acts of terrorism could destabilize the country and could have a material adverse effect on the Bank's business, financial position and results of operations.

The Philippines has been subject to a number of terrorist attacks since 2000. In recent years, the Philippine army has also been in conflict with the Abu Sayyaf organization, which has ties to the al-Qaeda terrorist network, and has been identified as being responsible for certain kidnapping incidents and other terrorist activities particularly in the southern part of the Philippines. In September 2015, Canadians John Ridsdel and Robert Hall, Norwegian Kjartan Sekkingstad and Filipina Marites Flor were kidnapped from a tourist resort on Samal Island in southern Philippines by the Abu Sayyaf which demanded ransom for the hostages' release. Hall and Ridsdel were later beheaded on separate occasions in April and June 2016, respectively, after the ransom demands were not allegedly met. After almost a year in captivity, Sekkingstad and Flor were subsequently released. In September 2016, the Abu Sayyaf abducted Jurgen Gustav Kantner and killed his wife while the couple were sailing off the waters of the southern Philippines. Kantner was beheaded in February 2017, after

INVESTMENT CONSIDERATIONS

ransom demands were not allegedly met. An increase in the frequency, severity or geographic reach of these terrorist acts could destabilize the Philippines, and adversely affect the country's economy.

Moreover, isolated bombings have taken place in the Philippines in recent years, mainly in cities in regions in the southern part of the Philippines, such as the province of Maguindanao. Although no one has claimed responsibility for these attacks, it is believed that the attacks are the work of various separatist groups, possibly including the Abu Sayyaf organisation. An increase in the frequency, severity or geographic reach of these terrorist acts could destabilize the Philippines, and adversely affect the country's economy.

The Government of the Philippines and the Armed Forces of the Philippines have clashed with members of several separatist groups seeking greater autonomy, including the MILF, the Moro National Liberation Front and the New People's Army.

In January 2015, a clash took place in Mamasapano in Maguindanao province between the SAF of the Philippine National Police and the Bangsamoro Islamic Freedom Fighters (**BIFF**) and the MILF, which led to the deaths of 44 members of SAF, 18 from the MILF, five from the BIFF, and several civilians, including Zulkifli Abdhir, a Malaysian national included in the US Federal Bureau of Investigation's most wanted terrorists.

On 2 September 2016, a bombing that killed 15 and injured 71 took place in Davao City, Mindanao. It is believed that the Abu Sayyaf organisation and/or their allies are responsible for the bombing.

On 23 May 2017, the Government declared martial law throughout Mindanao after extremist militants assaulted and occupied portions of the City of Marawi. In a special joint session convened on 22 July 2017, both Houses of Congress voted to grant the request of President Duterte to extend martial law in Mindanao until the end of 2017, as the rebellion could not be completely quashed over the initial 60-day period of martial law. On 13 December 2017, the Philippine Congress voted to extend martial law in Mindanao until the end of 2018. This second extension was affirmed by the Philippine Supreme Court in February 2018. With this extension and the suspension of the privilege of the writ of habeas corpus, the military can arrest persons suspected of rebellion without a warrant of arrest and can detain them for up to three days. Some sectors however are wary of the prolonged extension of the martial law, citing its negative impact on business, tourism, the country's image and investor confidence.

Similar attacks or conflicts between the Government and armed or terrorist groups could lead to further injuries or deaths of civilians and police or military personnel, which could destabilize parts of the country and adversely affect the country's economy. Any such destabilization could cause interruption to parts of the Bank's businesses and materially and adversely affect the Bank's financial conditions, results of operations and prospects.

Unresolved international disputes with neighbouring countries may cause disruption and destabilization in the Philippines.

The Philippines, China and several Southeast Asian nations have been engaged in a series of long-standing territorial disputes over certain islands in the West Philippine Sea, also known as the South China Sea. The Philippines maintains that its claim over the disputed territories is supported by recognized principles of international law consistent with the United Nations Convention on the Law of the Sea (**UNCLOS**). The Philippines made several efforts during the course of 2011 and 2012 to establish a framework for resolving these disputes, calling for multilateral talks to delineate territorial rights and establish a framework for resolving disputes.

Despite efforts to reach a compromise, a dispute arose between the Philippines and China over a group of small islands and reefs known as the Scarborough Shoal. In April and May 2012, the Philippines and China accused each other of deploying vessels to the shoal in an attempt to take control of the area, and both sides unilaterally imposed fishing bans at the shoal later that year. These actions threatened to disrupt trade and other ties between the two countries, including a temporary ban by China on Philippine banana imports, as well as a temporary suspension of tours to the Philippines by Chinese travel agencies. Since July 2012, Chinese vessels have reportedly turned away Philippine fishing boats attempting to enter the shoal, and the Philippines has continued to protest China's presence there. In January 2013, the Philippines sent notice to the Chinese embassy in Manila that it intended to seek international arbitration to resolve the dispute under UNCLOS. China has rejected and returned the notice sent by the Philippines to initial arbitral proceedings.

On 9 May 2013, a Philippine Coast Guard ship opened fire on a Taiwanese fisherman's vessel in a disputed exclusive economic zone between Taiwan and the Philippines, killing a 65-year old Taiwanese fisherman. Although the Philippine government maintained that the loss of life was unintended, Taiwan imposed economic sanctions on the Philippines in the aftermath of the incident. Taiwan eventually lifted the sanctions in August 2013 after a formal apology was issued by the Government of the Philippines.

In September 2013, the Permanent Court of Arbitration in The Hague, Netherlands issued rules of procedure and initial timetable for the arbitration in which it will act as a registry of the proceedings. Should these territorial disputes continue or escalate further, the Philippines and its economy may be disrupted and the operations of the Bank could be adversely

affected as a result. In particular, further disputes between the Philippines and China may lead both countries to impose trade restrictions on the other's imports. On 12 July 2016, the five-member Arbitral Tribunal at the Permanent Court of Arbitration in The Hague, Netherlands, unanimously ruled in favor of the Philippines on the maritime dispute over the West Philippine Sea. The Tribunal's landmark decision contained several rulings, foremost of which invalidated China's "nine-dash line", or China's alleged historical boundary covering about 85% of the South China Sea, including 80% of the Philippines Exclusive Economic Zone (EEZ) in the West Philippine Sea. China rejected the ruling, saying that it did not participate in the proceedings for the reason that the court had no jurisdiction over the case. Any such impact from these disputes could adversely affect the Philippine economy, and materially and adversely affect the Bank's business, financial position and financial performance.

Should territorial disputes between the Philippines and other countries in the region continue or escalate further, the Philippines and its economy may be disrupted and the Bank's operations could be adversely affected as a result. In particular, further disputes between the Philippines and other countries may lead to reciprocal trade restrictions on the other's imports or suspension of visa-free access and/or overseas Filipinos permits. Any impact from these disputes in countries in which the Bank has operations could materially and adversely affect the Bank's business, financial condition and results of operations.

The sovereign credit ratings of the Philippines may adversely affect the Group's business.

The sovereign credit ratings of the Philippines directly affect companies, resident and domiciled in the Philippines as international credit rating agencies issue credit ratings by reference to that of the sovereign. In 2013, the Philippines earned investment grade status from all three major credit ratings agencies — Fitch (BBB-), Standard and Poor's (BBB-) and Moody's (Baa3). In 2014, international credit rating agency Moody's Investors Service (Moody's) upgraded its credit rating for the Philippines to "Baa2", and in April 2019, international credit rating agency Standard & Poor's (S&P) upgraded its credit rating for the Philippines to "BBB+". Moody's affirmed its rating in 2018. In December 2017, Fitch Ratings upgraded its credit rating for the Philippines to BBB and affirmed the rating in February 2020. All ratings are above investment grade and the highest that the Philippines has received so far from any credit ratings agency.

International credit rating agencies issue credit ratings for companies with reference to the country in which they are resident. As a result, the sovereign credit ratings of the Philippines directly affect companies that are resident in the Philippines, such as the Group. There is no assurance that Fitch, Moody's, S&P or other international credit rating agencies will not downgrade the credit rating of the Philippines in the future. Any such downgrade could have a material adverse effect on liquidity in the Philippine financial markets and the ability of the Philippine government and Philippine companies, including the Group, to raise additional financing, and will increase borrowing and other costs.

An increase in interest rates could decrease the value of the Bank's securities portfolio and raise the Bank's funding costs.

In an off-meeting of the Monetary Board on 16 April 2020, the BSP reduced its key policy rates to 2.75% for the overnight reverse repurchase facility, 2.25% for the overnight deposit facility and 3.25% for the overnight lending facility. Interest rates may further increase in the future as price pressures begin building as a result of economic growth and inflationary pressures.

The Group realises income from the margin between income earned on its interest-earning assets and interest paid on its interest-bearing liabilities. As some of its assets and liabilities are re-priced at different times, the Group is vulnerable to fluctuations in market interest rates and any changes in the liquidity position of the Philippine market. As a result, volatility in interest rates could have a material adverse effect on the Group's financial position, liquidity and results of operations.

An increase in interest rates could lead to a decline in the value of securities in the Group's portfolio and the Group's ability to earn excess trading gains as revenue. A sustained increase in interest rates will also raise the Group's funding costs without a proportionate increase in loan demand (if at all). Rising interest rates will therefore require the Group to re-balance its assets and liabilities in order to minimize the risk of potential mismatches and maintain its profitability. In addition, rising interest rate levels may adversely affect the economy in the Philippines and the financial position and repayment ability of its corporate and retail borrowers, including holders of credit cards, which in turn may lead to a deterioration of the Group's credit portfolio in addition to lower levels of liquidity in the system which may lead to an increase in the cost of funding.

INVESTMENT CONSIDERATIONS

Uncertainties and instability in global market conditions could adversely affect the Group's business, financial condition, and results of operations.

Global markets have experienced, and may continue to experience, significant dislocation and turbulence due to economic and political instability in several areas of the world. These ongoing global economic conditions have led to significant volatility in capital markets around the world, including Asia, and further volatility could significantly impact investor risk appetite and capital flows into emerging markets including the Philippines, as well as the price of the Common Shares.

In 2015, the effect of the devaluation of the Renminbi by the PRC, coupled with the slowing of economic growth in various regions around the world, has had an impact on the prospective economic growth in the global financial markets and downward pressure on equity prices. Moreover, the continued appreciation of the U.S. dollar relative to a number of emerging economy currencies (including the Peso) in 2016 resulted in capital outflows from these economies. Meanwhile, the three-year bailout granted by the Eurozone leaders in August 2015 provides Greece a temporary relief from its liquidity pressure, but concerns remain on whether the Greek government will be successful in implementing the proposed austerity measures and necessary economic reforms to satisfy the conditions of the bailout and its creditors.

Further, economic conditions in some Eurozone sovereign states could possibly lead to these member states re-negotiating or restructuring their existing debt obligations, which may lead to a material change in the current political and/or economic framework of the European Monetary Union. One potential change that may result from the crisis is an end to the single-currency system that prevails across much of Europe, with some or all European member states reverting to currency forms used prior to adoption of the euro. The crisis could also lead to the restructuring or breakup of other political and monetary institutions within the European Union. The risk may have been exacerbated by the referendum on membership of the European Union, held in the UK on 23 June 2016, where the UK public voted by a majority in favor of the British government taking the necessary action for the UK to leave the European Union. If the UK or certain states within the Eurozone were to exit the European Union, or following the occurrence of such other reform as contemplated herein, such countries may not be able to meet their existing debt obligations or may default on these obligations, which could have a ripple effect across sovereign states and the private sector in Europe and the rest of the world and possibly lead to a global economic crisis. Any changes to the euro currency could also cause substantial currency readjustments across Europe and other parts of the world, further exacerbating the credit crisis. These events and uncertainties could adversely impact the Group's business, financial condition and results of operations.

The broad ramifications of "Brexit" to the UK, the EU and the global economy have yet to unravel, casting uncertainty to global prospects and possible volatility in financial markets. In addition, the uneven and divergent conditions across major economies and the resulting desynchronization in policy environment persist, with the US continuing to show firmer signs of economic growth and possible monetary tightening in the horizon, while Japan and the Eurozone require more economic stimulus and unconventional monetary measures (e.g., negative interest rates) to revive their economies. Likewise putting a downside risk to the global outlook are the protracted economic slowdown in China, the ongoing geopolitical crises that include among others, Syrian civil war and terrorist acts committed by ISIS.

The results of the most recent US Presidential elections shocked global markets, significantly affecting stock and futures indices and currencies globally, on and shortly after election day. Moreover, the election of Donald J. Trump as the US President has been believed by certain economists as creating uncertainties in the direction of the US economy and US trade policies, which could adversely affect the global market.

There can be no assurance that the uncertainties affecting global markets will not negatively impact credit markets in Asia, including in the Philippines. The success of the Group's banking business is highly dependent upon its ability to maintain certain minimum liquidity levels, and any rise in market interest rates could materially and adversely affect the Group's liquidity levels and force it to reduce or cease its offering of certain banking and other financial services. These developments may adversely affect trade volumes with potentially negative effects on the Philippines.

Corporate governance and disclosure standards in the Philippines may differ from those in more developed countries.

Although a principal objective of Philippine securities laws and the Philippine Stock Exchange's (PSE) listing rules is to promote full and fair disclosure of material corporate information, there may be less publicly available information about Philippine public companies, such as the Group, than is regularly made available by public companies in the U.S. and other countries. As a result, Holders may not have access to the same amount of information or have access to information in as timely a manner as may be the case for companies listed in the U.S. and many other jurisdictions. Furthermore, although the Group complies with the requirements of the Philippine Securities and Exchange Commission (Philippine SEC) with respect to corporate governance standards, these standards may differ from those applicable in other jurisdictions. For example, the Securities Regulation Code of the Philippines (Republic Act No. 8799) (the SRC) requires the Bank to have at least two independent Directors or such number of independent Directors as is equal to 20.0% of the Board, whichever

INVESTMENT CONSIDERATIONS

is the lower number. The Bank currently has five independent Directors. Many other jurisdictions may require more independent directors.

Furthermore, corporate governance standards may be different for public companies listed on the Philippine securities markets than for securities markets in developed countries. Rules and policies against self-dealing and regarding the preservation of Holder interests may be less well-defined and enforced in the Philippines than elsewhere, putting Holders at a potential disadvantage. Because of this, the directors of Philippine companies may be more likely to have interests that conflict with the interests of Holders generally, which may result in them taking actions that are contrary to the interests of Holders.

Natural or other catastrophes, including severe weather conditions, may adversely affect the Group's business materially disrupt the Group's operations and result in losses not covered by its insurance.

The Philippines has experienced a number of major natural catastrophes over the years, including typhoons, droughts, volcanic eruptions and earthquakes. There can be no assurance that the occurrence of such natural catastrophes will not materially disrupt the Group's operations. These factors, which are not within the Group's control, could potentially have significant effects on the Bank's branches and operations. While the Group carries insurance for certain catastrophic events, of types, in amounts and with deductibles that the Group believes are in line with general industry practices in the Philippines, there are losses for which the Group cannot obtain insurance at a reasonable cost or at all. The Group also does not carry any business interruption insurance. Should an uninsured loss or a loss in excess of insured limits occur, the Group could lose all or a portion of the capital invested in such business, as well as the anticipated future turnover, while remaining liable for any costs or other financial obligations related to the business. Any material uninsured loss could materially and adversely affect the Group's business, financial condition and results of operations.

CONSIDERATIONS RELATING TO THE PHILIPPINE BANKING INDUSTRY

Public health epidemics or outbreaks of diseases could have an adverse effect on economic activity in the Philippines, and could materially and adversely affect the Group's business, financial condition and results of operations.

Any outbreak or escalation of contagious diseases in the Philippines, such as SARS, MERS-CoV, bird flu, H1N1 influenza (or swine flu) or COVID-19, could have a material adverse effect on the Group's financial condition and results of operations. In particular, any outbreak of contagious diseases could adversely affect the general level of economic activity in the Philippines. For example, in response to the outbreak of COVID-19 in the Philippines, the Philippine Government has put in place travel restrictions which prohibit Philippine nationals from traveling to China, Hong Kong SAR and Macau SAR, as well as prohibiting any foreign national coming from any of such territories and other jurisdictions from entering the Philippines. These restrictions have caused several airlines to cancel flights to and from Manila vis-à-vis such territories. The Philippine Government has also implemented enhanced community quarantine measures, which have significantly disrupted economic and social activity in Metro Manila and the rest of Luzon.

The outbreak or continued or threatened outbreak of COVID-19, which has been declared a global pandemic by organisations such as the World Health Organisation in the first quarter of 2020, has severely affected and continues to seriously affect the global economy. Several nations and territories, including certain areas where the Group operates, have imposed strict quarantine measures, social distancing rules, closure of work sites, restaurants, bars and non-essential services, and even complete lockdowns of certain populations or areas. Although governments have introduced stimulus packages to mitigate the effect of the outbreak of COVID-19 on their economies, there is no assurance that such packages are sufficient or that such measures will successfully improve business sentiment in the short term. Further, resulting uncertainty with respect to national and global responses in managing the COVID-19 pandemic has also resulted in exacerbated market volatility, which has caused the breach of several trading circuit breakers in stock markets across the globe. Market concerns and slowdowns in global airline, retail, tourism and other industries, and disruptions in supply chains have led the International Monetary Fund to declare that the global economy is in recession.

The disruption and uncertainty caused by COVID-19 may severely and adversely affect the Philippine economy, result in higher unemployment rates, closure of small businesses and significantly dampen outlook for large enterprises or conglomerates. These together with the adverse effects on industries such as global airline, retail, tourism, real estate and logistics, and supply chains, may lead to slower deposit and loan growth in the banking industry and increase exposure of banks to greater credit risk, which may lead to higher NPLs particularly in the retail and tourism industries, SMEs, and unsecured borrowers. Further, Government stimulus policies such as interest rate cuts, the BSP moratorium on loan and interest repayments, waiver of late fees, deferral of credit card payments, and any future policies such as mandatory credit financing to vulnerable sectors may lead to decreased margins for the banking industry and cause a decline in profitability. The Group continues to conduct stress-testing and sensitivity analysis to calibrate its estimates, but in line with the sentiments of the Philippine banking industry, the Group expects deterioration in its loan portfolio as a result of COVID-

INVESTMENT CONSIDERATIONS

19. The Group thus expects to book additional provisions specifically in anticipation of potential worsening of NPLs, and the perceived decline in credit quality across all industries.

The outbreak or escalation of COVID-19 or other epidemic or pandemic could also potentially disrupt the Group's operations if any of its employees or customers are suspected to have been infected, and identified as a possible source of spreading the related infection. The Group may be required to quarantine the employees that have been suspected of becoming infected, as well as any others that had come into contact with them. The Group may also be required to disinfect the affected bank branches or other offices and therefore suffer a temporary suspension of business operations. Any quarantine of the Bank's employees or suspension of the Bank's business operations at its branches or offices will affect the Bank's overall operations and operating results. In response to the current COVID-19 outbreak in the Philippines, the Group has joined several of its peers by temporarily closing certain branches and advising clients to transact online.

There can also be no assurance that the policies and controls for outbreak prevention and disease recurrence, will be successful in preventing disease outbreaks or recurrences or that any actual or suspected outbreak of bird flu, COVID-19 or any other contagious disease affecting the Philippines or elsewhere will not occur. There can also be no assurance that any current or future outbreak of contagious diseases will not have a material adverse effect on the Bank's business, financial condition, and results of operations. If the outbreak of the COVID-19 or any public health epidemic becomes or continues to be widespread in the Philippines or increases in severity, it could have an adverse effect on economic activity in the Philippines, and could materially and adversely affect the Group's business, financial condition and results of operations.

The Philippine banking industry is highly competitive and increasing competition may result in declining margins in the Group's principal businesses.

The Group is subject to significant levels of competition from many other Philippine banks and branches of international banks, including competitors which in some instances have greater financial and other capital resources, a greater market share and greater brand name recognition than the Group.

The recent mergers and consolidations in the banking industry, as well as the liberalisation of foreign ownership regulations in banks, have allowed the emergence of foreign and bigger local banks in the market. For example, there has been increased foreign bank participation in the Philippines following the Monetary Board's lifting of the ban on granting of new licenses, as well as the amendment of banking laws with respect to the limit on the number of foreign banks. This has led to Sumitomo Mitsui Banking Corporation, Cathay United Bank, Industrial Bank of Korea, Shinhan Bank, Yuanta Bank and United Overseas Bank being granted new licenses, and also equity investments by Bank of Tokyo-Mitsubishi UFJ into Security Bank, Cathay Life into Rizal Commercial Banking Corporation and Woori Bank into Wealth Development Bank. In addition, the establishment of the ASEAN Economic Community in 2015 may enhance cross-border flows of financial services (in addition to goods, capital, and manpower) among member nations. This is expected to increase the level of competition both from Philippine banks and branches of international banks. This may impact the Philippine banks' operating margins, but this would also enhance the industry's overall efficiency, business opportunities and service delivery. As of 31 December 2019, according to data from the BSP, there were a total of 40 branches, subsidiaries, offshore banking units and representative offices of foreign banks operating in the Philippines.

In the future, the Group may face increased competition from financial institutions offering a wider range of commercial banking services and products, larger lending limits, greater financial resources and stronger balance sheets than the Group. Increased competition may arise from:

- Other large Philippine banks and financial institutions with significant presence in Metro Manila and large country-wide branch networks;
- Full entry of foreign banks in the country through any of the following modes allowed under Republic Act No. 10641 (approved on 15 July 2014): (a) the acquisition, purchase or ownership of up to 100% of the voting stock of an existing bank; (b) investment of up to 100% of the voting stock in a new banking subsidiary incorporated under Philippine law; or (c) establishment of branches with full banking authority;
- Foreign banks, due to, among other things, relaxed standards which permitted large foreign banks to open branch offices;
- Domestic banks entering into strategic alliances with foreign banks with significant financial and management resources, and in some cases resulting in excess capital that can be leverages for asset growth and market share gains; and
- Continued consolidation and increased mergers and acquisitions in the banking sector involving domestic and foreign banks, driven in part by the gradual removal of foreign ownership restrictions.

INVESTMENT CONSIDERATIONS

There can be no assurance that the Group will be able to compete effectively in the face of such increased competition. Increased competition may make it difficult for the Group to continue to increase the size of its loan portfolio and deposit base, as well as cause increased pricing competition, which could have a material adverse effect on its growth plans, margins, results of operations and financial condition.

The Philippine banking sector may face another downturn, which could materially and adversely affect the Group.

The Philippine banking sector has generally recovered from the global economic crisis. According to data published by the BSP as of 31 December 2019, past due ratios in the Philippine universal and commercial banking system was at 2.1%, an decline from a 3-5% range reported from 2009-2011. Further, the NPL coverage ratio in the Philippine universal and commercial banking system reached 108.9% as of 31 December 2019, within the 96-126% range reported from 2009 to 2011, according to the BSP. The Group has realized some benefits from this recovery, including increased liquidity levels in the Philippine market, lower levels of interest rates as well as lower levels of NPLs. However, the Philippine banking industry may face significant financial and operating challenges. These challenges may include, among other things, a sharp increase in the level of NPLs, variations of asset and credit quality, significant compression in bank net interest margins, low loan growth and potential or actual under-capitalization of the banking system. Fresh disruptions in the Philippine financial sector, or general economic conditions in the Philippines, may cause the Philippine banking sector in general, and the Group in particular, to experience similar problems to those faced in the past, including substantial increases in NPLs, problems meeting capital adequacy requirements, liquidity problems and other challenges.

The Group may have to comply with strict BSP rules and guidelines issued by banking regulatory authorities in the Philippines, including the BSP, the BIR and international bodies, including the FATF.

The Group's banking interests are regulated and supervised principally by, and have reporting obligations to, the BSP. The Group is also subject to the banking, corporate, taxation and other regulations and laws in effect in the Philippines, administered by agencies such as the Bureau of Internal Revenue of the Philippines (the **BIR**) and the Anti-Money Laundering Council (**AMLC**), as well as international bodies such as the Financial Action Task Force (**FATF**).

In recent years, existing rules and regulations have been modified, new rules and regulations have been enacted and reforms have been implemented which are intended to provide tighter control and added transparency in the Philippine banking sector. These rules include new guidelines on the monitoring and reporting of suspected money laundering activities as well as regulations governing the capital adequacy of banks in the Philippines. Institutions that are subject to the AMLA are required to establish and record the identities of their clients based on official documents. In addition, all records of transactions are required to be maintained and stored for a minimum of ten years from the date of a transaction. Records of closed accounts must also be kept for five years after their closure.

The BSP has also recently ordered universal, commercial and thrift banks to conduct Real Estate Stress Tests to determine whether their capital is sufficient to absorb a severe shock. The Real Estate Stress Test Limit (**REST Limit**) combines a macroprudential overlay of a severe stress test scenario, the principle of loss absorbency through minimum capital ratio thresholds and heightened supervisory response. Should a bank fail to comply with the prescribed REST Limits, it shall be directed to explain why its exposures do not warrant immediate remedial action. Should the same be found insufficient, the bank shall be required to submit an action plan to meet the REST Limits within a reasonable time frame.

In June 2016, the BSP implemented the Interest Rate Corridor (**IRC**) which effectively narrowed the band among the BSP's key policy rates. The pricing benchmark, which used to be the Special Deposit Account (**SDA**) prior to the IRC, is now replaced by the Overnight Deposit Facility (**ODF**) whose rate remains at 2.5%, and forms the lower bound of the IRC. Meanwhile, the rate for the Overnight Lending Facility (**OLF**) has replaced the Repurchase Facility (**RP**). The rate for the OLF, which forms the upper bound of the IRC, is now down to 3.5% from 6.0% under the RP. The BSP likewise introduced the Term Deposit Facility (**TDF**) to serve as the main tool for absorbing liquidity through weekly TDF auctions, the frequency for which may be changed depending on the BSP's liquidity forecasts. According to the BSP, the changes from IRC are purely operational in nature to allow it to conduct monetary policy effectively.

The BIR has also promulgated rules on the submission of an Alphabetical List (**Alphalist**) of portfolio investors receiving income payments and dividends. The BIR requires all withholding agents to submit an Alphalist of payees on income payments subject to creditable and withholding taxes and prohibit the lumping into a single amount and account of various income payments and taxes withheld. The Supreme Court, however, issued a temporary restraining order against the said BIR rule on 9 September 2014 with regard to the lumping into a single amount.

Further, there is no assurance that the BSP or other Philippine regulators will not issue stricter or tighten regulations as a result of events affecting financial institutions in the Philippines, including the cyber heist of the Bangladesh Bank in 2016. In the event of any changes to the existing guidelines or rules, or introduction of additional regulations, the Group, as far as applicable, will have to comply with the same and may incur substantial compliance and monitoring costs. The Group's failure to comply with current or future regulations and guidelines issued by regulatory authorities in

INVESTMENT CONSIDERATIONS

the Philippines and in other relevant jurisdictions could have a material adverse effect on the Group's business, financial condition and results of operations.

The Group may experience difficulties due to the implementation of Basel III in the Philippines.

On 15 January 2009, the BSP issued Circular No. 639 covering the Internal Capital Adequacy Assessment Process (**ICAAP**) which supplements the BSP's risk-based capital adequacy framework under BSP Circular No. 538. The BSP requires banks to have in place an ICAAP that (i) takes into account not just the credit, market and operational risks but also all other material risks to which a bank is exposed (such as interest rate risk in the banking book, liquidity risk, compliance risk, strategic/business risk and reputation risk); (ii) covers more precise assessments and quantification of certain risks (i.e., credit concentration risk); and (iii) evaluates the quality of capital. In 2011, the BSP issued BSP Circular 709, which aligns with the Basel Committee on Banking Supervision (**BCBS**) on the eligibility criteria on Additional Group Concern Capital and Tier 2 Capital to determine eligibility of capital instruments to be issued by Philippine banks/quasi-banks as Hybrid Tier 1 Capital and Lower Tier 2 Capital.

Further, in January 2013, the BSP issued Circular No. 781 as the Basel III Implementing Guidelines on Minimum Capital and Disclosure Requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, which shall take effect in January 2014. The Circular sets out a minimum Common Equity Tier I (**CET1**) ratio of 6.00% and Tier I capital ratio of 7.50%; capital conservation buffer of 2.50% comprised of CET1 capital and Total Capital Adequacy Ratio (**CAR**) of 10.00%. These ratios shall be maintained at all times.

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

On 10 March 2016, the BSP issued Circular No. 905 which provides the implementing guidelines on Liquidity Coverage Ratio (**LCR**) and disclosure standards that are consistent with the Basel III framework. The LCR is the ratio of high quality liquid assets to total net cash outflows which should not be lower than 100.00%. Compliance with the LCR minimum requirement commenced on 1 January 2018 with the prescribed minimum ratio of 90.00% for 2018 and 100.00% effective 1 January 2019.

On 9 June 2015, the BSP issued Circular 881 covering the implementing guidelines on the Leverage Ratio framework designed to act as a supplementary measure to the risk-based capital requirements and shall not be less than 5.00%. The monitoring period has been set every quarter starting 31 December 2014 and extended until 30 June 2018 per BSP Circular No. 990 issued on 22 January 2018. Effective 1 July 2018 the monitoring of the leverage ratio was implemented as a Pillar I minimum requirement.

Meanwhile, the BSP issued Circular No. 1007 on 6 June 2018 covering the implementing guidelines on the Basel III Framework on Liquidity Standards – Net Stable Funding Ratio (**NSFR**), which requires that banks' assets and activities are structurally funded with long-term and more stable funding sources. All universal and commercial banks and their subsidiary banks and quasi-banks (**QBs**) shall maintain an NSFR of at least 100.00% at all times. An observation period was set from 1 July 2018 to 31 December 2018 with actual implementation beginning 1 January 2019. Compliance with these ratios may also further increase competition among banks for deposits as well as high quality liquid assets.

These may result in an increase in the capital adequacy requirement of the Group. Unless the Group is able to access the necessary amount of additional capital, any incremental increase in the capital requirement due to the implementation of ICAAP and Basel III, may impact the Group's ability to grow its business and may even require the Group to withdraw from or to curtail some of its current business operations, which could materially and adversely affect the Group's business, financial condition and results of operations. There can also be no assurance that the Group will be able to raise adequate additional capital in the future at all or on terms favorable to it. In addition, the implementation of Basel III may require the Group to divest itself of certain non-allied undertakings. If the Group is forced to sell all or a portion of certain subsidiaries or associates, its business, financial condition or results of operations could be adversely affected. There can be no assurance that the Group will be able to meet the requirements of Basel III as implemented by the BSP. In addition, the limitations or restrictions imposed by the BSP's implementation of Basel III could materially and adversely affect the Group's business, financial condition and results of operations.

Whenever the capital accounts of a bank are deficient with respect to the prescribed risk-based CAR of 10%, the Monetary Board may impose monetary and non-monetary sanctions. The Monetary Board will also prohibit opening of new branches whenever a bank's CAR falls below 12% on a non-consolidated and consolidated basis. Likewise, it will also prohibit the distribution of dividends whenever a bank's CET1 ratio and CAR falls below 8.5% and 10% respectively.

INVESTMENT CONSIDERATIONS

As of 31 December 2019, the Philippine universal and commercial banking industry's CAR was 16.0% on a consolidated basis and 15.4% on a nonconsolidated basis. As at 31 December 2019, the Group's consolidated Tier 1 capital adequacy ratio/CET1 ratio and total consolidated capital adequacy ratio were 16.2% and 17.5%, respectively, as reported to the BSP.

In addition, the BSP issued BSP Circular No. 855 (Series of 2014) regarding guidelines on sound credit risk management practices, including the amendment on loan loss provisions on loans secured by real estate mortgages. Under the new regulations, loans may be considered secured by collateral to the extent the estimated value of net proceeds at disposition of such collateral can be used without legal impediment to settle the principal and accrued interest of such loan, provided that such collateral has an established market and a sound valuation methodology. Under the new rules, the maximum collateral value for real estate collateral shall be 60% of the value of such collateral, as appraised by an appraiser acceptable to the BSP. While this maintains existing regulations already applicable to universal and commercial banks, the collateral value cap will be particularly relevant in securing DOSRI transactions and in potentially accelerating the setting up of allowable loan for losses in case a loan account gets distressed.

The BSP also clarified that the collateral cap on real estate mortgages is not the same as a loan-to-value (LTV) ratio limit. Even under the new rules, the minimum borrower equity requirement remains a bank-determined policy (which, according to the BSP, averages 20% under current industry practice). Under the enhanced guidelines of the BSP however, the bank's internal policy as to minimum borrower equity will be subject to closer regulatory scrutiny as to whether the borrower equity requirement of a bank is prudent given the risk profile of its target market.

Stricter lending and prudential regulations may reduce the lending appetite of the Group or cause the Group to alter its credit risk management systems, which may adversely affect the Group's business, financial condition and results of operations.

Although intended to strengthen banks' capital positions and thwart potential asset bubbles, the new BSP and Monetary Board regulations will add pressure to local banks to meet these additional capital adequacy requirements, which may effectively create greater competition among local banks for deposits and temper bank lending in the commercial property and home mortgage loan sectors given that banks' ability to lend to these sectors depends on their exposure to the sector and the capital levels they maintain. This may also lead banks in the Philippines to conduct capital raising exercises. Through its compliance with these regulations, the Group's business, financial position and results of operations may be adversely affected.

The Bank's and PSBank's provisioning policies in respect of classified loans require significant subjective determinations, which may increase the variation of application of such policies.

BSP regulations require that Philippine banks, including the Bank and PSBank, classify NPLs based on four different categories corresponding to levels of risk: Loans Especially Mentioned, Substandard, Doubtful and Loss. Generally, classification depends on a combination of a number of qualitative as well as quantitative factors such as the number of months payment is in arrears, the type of loan, the terms of the loan and the level of collateral coverage. These requirements have in the past, and may in the future, be subject to change by the BSP. Periodic examination by the BSP of these classifications may also result in changes being made by the Bank and PSBank to such classifications and to the factors relevant thereto. In addition, these requirements in certain circumstances may be less stringent than those applicable to banks in other countries and may result in particular loans being classified as non-performing later than would be required in such countries or being classified in a category reflecting a lower degree of risk.

The level of provisions currently recognized by the Bank and PSBank in respect of their loan portfolios depends largely on the quality of the portfolio and estimated value of the collateral coverage for the portfolio. Although the Bank and PSBank have a policy to test their loan portfolios for impairment on a quarterly basis in order to ensure adequacy of provisions as needed and in line with changing market conditions, the level of the Bank's and PSBank's provisions may not be adequate to cover increases in the amount of their NPLs, or any deterioration in the overall credit quality of the Bank's and PSBank's loan portfolios, including the value of the underlying collateral. In particular, the amount of the Bank's and PSBank's reported loan losses may be influenced by factors beyond their control. For instance, certain accounting standards have been adopted in the Philippines based on International Accounting Standards, which currently require the Bank's and PSBank's loan loss provisions to 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 with the objective of recognizing lifetime losses on all financial instruments which have experienced a significant increase in credit risk since their initial recognition.

Furthermore, the introduction of new accounting standards resulted in the Bank and PSBank recognising significantly higher provisions for loan loss in the future. While the Bank believes its current level of provisions and collateral position are more than adequate to cover its NPL exposure, an unexpected or significant increase in NPL levels may result in the need for higher levels of provisions in the future.

INVESTMENT CONSIDERATIONS

Any future changes in PFRS may affect the financial reporting of the Group's business.

Effective 1 January 2019, PFRS 16, leases replaces the accounting requirements for leases under the old Standard (PAS 17, Leases). Lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, Leases. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements. The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

The Group and the Bank adopted PFRS 16 under the modified retrospective approach effective on 1 January 2019. The Group's and the Bank's adoption of PFRS 16 is significant to its audit because the Group and the Bank have significant portfolios of lease agreements, and the recorded amounts of such leases are material to the Bank's and the Group's financial statements. Adoption of PFRS 16 involves application of significant judgment and estimation in determining the lease term, including evaluating whether the Group and the Bank are reasonably certain to exercise options to extend or terminate the lease, and in determining the incremental borrowing rate. The adoption of PFRS 16 by the Group resulted in the recognition of right-of-use assets amounting to ₱4.2 billion and lease liability amounting to ₱4.5 billion as of 1 January 2019, and the recognition of depreciation expense of ₱1.3 billion and interest expense of ₱319.3 million for the year ended 31 December 2019.

In terms of other expected accounting changes, subject to the Board of Accountancy's approval, PFRS 17 Insurance Contracts, will become effective on 1 January 2021. PFRS 17 provides updated information about the obligation, risks and performance of insurance contracts, increases transparency in financial information reported by insurance companies, and introduces consistent accounting for all insurance contracts based on a current measurement model.

A discussion on the newly adopted PFRS and amendments to existing standards to be adopted or which will be effective after 2019 can be found in the auditor's report and Note 2 of the Group's audited financial statements as at 31 December 2018 and 2019 and for the three years ended 31 December 2019 included elsewhere in this Offering Circular.

The Group believes that other amendments and improvement to PFRS issued effective after 31 December 2019 will not have material impact on the Group's future financial statements.

The Philippine banking industry is generally exposed to higher credit risks and greater market volatility than that of more developed countries.

Philippine banks are subject to the credit risk that Philippine borrowers may not make timely payment of principal and interest on loans and, in particular that, upon such failure to pay, Philippine banks may not be able to enforce the security interest they may have. The credit risk of Philippine borrowers is, in many instances, higher than that of borrowers in developed countries due to:

- The greater uncertainty associated with the Philippine regulatory, political, legal and economic environment;
- The vulnerability of the Philippine economy in general to a severe global downturn as it impacts on its export sector, employment in export-oriented industries, and overseas Filipino workers' (OFW) remittances
- The large foreign debt of the Government and the corporate sector, relative to the gross domestic product (GDP) of the Philippines; and
- Volatility of interest rates and U.S. dollar/Peso exchange rates.

Higher credit risk has a material adverse effect on the quality of loan portfolios and exposes Philippine banks, including the Group, to more potential losses and higher risks than banks in more developed countries. In addition, higher credit risk generally increases the cost of capital for Philippine banks compared to their international counterparts. Such losses and higher capital costs arising from this higher credit risk may have a material adverse effect on the Group's financial condition, liquidity and results of operations. According to data from the BSP, the average NPL ratios exclusive of interbank loans in the Philippine universal and commercial banking industry were 1.2%, 1.3% and 1.6% as at 31 December 2017, 2018 and 2019, respectively.

Philippine banks' ability to assess, monitor and manage risks inherent in its business differs from the standards of its counterparts in more developed countries.

Philippine banks are exposed to a variety of risks, including credit risk, market risk, portfolio risk, foreign exchange risk and operational risk. The effectiveness of their risk management is limited by the quality and timeliness of available data in

INVESTMENT CONSIDERATIONS

the Philippines in relation to factors such as the credit history of proposed borrowers and the loan exposure borrowers have with other financial institutions. In addition, the information generated by different groups within each bank, including the Group, may be incomplete or obsolete. The Group may have developed credit screening standards in response to such inadequacies in quality of credit information that are different from, or inferior to, the standards used by its international competitors. As a result, the Group's ability to assess, monitor and manage risks inherent in its business would not meet the standards of its counterparts in more developed countries. If the Group is unable to acquire or develop in the future the technology, skills set and systems available to meet such standards, it could have a material adverse effect on the Group's ability to manage these risks and on the Group's financial condition, liquidity and results of operations.

However, BSP's early adoption of Basel III on 1 January 2014 a year ahead of the Basel Committee on Banking Supervision's recommended implementation timeline as well as the imposition of higher limits and stricter minimum requirements for regulatory capital relative to international standards, with no transition period, are seen as efforts to boost the Philippine banking industry's resiliency and enhance its ability to absorb risks.

If the Group were not to comply with FATCA, this may cause material and adverse impact on the Group's business, financial conditions and results of operations.

FATCA is the Foreign Account Tax Compliance Act enacted into law in the U.S. on 18 March 2010 as part of the Hiring Incentives to Restore Employment Act. It is a new regime for finding income overseas as a response to a landmark court case in which a large international bank agreed to pay \$780 million in fines for their role in assisting U.S. citizens in evading income taxes.

FATCA impacts a number of organisations and individuals. It first affects U.S. persons with income abroad. Secondly, FFIs that invest in U.S. markets will be impacted as well as U.S. financial institutions that do business with FFIs. Additionally, local government and taxing authorities in each country will see the effects of the act as well. It also brought forth an expansion of tax reporting for non-resident aliens.

An FFI will have to set up a process to identify U.S. accounts as part of its onboarding procedures. Once that is in place, it will also have to identify any current accounts with U.S. indicia. Additionally, there is a need to set up a process to monitor account changes for indicia of U.S. status.

After the identification of impacted accounts, an FFI will have to collect documentation on each of these accounts to prove whether or not they are a U.S. person. If they are not a U.S. person and the FFI has the appropriate documentation, the FFI's obligations have been fulfilled. If they are a U.S. person, the FFI's next move will depend on the country that has jurisdiction over the FFI. By default, the Participating Foreign Financial Institutions (**PFFIs**) in countries without an intergovernmental agreement will directly report to the US Internal Revenue Service (**IRS**).

There is a requirement for PFFIs to withhold 30% of income from recalcitrant account holders in order to comply with FATCA. A recalcitrant account holder is one who fails to comply with reasonable requests pursuant to IRS mandated verification and due diligence procedures to identify U.S. accounts, to provide a name, address and TIN or fails to provide a bank secrecy waiver upon request.

Specific to the Group's compliance with FATCA, the Bank and its subsidiaries registered on 11 March 2014 as an Expanded Affiliate Group i.e., Metropolitan Bank & Trust Company (lead financial institution) and subsidiaries — First Metro (including First Metro Securities, PBC Capital Investment Corporation, First Metro Asset Management Inc. (including First Metro Save & Learn Dollar Bond Fund, First Metro Global Opportunity Fund, Inc. and First Metro Philippine Equity Exchange Traded Fund, Inc.)), Resiliency SPC, Inc., PSBank, Metrobank Card Corporation, Orix Metro Leasing and Finance Corporation and Metropolitan Bank (China) Limited. The Bank subsequently updated its FATCA status and registered as a Reporting Financial Institution under a Model 1 Intergovernmental Agreement (**IGA**). The Bank's FATCA ID and Global Intermediary Identification Number is IBMW8G.00000.LE.608.

Under the IGA, the local tax authority and the BIR are the competent authority to receive FATCA information for reporting to the IRS. FATCA reporting will not take place until the PH-US FATCA IGA has been concurred by the Philippine Senate and has entered into force.

Philippine banks also face the threat of being assessed for documentary stamp tax upon their issue of passbooks for higher interest rate deposits. The Court of Tax Appeals has, in several cases against other Philippine banks, affirmed the BIR's position that passbooks for higher interest rate deposits having the essential features of a certificate of deposit are subject to the documentary stamp tax imposed on certificates of deposit. These proceedings are currently on appeal and if the BIR's position is upheld it could result in the Group's taxation charge being increased.

In addition, new taxation regulations issued by the BIR may have an adverse effect on the Group. If the Group is unable to comply with existing and new rules and regulations applicable to it, it could incur penalties and its business reputation may suffer, which could have a material adverse effect on its business, financial position and results of operations.

CONSIDERATIONS RELATING TO THE BANK AND THE GROUP

The Group may face increasing levels of non-performing loans (NPLs) and provisions for impairment losses, which may adversely affect the Group's business, financial position, results of operations and capital adequacy.

The Group's results of operations have been, and will continue to be, adversely affected by its NPL levels. The Group's total NPLs were equal to ₱12.7 billion, ₱16.9 billion, and ₱19.3 billion as at 31 December 2017, 2018 and 2019, respectively, while the Group's total NPLs to gross loans ratios were at 1.0%, 1.2% and 1.3% as at 31 December 2017, 2018 and 2019, respectively. In 2017, 2018 and 2019, the Group's allowance for credit and impairment losses on receivables from customers were ₱11.4 billion, ₱17.6 billion and ₱19.9 billion, respectively, representing 0.9%, 1.3% and 1.3% of the Group's total loan portfolio for these periods, respectively.

Volatile economic conditions in the Philippines, including the disruption and uncertainty due to the continued outbreak of COVID-19, volatile foreign exchange and interest rates, may adversely affect many of the Group's customers, causing uncertainty regarding their ability to fulfil obligations under the Group's loans and significantly increasing the Group's exposure to credit risk. For example, rising interest rate levels may adversely affect the Philippine economy in general and the ability of commercial and retail borrowers to repay their loans to the Bank in particular. These and other factors could result in an increased number of NPLs and a significant level of provisions for impairment losses in the future. For example, Hanjin Heavy Industries and Construction Philippines (Hanjin Philippines) filed for bankruptcy in 2019 and is expected to enter into a debt rehabilitation programme. While the Bank believes that it has made adequate NPL provisions for any loss resulting from its exposure to the Hanjin Philippines' bankruptcy, there can be no assurance that it will not have a material impact on the Bank's NPL ratio in the future. Any significant increase in the Group's NPLs could materially and adversely affect the Group's business, financial condition and results of operations.

The Bank's provisioning policies in respect of non-performing loans require significant subjective determinations which may increase the variation of application of such policies.

BSP regulations require that Philippine banks classify NPLs based on four different categories corresponding to levels of risk: Loans Especially Mentioned, Substandard, Doubtful and Loss. Generally, classification depends on a combination of a number of qualitative as well as quantitative factors such as the number of months payment is in arrears, the type of loan, the terms of the loan, and the level of collateral coverage. These requirements have in the past, and may in the future, be subject to change by the BSP. Periodic examination by the BSP of these classifications may also result in changes being made by the Bank and PSBank to such classifications and to the factors relevant thereto. In addition, these requirements in certain circumstances may be less stringent than those applicable to banks in other countries and may result in particular loans being classified as non-performing later than would be required in such countries or being classified in a category reflecting a lower degree of risk.

Furthermore, the level of loan loss provisions which the Bank and PSBank recognize may increase significantly in the future due to the introduction of new accounting standards and implementation of tighter regulations on credit risk (e.g., BSP Circular No. 1011 adoption of expected credit loss model in measuring credit impairment in accordance with the provisions of PFRS 9). The level of provisions currently recognized by the Bank and PSBank in respect of their respective loan portfolio depends largely on the quality of the portfolio and estimated value of the collateral coverage for the portfolio. Although each of the Bank and PSBank has a policy to test its loan portfolio for impairment on a quarterly basis in order to ensure adequacy of provisions as needed and in line with changing market conditions, the level of the Bank's and PSBank's provisions may not be adequate to cover increases in the amount of its NPLs, or any deterioration in the overall credit quality of the Bank's or PSBank's loan portfolio, including the value of the underlying collateral. In particular, the amount of the Bank's and PSBank's reported loan losses may increase in the future as a result of factors beyond the Bank's and PSBank's control.

While the Group believes its current level of provisions and collateral position are more than adequate to cover its NPLs exposure, an unexpected or significant increase in NPL levels may result in the need for higher levels of provisions in the future.

The Group, including First Metro Investment Corporation (First Metro), may incur significant losses from its trading and investment activities due to market fluctuations and volatility.

The Group's income from trading and investment activities is subject to substantial volatility based on, among other things, changes in interest rates, foreign currency exchange rates and debt prices, as well as stock market fluctuations. For example, the Group posted trading and foreign exchange gains of ₱3.9 billion, ₱2.8 billion, and ₱9.3 billion for the years ended 31 December 2017, 2018 and 2019, respectively.

Such volatility may be due to an increase or decrease in interest rates, which may have a substantial impact on the value of the Group's investments in fixed income securities. Escalating inflationary pressures have prompted the Group, in line with other financial institutions in the Philippines, to shorten the duration of its Peso securities inventory to avert potential

INVESTMENT CONSIDERATIONS

losses that may arise once interest rates rise. This has resulted in lower Peso asset yields on replacement securities. In addition, downgrades of the credit ratings of some of these fixed income securities may negatively affect the Group's results of operations. Although the Group does have market risk limits in place to mitigate these risks, there can be no assurance that the Group will not incur substantial investment and trading losses in the future in connection with its investment and trading activities.

The Group has suffered losses and penalties as a result of fraud committed by employees and outsiders, and the Group's business, reputation and prospects may be further adversely affected if the Group is not able to detect and prevent further incidents of fraud or other misconduct committed by the Group's employees or outsiders on a timely basis.

The Group is exposed to the risk that fraud and other misconduct committed by employees or outsiders could occur. In July 2017, the Bank discovered that an employee in its corporate banking business had used her position within the Bank to commit internal fraud. Upon its own discovery, the Bank filed a criminal case against the employee and two other co-conspirators who were not Bank employees. The perpetrator-employee remains in custody of the Philippine law-enforcement authorities and the Bank has also filed several cases against its former employee, her family, cohorts and corporations, for the collection of the money involved, interests, penalties, damages and other costs.

The BSP launched an investigation shortly thereafter, and unveiled sanctions against the Bank in November 2017. The sanctions imposed ranged from reprimands to suspensions of directors and officers who failed to perform adequate oversight or have been complacent or remiss in their duties and responsibilities, as well as an order to allocate ₱4.45 billion on a consolidated basis to cover higher operational risk (to be lifted when the Bank is determined to have adequately addressed these risk issues). The Bank was also ordered to execute a commitment letter, to be implemented and completed within one year, to enhance corporate governance, credit administration, internal controls and audit, risk management, and custom on-boarding and monitoring processes. The Bank also recognized provisioning of ₱1.75 billion, equivalent to the amount involved in the incident. As a result of this fraudulent activity, subsequent penalties and provisions, the Bank's business, financial condition, results operations, reputation and prospects may have been adversely affected.

While the Bank does not believe that this specific incident of fraud will have a long-term material impact on its financial condition, such incidences as described above may adversely affect banks and financial institutions more significantly than companies in other industries due to the large amounts of cash that flow through their systems. Any further occurrence of such fraudulent events may damage the reputation of the Group and may adversely affect its business, financial condition, results of operations and prospects. In addition, failure on the part of the Group to prevent such future fraudulent actions may result in administrative or other regulatory sanctions by the BSP or other Government agencies, which may be in the form of suspension or other limitations placed on the Group's banking and other business activities. Although the Group has in place certain internal procedures to prevent and detect fraudulent activities, such as a code of conduct, daily trading limits and compliance monitoring (and the Group is strengthening its internal controls in the wake of the fraudulent activity described above), these may be insufficient to prevent such further occurrences from transpiring. There can be no assurance that the Group will be able to avoid future incidents of fraud that could materially and adversely affect the Group's business, financial condition and results of operations. Further, there can be no assurance that the BSP or other regulators or government agencies will not impose additional penalties or requirements, including extending or increasing capital allocation requirements to address operational risk.

The Group has a significant exposure to the Philippine real estate market; therefore, a downturn in the Philippine real estate market could increase the Group's NPLs and otherwise adversely affect the Group's business, financial position and results of operations.

The Group has significant exposure to the Philippine real estate market due to its portfolio of loans to real estate companies, as well as the level of real estate it holds as collateral. As of 31 December 2019, loans secured by real estate collateral accounted for 17.2% of the Group's total secured loans to customers and loans to customers involved in real estate, renting and other real estate related activities accounted for 15.6% of the Group's loans to customers. The Philippine real estate market is highly cyclical, and real estate prices in general have been volatile. Real estate prices are affected by a number of factors, including, among other things, the supply of and demand for comparable properties, the rate of economic growth in the Philippines, remittances from overseas Filipino workers (OFWs) and political and economic developments. Accordingly, an extended downturn in the Philippine real estate sector could increase the level of the Group's NPLs and related provisions for impairment loan losses, reduce the Group's net income and consequently materially and adversely affect the Group's business, financial condition and results of operations.

INVESTMENT CONSIDERATIONS

The Group's portfolio of real and other properties acquired (ROPA), which are included in 'Investment Properties', exposes the Group to risks related to realizing the value of its ROPA and risks related to the valuation of, and provisions with respect to, its ROPA.

The Group has a substantial portfolio of ROPA amounting to ₱7.8 billion as of 31 December 2019. While the amount of ROPA appearing on the Group's statement of financial position is shown net of allowance for impairment losses and depreciation in value, there can be no assurance that the Group will be able to recover the full estimated value of ROPA stated in its financial statements. The Group's ROPA is subject to the risks associated with the cyclical Philippine real estate market. Furthermore, given the Group's significant amount of ROPA, it may take several years before the Group is able to realize a significant part of the value of its ROPA. Delays in realizing the value of its ROPA may result in further provisions if the ROPA loses value over time. Under Philippine Accounting Standards 40 "Investment Property", the Group carries the value of the foreclosed properties at cost which represents the fair value at the time of foreclosure and, in the case of depreciable property, depreciated over such property's useful life. While the Group, at each statement of financial position date, provides for impairment losses on its foreclosed properties in accordance with PFRS, it may incur further expenses to maintain such properties. In realizing cash value for such properties, the Group may incur further expenses such as legal fees and taxes associated with such realization. There can be no assurance that the Group will be able to realize the full value, or even partial value, of its ROPA.

Historically low interest rates, expansion in overall liquidity, extensive construction of housing units and other factors could lead to the risk of formation of asset bubbles in real estate, which could adversely affect the Group's business, which has a substantial portfolio of real properties.

The Group has a substantial portfolio of real properties. One of the risks inherent in any real estate property market is the possibility of an asset price bubble. This occurs when there is a gross imbalance between the supply and demand in the property market, causing an unusual increase in asset prices, followed by a drastic drop in prices when the bubble bursts.

For the past several years, central banks globally, including the BSP, have kept overall interest rates at historically low levels for an extended period of time. This has occurred in conjunction with recent high levels of liquidity in the Philippines owing to strong and growing remittances from OFWs, the expansion of consumer credit provided by banks, the expiry of the BSP's requirement for banks to maintain special deposit accounts and strong inflows of foreign investments, among other factors.

For the past several years, central banks globally, including the BSP, have kept overall interest rates at historically low levels for an extended period of time. This has occurred in conjunction with recent high levels of liquidity in the Philippines owing to strong and growing remittances from OFWs, the expansion of consumer credit provided by banks, the expiry of the BSP's requirement for banks to maintain special deposit accounts and strong inflows of foreign investments, among other factors.

In the Philippines, the growth of the real estate sector is mainly driven by low interest rates, robust remittances from OFWs, and the fast-growing Business Process Outsourcing sector which is vulnerable to global economic changes. Over the last few years, the pace of real estate construction, particularly for housing in and surrounding Metro Manila and other urban areas, has been strong by historical standards.

All of these factors have increased the risk that rising prices may not be sustainable, particularly in the real estate sector. If rising prices are not sustained, the result could have a material adverse effect on the Group's business, financial condition and results of operations.

The Group may be unable to recover the assessed value of its collateral when its borrowers default on their obligations, which may expose the Group to significant losses.

As of 31 December 2017, 2018 and 2019, the Group's secured loans represented 43.2%, 43.9% and 43.9% of the Group's total loans, respectively, and 18.3%, 18.2% and 17.2% of the collateral on these secured loans consisted of real properties. There can be no assurance that the collateral securing any particular loan will protect the Group from suffering a partial or complete loss if the loan becomes non-performing. The recorded values of the Group's collateral may not accurately reflect its liquidation value, which is the maximum amount the Group is likely to recover from a sale of collateral, less expenses of such sale. There can be no assurance that the realized value of the collateral would be adequate to cover the Group's loans. In addition, some of the valuations in respect of the Bank's collateral may also be out-of-date or may not accurately reflect the value of the collateral. In certain instances, where there are no purchasers for a particular type of collateral, there may be significant difficulties in disposing of such collateral at a reasonable price. Any decline in the value of the collateral securing the Group's loans, including with respect to any future collateral taken by the Group, would mean that its provision for credit losses may be inadequate and the Group may need to increase such provision. Any

INVESTMENT CONSIDERATIONS

increase in the Group's provisions for credit losses could materially and adversely affect the Group's business, financial condition and results of operations.

Furthermore, the Group may not be able to recover in full the value of any collateral or enforce any guarantee due, in part, to difficulties and delays involved in enforcing such obligations through the Philippine legal system. To foreclose on collateral or enforce a guarantee, banks in the Philippines are required to follow certain procedures specified by Philippine law. These procedures are subject to administrative and bankruptcy law requirements which may be more burdensome than in certain other jurisdictions. The resulting delays can last several years and lead to a deterioration in the physical condition and market value of the collateral, particularly where the collateral is in the form of inventory or receivables. In addition, such collateral may not be insured. These factors have exposed, and may continue to expose, the Group to legal liability while in possession of the collateral. These difficulties may significantly reduce the Group's ability to realize the value of its collateral and therefore its effectiveness in taking security for the loans it grants.

The Group has some concentration of loans to certain customers and to certain sectors and if a substantial portion of these loans were to become non-performing, the quality of its loan portfolio could be adversely affected.

As of 31 December 2019, the Group's total exposure to borrowers (total loans, or outstanding receivables from customers) was ₱1.5 trillion. The Bank's ten largest individual borrowers in aggregate accounted for 13.9% of the Group's total exposure and its ten largest borrower groups in aggregate accounted for 23.3% of the Group's total exposure. The BSP generally prohibits any bank from maintaining a financial exposure to any single person or group of connected persons in excess of 25.0% of the bank's net worth. As of 31 December 2019, the Bank's single borrower's limit was computed at ₱69.9 billion. In determining whether the Group meets the single borrower's limit of the BSP, the Group includes exposures to related accounts (covering accounts of subsidiaries and parent companies of the borrower). The Bank's largest single borrower as of 31 December 2019 accounted for 2.6% of the Group's total exposure and 14.0% of the Group's total equity. The Bank's largest borrower group as of 31 December 2019 accounted for 3.1% of the Group's total exposure and 16.6% of the Group's total equity. Credit losses on these large single borrower and group exposures could adversely affect the business, financial condition and results of operations of the Group.

The Group has extended loans to several sectors in the Philippines. The table below sets out the Group's five largest industry exposures in amount and percentage of its total loan portfolio as of 31 December 2019.

Rank	Industry	Amount	Percent of Total Exposure to Borrowers
		(₱ millions)	(%)
1	Wholesale and retail trade, repair of motor vehicles, motorcycles	245,670	16.5
2	Real estate activities	231,358	15.6
3	Manufacturing	217,654	14.7
4	Activities of households as employers and undifferentiated goods and services-producing activities of households for own use.....	164,684	11.1
5	Financial and insurance activities	149,670	10.1
Total.....		1,009,036	68.0

The Group's exposure to these five sectors, totalling ₱1.0 trillion, constituted 68.0% of the Group's total loan portfolio as of 31 December 2019. Although the Group's portfolio contains loans to a wide variety of businesses, financial difficulties in these industries could increase the level of NPLs and restructured assets, and could materially and adversely affect the Group's business, financial condition and results of operations.

The Group's unsecured lending portfolio entails higher credit risk.

As of 31 December 2019, 56.1% of the Group's lending portfolio was unsecured. Unsecured loans, which primarily consist of credit cards, personal loans and loans to top tier corporates, entail a higher degree of credit risk than loans secured by collateral. For example, a downturn in the Philippine or global economies may result in a higher level of NPLs with unsecured obligations which would, in turn, negatively impact the Group's asset quality and increase write-offs without the possibility of mitigation through the acquisition of collateral assets. Any increase in the level of NPLs with unsecured obligations could materially and adversely affect the Group's business, financial condition and results of operations.

Increased exposure to consumer debt could result in increased delinquencies in the Group's loan and credit card portfolios.

The Group plans to continue to expand its consumer loan operations, including home mortgage loans, auto loans and credit card services. Such expansion plans will increase the Group's exposure to consumer debt and vulnerability with respect to changes in general economic conditions affecting Philippine consumers. Accordingly, economic difficulties in the Philippines that have a significant adverse effect on Philippine consumers could result in reduced growth and a deterioration in the credit quality of the Group's consumer loan and credit card portfolios. A rise in unemployment or an increase in interest rates, among others, could have an adverse impact on the ability of borrowers to make payments and increase the likelihood of potential defaults and reduce demand for consumer loans, which could materially and adversely affect the Group's business, financial condition and results of operations.

The Group's restructured loans may become non-performing due to the way these loans have been structured or otherwise as a result of the inherent weaknesses of the borrower.

When restructuring a number of its loans, the Group has agreed with borrowers to set interest payments at a relatively low level for a certain period of time, followed by much larger payments of interest in later periods. The lower level of initial payments increases the likelihood that a restructured loan will be reclassified as a performing loan. Generally, a restructured loan is reclassified as a performing loan once three consecutive payments of the required amortization of principal and/or interest are made. However, future payments that are significantly higher than the initial payments may cause the loan to be subsequently reclassified as non-performing if the borrower is unable to meet its higher payment obligations. In addition, based on the experience of the Group, loans that have been restructured and are reclassified as performing loans are, in general, more likely to become NPLs in the future, compared to other loans. As of 31 December 2017, 2018 and 2019, ₱2.5 billion, ₱1.7 billion and ₱1.5 billion of restructured loans, respectively, were classified as NPLs. As of 31 December 2017, 2018, and 2019, the Group had ₱3.3 billion, ₱2.1 billion and ₱2.4 billion of restructured loans respectively, in its loan portfolio, ₱0.8 billion, ₱0.4 billion and ₱0.9 billion of which respectively, was included under the Group's performing loans. If a significant number of the Group's customers are unable to meet their payment obligations under restructured loans, the Group's NPL portfolio will increase, thereby requiring additional allowances, and could materially and adversely affect the Group's business, financial condition and results of operations.

The Group may not be successful in implementing new business strategies.

The Group's ability to grow its revenue will partly depend on its ability to successfully implement its business strategies, which may expose the Group to a number of risks and challenges, including, among others, the following:

- new and expanded business activities may have less growth or profit potential than the Group anticipates, and there can be no assurance that new business activities will become profitable at the level the Group desires or at all;
- the Group's competitors may have substantially greater experience and resources for new and expanded business activities; and
- economic conditions, such as rising interest rates or inflation, could hinder the Group's expansion, particularly in the consumer loan industry.

Specifically, the Group intends to penetrate the retail loan segment and rebalance its corporate loan portfolio by providing more loans to small- and medium-sized enterprises (SMEs) and the middle-market segment, which it expects to have strong growth potential and increased loan appetite. However, there can be no guarantee that such strategy will achieve success due to several factors, including, increasing competition and changes in the macro-economic environment. In expanding its suite of products and services, particularly in the retail and wealth management segments, the Group expects to encounter significant competition from other banks already offering or are in the process of adding such products or services. There can be no assurance that the Group will be able to compete effectively against such existing banks or that new products will be met with sufficient customer demand, which may lead to lower than expected return on investments for the Group. Further, the Group aims to enhance existing branch efficiencies to grow its deposit base as well as offer cross-selling opportunities to new and existing customers. However, there is no assurance that such strategy will be successful, including as a result of other banks moving into the same geographic areas.

In addition, new business endeavors and acquisitions may require knowledge and expertise which differ from those used in the current business operations of the Group, including different management skills, risk management procedures, guidelines and systems, credit risk evaluation, monitoring and recovery procedures. The Group may not be successful in developing such knowledge and expertise.

The Group's success in implementing new strategies also depends upon, among other factors, the retention of its key management, senior executives and upon its ability to attract and retain other highly capable individuals. The loss of some

INVESTMENT CONSIDERATIONS

of the Group's key management, senior executives or an inability to attract or retain other key individuals could hinder the Group's implementation of its strategies.

The Group's inability to implement its business strategies could materially and adversely affect the Group's business, financial condition and results of operations.

The Bank's investments in equity of unconsolidated subsidiaries may adversely affect the Bank's qualifying capital and the Bank's ability to meet the BSP's Basel III capital adequacy ratio requirements.

The Bank's investments in unconsolidated subsidiaries amounted to ₱91.5 billion as of 31 December 2019. As prescribed under BSP Circular No. 538, as amended by BSP Circular No. 781, investments in the equity of unconsolidated subsidiary banks and quasi-banks, securities dealers/brokers, insurance companies, other financial and non-financial allied undertakings and reciprocal investments in the equity of other banks/enterprises and reciprocal investments in other regulatory capital instruments of other banks and quasi-banks, among others, are deductions from the gross qualifying capital in computing for the risk-based capital adequacy ratio (CAR).

As required by the BSP, CAR, expressed as a percentage of qualifying capital to risk-weighted assets, shall not be less than 10% on both a non-consolidated and consolidated basis. Whenever the capital accounts of a bank are deficient with respect to the prescribed risk-based CAR of 10%, the Monetary Board of the BSP (the **Monetary Board**) may impose monetary and non-monetary sanctions on the chief executive officer and/or the board of directors of the bank for non-reporting violations and may limit or prohibit the distribution of the net profits and require that part or all of the net profits be used to increase the capital accounts until the minimum requirement is met. The Monetary Board may also restrict or prohibit the making of new investments of any sort by the bank, except for purchases of readily marketable evidences of indebtedness issued by the government and the BSP until the minimum CAR is restored. The Monetary Board will also prohibit opening of new branches whenever a bank's CAR falls below 12% on a non-consolidated and consolidated basis. Likewise, it will also prohibit the distribution of dividends whenever a bank does not have positive earnings, has Common Tier Equity 1 (CET1) of not more than 8.5% and has not complied with the 10% minimum CAR.

The Group is involved in many businesses subject to a variety of regulatory regimes and guidelines, and any changes in the relevant regulatory regimes or guidelines may adversely affect the Group's businesses, financial condition and results of operations.

The Group has business interests in a number of highly regulated sectors, including banking, leasing, credit cards, real estate investments and insurance. Each of these businesses is subject to separate regulatory regimes and guidelines that are periodically subject to change. Failure to comply with relevant laws and regulations may result in financial penalties or administrative or legal proceedings against the Group, including the revocation of the Group's licenses, permits or certificates. Regulators of the Group's businesses may alter current regulations or introduce new regulations to control any particular line of business. There can be no assurance that the guidelines issued by the regulatory authorities will not materially and adversely affect the Group's business, financial condition or results of operations. For a discussion of the banking regulations governing the Group, see "Banking Regulation and Supervision".

Increased enforcement by the Government related to priority lending for the agrarian reform and agricultural sectors could adversely affect the Group's business, financial condition and results of operations.

The Government has imposed an agrarian reform and agriculture lending policy requiring Philippine banks to extend certain loan amounts to agrarian beneficiaries and the agricultural sectors of the country. Failure to meet the specified level of loans may result in fines being assessed against a non-compliant bank. Because the Group is unable to generate sufficient exposure to the agrarian reform and agricultural sectors due to its prudent credit and risk management policies, the Group has paid fines in the past and may continue to do so in the future. There can be no assurance that the Government will not increase its penalties for non-compliance or force banks to lend in accordance with the policy in the future. If the Government substantially increases the penalty for non-compliance or the Group is forced to extend loans to the agrarian reform and agricultural sectors that are inconsistent with the Group's credit and risk management policies, it could materially and adversely affect the Group's business, financial condition and results of operations.

The Bank's treasury and risk management functions and systems are conducted separately from such functions for its subsidiaries, thereby exposing the Bank and the Group to significant risks.

BSP regulations mandate that certain risk management functions and systems be managed and installed on an entity-by-entity basis. As such, treasury functions, including trading and investment functions, and risk management functions, are conducted by separate teams at each of the Bank, PSBank, and First Metro. Although the Group has Group risk exposure consolidation reports on trading book value-at-risk for the Bank, PSBank and Metropolitan Bank (Bahamas) Limited, a wholly owned subsidiary of the Bank, and Group funding profiles for the Bank's domestic subsidiaries, the Group may

INVESTMENT CONSIDERATIONS

not possess information that enables it to assess properly the credit, market, foreign exchange and other operational risks applicable to its subsidiaries or to the Group as a whole. This decentralized approach to risk management may result in the Group being exposed to significant risks that it is unable to recognize or properly assess and could materially and adversely affect the Group's business, financial condition and results of operations.

The Group is subject to credit, market and liquidity risks which may have an adverse effect on its credit ratings and its cost of funds.

To the extent any of the instruments or strategies the Group uses to manage its exposure to market or credit risks are not effective, the Group may not be able to effectively mitigate its risk exposures. The Group's trading revenues and interest rate risk exposure are dependent upon its ability to properly identify and mark to market the changes in the value of financial instruments caused by changes in market prices or rates. The Group's earnings are dependent upon, among others, the effectiveness of its management of migrations in credit quality and risk concentrations, the accuracy of its valuation models and its critical accounting estimates and the adequacy of its allowances for credit losses. To the extent its assessments, assumptions or estimates prove inaccurate or not predictive of actual results, the Group could suffer higher than anticipated losses. The successful management of credit, market and operational risks is an important consideration in managing its liquidity risk because it affects the evaluation of its credit ratings by rating agencies. A failure by the Group to effectively manage its credit, market and liquidity risk could materially and adversely affect the Group's business, financial condition and results of operations.

The Group's failure to manage risks associated with its information and technology systems could adversely affect its business.

The Group is subject to risks relating to its information and technology systems and processes. The hardware and software used by the Group in its information technology is vulnerable to damage or interruption by human error, misconduct, malfunction, natural disasters, power loss, sabotage, computer viruses or the interruption or loss of support services from third parties such as internet service providers and telephone companies. Any disruption, outage, delay or other difficulties experienced by any of these information and technology systems could result in delays, disruptions, losses or errors that may result in loss of income and decreased consumer confidence in the Group. These may, in turn, adversely affect the Group's business, financial condition and results of operations.

The Group also seeks to protect its computer systems and network infrastructure from physical break-ins as well as security breaches and other disruptive problems caused by the Group's increased use of the internet. Computer break-ins and security breaches could affect the security of information stored in and transmitted through these computer systems and network infrastructure. The Group employs security systems, including firewalls and password encryption, designed to minimize the risk of security breaches and maintains operational procedures to prevent break-ins, damage and failures. The potential for fraud and securities problems is likely to persist and there can be no assurance that these security measures will be adequate or successful. The costs of maintaining such security measures may also increase substantially. Failure in security measures could materially and adversely affect the Group's business, financial condition and results of operations.

Further, the Group is currently undertaking a replacement project for its core banking system, and intends to enhance its digital applications and information and technology capabilities to improve customer experience and operational efficiency. There is no assurance that any of these initiatives will be successful whether as a whole or in part, or that the Group will be able to implement any of these programs in an effective, efficient or timely manner.

A downgrade of the Bank's credit rating could have a negative effect on its business, financial condition and results of operations.

The Bank has a credit rating of Baa2 with a stable outlook for its long term rating and for foreign and local long term bank deposits from Moody's. Fitch has given the Bank an issuer rating of BBB- with a stable outlook for its long term rating for foreign and local currency. These ratings are at par with the sovereign ratings granted to the Philippines. In the event of a downgrade of the Bank by one or more credit rating agencies, the Bank may have to accept terms that are not as favorable in its transactions with counterparties, including capital raising activities, or may be unable to enter into certain transactions. This could have a negative impact on the Group's treasury operations and also adversely affect its financial condition and results of operations. Rating agencies may reduce or indicate their intention to reduce the ratings at any time. The rating agencies may also decide to withdraw their ratings altogether, which may have the same effect as a reduction in its ratings. Any reduction in the Group's ratings (or withdrawal of ratings) may increase its borrowing costs, limit its access to capital markets and adversely affect its ability to sell or market its products, engage in business transactions, particularly longer-term and derivatives transactions, or retain its customers. This, in turn, could reduce the Group's liquidity and materially and adversely affect the Group's business, financial condition and results of operations.

INVESTMENT CONSIDERATIONS

The Bank is subject to restrictive debt covenants that may limit the Bank's ability to finance its future operations and capital needs and to pursue business opportunities and activities.

The Bank has entered into financing agreements which have, among other things, restricted the Bank's ability to undertake certain transactions or activities. All of the limitations are subject to significant exceptions and qualifications. These covenants could limit the Bank's ability to finance its future operations and capital needs and the Bank's ability to pursue business opportunities and activities that may be in its interest.

The Group relies on certain key personnel and the loss of any such key personnel or the inability to attract and retain other highly capable individuals may negatively affect its business.

The Group's success depends upon, among other factors, the retention of its key management, senior executives and upon its ability to attract and retain other highly capable individuals. The loss of some of the Group's key management, senior executives or an inability to attract or retain other key individuals could materially and adversely affect the Group's business, financial condition and results of operations.

The Group is involved in litigation, which could result in financial losses or harm its business.

The Group is, and may in the future be, implicated in lawsuits on an on-going basis. Litigation could result in substantial costs to, and a diversion of effort by, the Group and/or subject the Group to significant liabilities to third parties. There can be no assurance that the results of such legal proceedings will not materially harm the Group's business, reputation or standing in the marketplace or that the Group will be able to recover any losses incurred from third parties, regardless of whether the Group is at fault. However, there can be no assurance that: (i) losses relating to litigation will not be incurred beyond the limits or outside the coverage of bank insurance, or that any such losses would not have a material adverse effect on the results of the Group's business, financial condition and results of operations, or (ii) provisions made for litigation related losses will be sufficient to cover the Group's ultimate loss or expenditure.

If the Group is not able to integrate any future acquisitions, the Group's business could be disrupted.

The Group may seek opportunities for growth through mergers or acquisitions or be required to undertake acquisitions mandated by the BSP. On 18 October 2017, the Board approved the acquisition by the Bank of ANZ's stake in MCC, and the BSP approved the acquisition on 28 December 2017. The acquisition was made in two tranches: the acquisition of the first 20% stake for a consideration of ₱7.4 billion closed on 8 January 2018, and the acquisition of the remaining 20% was completed on the same terms on 4 September 2018. The Bank's acquisition of ANZ's 40% stake in MCC and any future mergers or acquisitions may involve a number of risks, including reduction of capital adequacy, deterioration of asset quality, diversion of its management's attention required to integrate the acquired business, failure to retain key acquired personnel and clients or find new personnel for senior management or other key roles, lack of synergies, the need to rationalize operations, or the need to develop the skills required for new businesses and markets, or unknown liabilities, some or all of which could materially and adversely affect the Group's business, financial condition and results of operations.

The Group is subject to regulatory risks associated with expanding its operations into new geographic markets.

While the Philippine market is the Group's primary market, the Group has expanded its operations to other parts of the world, including China, Japan, Korea, the United Kingdom, the United States and Taiwan. The banking industries in these markets are also highly regulated and there may be restrictions on foreign banks or foreign investments. There may also be the additional burdens of complying with a wide variety of foreign laws and regulations, especially with regard to the money laundering statutes and the tightening of capital requirements, which could exert pressure on the Group. In addition, the Group may experience difficulties dealing with unfamiliar regulatory environments and legal systems, which may put them at a competitive disadvantage compared to their local competitors. The failure of the Group to effectively manage these challenges could materially and adversely affect the Group's business, financial condition and results of operations.

The Bank is an associate of GT Capital and the Ty Family and the interests of GT Capital and the Ty Family may not be aligned with those of the public shareholders of the Bank.

The Bank is an associate company of GT Capital. As of 31 December 2019, GT Capital held 36.6% of the common shares of the Bank. In addition, as at the same date, the Ty Family and related entities held a combined additional 14.7% interest in the Bank. The remaining outstanding common shares of the Bank are held by the public.

GT Capital has significant influence over the outcome of all matters to be decided by the Bank's shareholders including the composition of its Board of Directors. The interests of GT Capital and the Ty Family may not be aligned with those of the public shareholders of the Bank.

INVESTMENT CONSIDERATIONS

CONSIDERATIONS RELATING TO THE BONDS AND COMMERCIAL PAPERS

Risks relating to unaudited interim financial statements deemed incorporated by reference

Any published unaudited interim financial statements of the Issuer (whether prepared on a consolidated or a non-consolidated basis) which are, from time to time, deemed to be incorporated by reference in this Offering Circular will not have been audited or subject to a review by the auditors of the Issuer. Accordingly, there can be no assurance that, had an audit or a review been conducted in respect of such financial statements, the information presented therein would not have been materially different, and investors should not place undue reliance on them.

The Bonds and Commercial Papers may not be a suitable investment for all investors.

Each potential investor in the Bonds and Commercial Papers must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Bonds and Commercial Papers, the merits and risks of investing in the Bonds and Commercial Papers and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;
- have access to, and knowledge of, the appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Bonds and Commercial Papers and the impact the Bonds and Commercial Papers will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Bonds and Commercial Papers, including where the currency for principal or interest payments is different from the potential investor's currency;
- understand thoroughly the terms of the Bonds and Commercial Papers and be familiar with the behavior of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Investors may purchase Bonds and Commercial Papers as a way to manage risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Bonds and Commercial Papers unless it has the expertise (either alone or with a financial adviser) to evaluate how the Bonds and Commercial Papers will perform under changing conditions, the resulting effects on the value of the Bonds and Commercial Papers and the impact this investment will have on the potential investor's overall investment portfolio.

The Issuer may be unable to redeem the Bonds and Commercial Papers.

At maturity, the Issuer will be required to redeem all of the Bonds and Commercial Papers. If such an event were to occur, the Issuer may not have sufficient cash in hand and may not be able to arrange financing to redeem the Bonds and Commercial Papers in time, or on acceptable terms, or at all. The ability to redeem the Bonds and Commercial Papers in such event may also be limited by the terms of other debt instruments. The failure by the Issuer to repay, repurchase or redeem tendered Bonds and Commercial Papers would constitute an event of default under the Bonds and Commercial Papers, which may also constitute a default under the terms of other indebtedness of the Issuer. The Issuer has a very strong business franchise in the Philippines. It has a strong recurring cash flow and maintains a low debt-equity ratio and a high level of liquidity in its balance sheet. The Issuer believes that it has sufficient resources which will allow it to service the principal and interest of the Bonds and Commercial Papers.

Liquidity for the Bonds and Commercial Papers

The Bonds and Commercial Papers are a new issue of securities for which there is currently no active trading market. Even if the Bonds and Commercial Papers are listed on the PDEX, trading in securities such as the Bonds and Commercial Papers may be subject to extreme volatility at times, in response to fluctuating interest rates, developments in local and international capital markets and the overall market for debt securities among other factors, which may affect liquidity. Although the Bonds and Commercial Papers are intended to be listed on PDEX as soon as reasonably practicable, no assurance can be given that an active trading market for the Bonds or Commercial Papers will develop and, if such a market were to develop the Arrangers are under no obligation to maintain such a market. The liquidity and the market prices for the Bonds and Commercial Papers can be expected to vary with changes in market and economic conditions, the financial position and prospects of the Company and other factors that generally influence the market prices of securities.

The Bank has no control over this risk as active trading of the Bonds and Commercial Papers is highly dependent on the Holders.

The holder may face possible gain or loss if the Bonds and Commercial Papers are sold at the secondary market.

As with all fixed income securities, the Bond and Commercial Paper's market values move (either up or down) depending on the change in interest rates. The Bonds and Commercial Papers when sold in the secondary market are worth more if interest rates decrease since the Bonds and Commercial Papers have a higher interest rate relative to the market. Likewise, if the prevailing interest rate increases, the Bonds and Commercial Papers are worth less when sold in the secondary market. Therefore, holders may either make a gain or incur a loss when they decide to sell the Bonds and Commercial Papers.

CONSIDERATIONS RELATING TO THE STRUCTURE OF THE PARTICULAR ISSUE OF BONDS AND COMMERCIAL PAPERS

A wide range of Notes may be issued under the Programme and these Notes may have features which contain particular risks for investors.

A wide range of Bonds and Commercial Papers may be issued under the Programme. A number of these Bonds or Commercial Papers may have features which contain particular risks for investors. Set out below is a description of certain such features and associated risks.

Notes subject to optional redemption by the Bank

An optional redemption feature of Bonds and Commercial Papers is likely to limit their market value. During any period when the Bank may elect to redeem Bonds and Commercial Papers, the market value of those Bonds and Commercial Papers generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Bank may be expected to redeem Bonds and Commercial Papers when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Bonds and Commercial Papers being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Index Linked Notes and Dual Currency Notes

The Bank may issue Bonds and Commercial Papers with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a **Relevant Factor**). In addition, the Bank may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Bonds and Commercial Papers are denominated. Potential investors should be aware that:

- (a) the market price of such Bonds and Commercial Papers may be volatile;
- (b) they may receive no interest;
- (c) payment of principal or interest may occur at a different time or in a different currency than expected;
- (d) they may lose all or a substantial portion of their principal;
- (e) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- (f) if a Relevant Factor is applied to Bonds and Commercial Papers in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified; and
- (g) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

INVESTMENT CONSIDERATIONS

The historical experience of an index or other Relevant Factor should not be viewed as an indication of the future performance of such Relevant Factor during the term of any Bonds and Commercial Papers. Accordingly, each potential investor should consult its own financial and legal advisers about the risk entailed by an investment in any Bonds and Commercial Papers linked to such a Relevant Factor and the suitability of such Bonds and Commercial Papers in light of its particular circumstances.

Partly-paid Notes

The Bank may issue Bonds and Commercial Papers where the issue price is payable in more than one installment. Any failure by an investor to pay any subsequent installment of the issue price in respect of the Bonds and Commercial Papers could result in an investor losing all of his investment.

Variable rate Notes with a multiplier or other leverage factor

Bonds and Commercial Papers with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

Inverse Floating Rate Notes

Inverse Floating Rate Bonds and Commercial Papers have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of those Bonds and Commercial Papers typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Bonds and Commercial Papers are more volatile because an increase in the reference rate not only decreases the interest rate of the Bonds and Commercial Papers, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Bonds and Commercial Papers.

Fixed/Floating Rate Notes

Fixed/Floating Rate Bonds and Commercial Papers are Notes which may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Bank has the right to effect such a conversion, this will affect the secondary market and the market value of the Bonds and Commercial Papers since the Bank may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Bank converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Bonds and Commercial Papers may be less favorable than then prevailing spreads on comparable Floating Rate Bonds and Commercial Papers tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Bonds and Commercial Papers. If the Bank converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing rates on its Bonds and Commercial Papers.

Notes issued at a substantial discount or premium

The market values of securities issued at a substantial discount (such as Zero Coupon Notes) or premium to their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to more conventional interest-bearing securities with comparable maturities.

The regulation and reform of “benchmark” rates of interest and indices may adversely affect the value of Bonds and Commercial Papers linked to or referencing such “benchmarks”.

Interest rates and indices which are deemed to be or used as “benchmarks” are the subject of recent international regulatory guidance and proposals for reform, particularly in the United Kingdom. Some of these reforms are already effective whilst others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past or to disappear entirely, or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any Bonds and Commercial Papers linked to or referencing such a benchmark. Regulation (EU) 2016/1011 (the **Benchmarks Regulation**) was published in the Official Journal of the EU on 29 June 2016 and will apply from 1 January 2018 (with the exception of provisions specified in Article 59 (mainly on critical benchmarks) that apply from 30 June 2016 and 3 July 2016). The Benchmarks Regulation applies to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark within the EU. It will, among other things, (i) require benchmark administrators to be authorized or registered (or, if non-EU-based, to be subject to an equivalent regime or otherwise recognized or endorsed) and (ii) prevent certain uses by EU supervised entities (such as the Issuer) of benchmarks of administrators that are not authorized or registered (or, if non-EU based, not deemed equivalent or recognized or endorsed).

The Benchmarks Regulation could have a material impact on any Bonds and Commercial Papers linked to or referencing a benchmark, in particular, if the methodology or other terms of the benchmark are changed in order to comply with the requirements of the Benchmarks Regulation. Such changes could, among other things, have the effect of reducing, increasing or otherwise affecting the volatility of the published rate or level of the benchmark.

More broadly, any of the international reforms, particularly in the United Kingdom or the general increased regulatory scrutiny of benchmarks, could increase the costs and risks of administering or otherwise participating in the setting of a benchmark and complying with any such regulations or requirements. For example, the sustainability of the London interbank offered rate (**LIBOR**) has been questioned as a result of the absence of relevant active underlying markets and possible disincentives (including as a result of regulatory reforms) for market participants to continue contributing to such benchmarks. On 27 July 2017, the United Kingdom Financial Conduct Authority announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021 (the **FCA Announcement**). The FCA Announcement indicated that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. The potential elimination of the LIBOR benchmark or any other benchmark, or changes in the manner of administration of any benchmark, could require an adjustment to the terms and conditions, or result in other consequences, in respect of any Bonds and Commercial Papers linked to such benchmark (including but not limited to floating rate Bonds and Commercial Papers whose interest rates are linked to LIBOR). Such factors may have the following effects on certain benchmarks: (i) discourage market participants from continuing to administer or contribute to the benchmark; (ii) trigger changes in the rules or methodologies used in the benchmark or (iii) lead to the disappearance of the “benchmark”. Any of the above changes or any other consequential changes as a result of international reforms, particularly in the United Kingdom or other initiatives or investigations, could have a material adverse effect on the value of and return on any Bonds and Commercial Papers linked to or referencing a benchmark.

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the Benchmarks Regulation or any other international reforms in making any investment decision with respect to any Notes linked to or referencing a benchmark.

The Bonds and Commercial Papers have no preference under Article 2244(14) of the Civil Code.

No other loan or other debt facility currently or to be entered into by the Issuer shall have preference of priority over the Bonds and Commercial Papers as accorded to public instruments under Article 2244(14) of the Civil Code of the Philippines, and all banks and lenders under any such loans or facilities that are notarized have waived the right to the benefit of any such preference or priority. However, should any bank or holder hereinafter have a preference or priority over the Bonds and Commercial Papers as a result of notarization, then the Issuer shall at the Issuer’s option, either procure a waiver of the preference created by such notarization or equally and ratably extend such preference to the Bonds and Commercial Papers as may be practicable.

Taxation of the Bonds and Commercial Papers

The Philippine Tax Code provides that interest on interest-bearing obligations of Philippine residents, such as the Bonds and Commercial Papers, are Philippine-sourced income subject to Philippine income tax. Interest income derived by Philippine citizens and alien resident individuals from the Bonds and Commercial Papers is thus subject to income tax, which is withheld at source, at the rate of 20% based on the gross amount of interest. Generally, interest on the Bonds and Commercial Papers received by non-resident aliens engaged in trade or business in the Philippines is subject to a 20% final withholding tax while that received by non-resident aliens not engaged in trade or business is subject to a final withholding tax rate of 25%. Interest income received by domestic corporations and resident foreign corporations from the Bonds and Commercial Papers is subject to a final withholding tax rate of 20%. Interest income received by non-resident foreign corporations from the Bonds and Commercial Papers is subject to a 30% final withholding tax.

The foregoing rates are subject to further reduction by any applicable tax treaties in force between the Philippines and the country of residence of the non-resident owner. Most tax treaties to which the Philippines is a party generally provide for a reduced tax rate of 15% in cases where the interest which arises in the Philippines is paid to a resident of the other contracting state. However, most tax treaties also provide that reduced withholding tax rates shall not apply if the recipient of the interest who is a resident of the other contracting state, carries on business in the Philippines through a permanent establishment and the holding of the relevant interest-bearing instrument is effectively connected with such permanent establishment

GENERAL TERMS AND CONDITIONS

The following are the General Terms and Conditions of the Bonds and Commercial Papers to be issued under the Bank's ₱54.5 Billion Programme (remaining unissued amount out of the Bank-approved ₱100 Billion Bond and Commercial Paper programme) which will be incorporated by reference into each Series or Tranche of Bonds or Commercial Papers issued pursuant thereto. The applicable Pricing Supplement in relation to any Series or Tranche of Bonds or Commercial Papers shall specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following General Terms and Conditions, replace or modify the following General Terms and Conditions for the purpose of such Series or Tranche of Bonds or Commercial Papers.

The Bonds and Commercial Papers were authorized pursuant to a resolution of the Board of Directors of Metropolitan Bank & Trust Company (the "Bank") dated September 19, 2018 and are covered by a Trust Indenture (the "Trust Indenture") dated on or about May 2, 2019 made between the Bank and Development Bank of the Philippines – Trust Banking Group (the "Trustee" which expression shall wherever the context permits, include all other persons or companies for the time being acting as trustee or trustees under the Trust Indenture). The description of the general terms and conditions of the Bonds and Commercial Papers set out below includes summaries of, and is subject to, the detailed provisions of the Trust Indenture and the Offering Circular. A registry and paying agency agreement dated on or about May 2, 2019 (the "Registry and Paying Agency Agreement") has been entered into in relation to the Programme and the issuance of Bonds and Commercial Papers pursuant thereto between the Bank and Philippine Depository & Trust Corp. as paying agent and registrar (hereinafter referred to as "PDTC", or in its capacity as registrar, the "Registrar", or in its capacity as paying agent, the "Paying Agent"). References to a "Condition" are to conditions as respectively numbered and set forth herein.

Unless otherwise defined herein, capitalized terms used herein shall have the meaning ascribed to such terms in the Trust Indenture.

Copies of the Trust Indenture and the Registry and Paying Agency Agreement are available for inspection during normal business hours at the specified offices of the Trustee. The holders of the Bonds and Commercial Papers are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Indenture and are deemed to have notice of those provisions of the Registry and Paying Agency Agreement applicable to them.

1. Definition of Terms

In these General Terms and Conditions:

"Adverse Effect"	means any material and adverse effect on: (a) the ability of the Bank to duly perform and observe its obligations and duties under the Bonds and Commercial Papers and the Contracts; (b) the condition (financial or otherwise), prospects, results of operations or general affairs of the Bank or the Group; or (c) the legality, validity and enforceability of the Contracts;
"Anti-Money Laundering Laws Of The Philippines"	means Republic Act No. 9160, Republic Act No. 9194 and Republic Act No. 10365 and BSP Circular Nos. 251, 253,279, 527, 564, 608, 612 and 950, and all other amendatory and implementing law, regulation, jurisprudence, notice or order of any Philippine governmental body relating thereto;
"Arrangers"	means First Metro Investment Corporation, ING Bank N.V., Manila Branch, Standard Chartered Bank, and such other entities appointed by the Bank in respect of each Series or Tranche of the Bonds or Commercial Papers, and excludes any entity whose appointment has been terminated pursuant to the Programme Agreement;
"Auditors"	means SyCip, Gorres, Velayo & Company, or any other auditor which may be appointed by the Bank to audit and review its financial statements;
"Bank"	means Metropolitan Bank & Trust Company, the issuer of the Bonds and Commercial Papers;
"Bonds"	means fixed-rate bonds and/or the floating rate bonds to be issued under the Programme with maturities of more than one year;

“Bondholder”	means a person who is not a Prohibited Holder and who, at any relevant time, appears in the Registry of Bondholders as the registered owner of the Bonds;
“BSP”	means the Bangko Sentral ng Pilipinas;
“Business Day”	means any day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets in Manila and Makati City are not required or authorized to close for business. All other days not otherwise specified in these General Terms and Conditions shall mean calendar days;
“Commercial Papers”	means commercial papers with maturities of three hundred and sixty five (365) days or less;
“Contracts”	means: (a) the Programme Agreement dated on or about May 2, 2019 between the Bank and the Arrangers and Initial Selling Agents, as supplemented, amended and/or restated from time to time; (b) the Trust Indenture dated on or about May 2, 2019 between the Bank and the Trustee, as supplemented, amended and/or restated from time to time; (c) Registry and Paying Agency Agreement dated on or about May 2, 2019 between the Bank and the Registrar and Paying Agent, as supplemented, amended and/or restated from time to time; (e) the Master Certificate of Indebtedness; (e) these General Terms and Conditions; and (f) the Pricing Supplement for each Series or Tranche of Bonds or Commercial Papers; and (g) such other separate letters or agreements covering conditions precedent, fees, expenses and other obligations of the parties, including amendments or accessions thereto;
“CP Holder”	means a person who is not a Prohibited Holder and who, at any relevant time, appears in the Registry as the registered owner of the Commercial Papers;
“General Terms and Conditions”	means these General Terms and Conditions of the Bonds and Commercial Papers as may be supplemented and/or amended from time to time by the applicable Pricing Supplement for each Series or Tranche of Bonds or Commercial Papers.
“Group”	means the Bank, its subsidiaries, affiliates and entities controlled by the Bank, taken as a whole, and each of them being a member of the Group;
“Holders”	means the Bondholders and the CP Holders;
“Issue Date”	means in respect of any Series or Tranche of Bonds or Commercial Papers, the date of issue and purchase of such Tranche of Bonds or Commercial Papers, as indicated in the applicable Pricing Supplement;
“Majority Bondholders”	means the holder or holders of more than fifty percent (50%) of the principal amount the Bonds then outstanding at the relevant time under the Programme, provided, that in respect of any matter pertaining to matters relating to the relevant Series or Tranche of Bonds, only the concerned Bondholders of a particular Series or Tranche will be considered for quorum and approval purposes in any meeting in which any such matter is presented for resolution;
“Majority CP Holders”	means the holder or holders of more than fifty percent (50%) of the principal amount the Commercial Papers then outstanding at the relevant time under the Programme, provided, that in respect of any matter pertaining to matters relating to the relevant Series or Tranche of Commercial Papers, only the concerned CP Holders of a particular Series or Tranche will be considered for quorum and approval purposes in any meeting in which any such matter is presented for resolution;
“Offer”	means, in respect of any issue of any Tranche of Bonds or Commercial Papers, any offer or issuance of Bonds or Commercial Papers (or a Tranche thereof) at the Issue Price.

“Offering Circular”	means the Offering Circular prepared in connection with the Programme, as revised, supplemented and/or amended from time to time by the Bank in accordance with the Programme Agreement, including any documents which are from time to time incorporated in the Offering Circular by reference, provided that: (a) in relation to each Series or Tranche of Bonds or Commercial Papers only, the applicable Pricing Supplement shall be deemed included in the Offering Circular; (b) in respect of the Agreement Date and the Issue Date, the Offering Circular means the Offering Circular as at the Agreement Date, but without prejudice to (a) above, not including any subsequent revisions, supplement or amendment to it or incorporation of information in it subsequent to the relevant Agreement Date.
“PDEX”	means the Philippine Dealing & Exchange Corp., a domestic corporation duly registered with the SEC to operate an exchange and trading market for fixed income securities and a member of the PDS Group;
“PDEX Rules”	means the PDEX Rules for the Fixed Income Securities Market, as amended, and as the same may be revised from time to time, as well as other related rules, guidelines, and procedures that may be issued by PDEX;
“Pricing Supplement”	means the pricing supplement issued in relation to each Series or Tranche of Bonds or Commercial Papers, giving details of that Series or Tranche and providing the additional terms and conditions, such as the Tranche Amount, Interest Rate, Interest Payment Dates, Tenor and Maturity Date and such other similar series-specific terms, in relation to any particular Series Tranche of Bonds or Commercial Papers;
“Programme”	means, as of the date of the Programme Agreement, the ₱54.5 Billion remaining unissued amount out of the ₱100 Billion Bond and Commercial Paper programme approved by the Bank’s Board of Directors on September 19, 2018;
“Prohibited Holder”	means persons and entities which are prohibited from purchasing or holding any Bonds and Commercial Papers of the Bank pursuant to the BSP Rules, specifically: (1) the Bank; and (2) the Bank’s related parties (except for the Bank’s trust department or its related trust entities) such as: (a) subsidiaries and affiliates of the Bank, and any party (including their subsidiaries, affiliates and special purpose entities) that the Bank exerts direct or indirect control over or that exerts direct or indirect control over the Bank; (b) the Bank’s directors, officers, stockholders, related interests and their close family members, as well as corresponding persons in affiliated companies; and (3) persons and entities that have direct or indirect linkages to the Bank identified as (a) ownership, control or power to vote, of 10% to less than 20% of the outstanding voting stock of the Bank; (b) interlocking directorship or officership, except in cases involving independent directors as defined under existing regulations or directors holding nominal share in the Bank; (c) common stockholders owning at least 10% of the outstanding voting stock of the Bank and 10% to less than 20% of the common outstanding voting stock of the Bank; and (d) permanent proxy or voting trusts in favor of the Bank constituting 10% to less than 20% of the outstanding voting stock of the Bank, or vice versa. A “subsidiary” means, at any particular time, a company which is then directly controlled, or more than fifty percent (50%) of whose issued voting equity share capital (or equivalent) is then beneficially owned, by the Bank and/or one or more of its subsidiaries or affiliates. An “affiliate” means, at any particular time, a company at least twenty percent (20%) but not more than fifty percent (50%) of whose issued voting equity share capital is then owned by the Bank. For a company to be “controlled” by another means that the other (whether directly or indirectly and whether by the ownership of share capital, the possession of voting power, contract or otherwise) has the power to appoint and/or remove all or the majority of the members of the board of directors or other governing body of that company or

	otherwise controls or has the power to control the affairs and policies of that company. A “close family member” means a person related to the Bank’s directors, officer and stockholders within the second degree of consanguinity or affinity, legitimate or common-law;
“PSE”	means the Philippine Stock Exchange, Inc.;
“Registrar” or “Paying Agent”	means Philippine Depository & Trust Corp. (“PDTC”), or the registrar and paying agent in respect of the Bonds appointed under the Registry and Paying Agency Agreement or an agreement supplemental to it and in accordance with the BSP Rules;
“Registry”	means the electronic registry book of the Registrar containing the official information on the Bondholders and CP Holders and the amount of Bonds and Commercial Papers they respectively hold, including all transfers or assignments thereof or any liens or encumbrances thereon;
“SEC”	means the Philippine Securities and Exchange Commission and its successor agency/ies;
“Security Interest”	shall have the meaning ascribed to it in Condition 11;
“Series”	means a Tranche of Bonds or Commercial Papers, as the case may be, together with any further Tranche or Tranches of Bonds or Commercial Papers, as the case may be, which are (a) expressed to be consolidated and form a single series, and (b) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices and the expressions Bonds or Commercial Papers of the relevant Series, Bondholders of the relevant Series, CP Holders of the relevant Series and related expressions shall (where appropriate) be construed accordingly
“Tranche”	means an issuance of Bonds or Commercial Papers pursuant to the Programme under these General Terms and Conditions and those specified under the Trust Indenture and the Programme Agreement, except for their respective Tranche Amounts, Issue Dates, Interest Rates and Maturity Dates, and such other terms and conditions as may be specifically provided in the Pricing Supplement to be issued for such particular issuance.

2. Form, Denomination and Title

(a) *Form and Denomination*

The Bonds and Commercial Papers, upon issuance, are in scripless form, and shall be issued and traded in the secondary market in such denominations to be indicated in the applicable Pricing Supplement.

(b) *Title*

Legal title to the Bonds and Commercial Papers shall be shown in the Registry maintained by the Registrar. A notice confirming the principal amount of the Bonds or Commercial Papers purchased by each applicant in the Offer shall be issued by the Registrar to all Holders following the Issue Date. Upon any assignment, title to the Bonds and Commercial Papers shall pass by recording of the transfer from the transferor to the transferee in the Registry maintained by the Registrar. Settlement with respect to such transfer or change of title to the Bonds and Commercial Papers, including the settlement of any cost arising from such transfers, including, but not limited to, documentary stamps taxes, if any, arising from subsequent transfers, shall be for the account of the relevant Holder.

(c) *Rating*

The Bonds and Commercial Papers are not rated. However, the Bank has a “Baa2” rating for its long-term local currency bank deposits from Moody’s Investor Service (“Moody’s”). The Bank also has a Long-Term Local Currency

GENERAL TERMS AND CONDITIONS

Issuer Default Rating of “BBB-” from Fitch Ratings (“Fitch”). A rating is not a recommendation to buy, sell, or hold securities and may be subject to revision, suspension, or withdrawal at any time by the assigning rating organization

The rating is subject to regular annual reviews, or more frequently as market developments may dictate, for as long as the Bonds and Commercial Papers are outstanding. After Issue Date, the Trustee shall likewise monitor compliance by the Bank with certain covenants in relation to the Bonds and Commercial Papers through regular annual reviews.

3. Transfer of Bonds and Commercial Papers

(a) Registry

The Bank shall cause the Registry of Bondholders and CP Holders to be kept by the Registrar, in electronic form. The names and addresses of the Bondholders and CP Holders and the particulars of the Bonds and Commercial Papers held by them and all transfers of Bonds and Commercial Papers shall be entered in the Registry. As required by Circular No. 428-04 issued by the BSP, the Registrar shall send each Holder a statement in electronic form of its registry holdings at least quarterly, and a written advice in electronic form confirming every receipt or transfer of the Bonds and Commercial Papers that is effected in the Registrar’s system. Such statement of registry holdings shall serve as the confirmation of ownership of the relevant Bondholder or CP Holder as of the date thereof. If an e-mail address is not indicated in the Application or if a Holder requests for a written statement, the cost of the same shall be borne by the Holder. Any and/or all requests of Holders for certifications, reports or other documents from the Registrar, except as provided herein, shall be for the account of the requesting Holder. No transfer of Bonds or Commercial Papers may be made during the period commencing on a Record Date as defined in the section on “Interest Payment Date.”

(b) Transfers; Tax Status

Holders may transfer their Bonds or Commercial Papers at any time, regardless of tax status of the transferor vis-à-vis the transferee. Should a transfer between Holders of different tax status occur on a day which is not an Interest Payment Date, tax-exempt entities trading with non-tax-exempt entities shall be treated as non-tax-exempt entities for the interest period within which such transfer occurred. Transfers taking place in the Registry after the Bonds and Commercial Papers are listed on PDEX shall be allowed between non-tax-exempt and tax-exempt entities without restriction and observing the tax exemption of tax-exempt entities, if and/or when so allowed under and in accordance with the relevant rules, conventions and guidelines of PDEX and PDTC. A Holder claiming tax-exempt status is required to submit a written notification of the sale or purchase to the Trustee and the Registrar, including the tax status of the transferor or transferee, as appropriate, together with the supporting documents specified below under “*Payment of Additional Amounts; Taxation*”, within three days of such transfer.

Notwithstanding the submission by the Holder, or the receipt by the Bank and/or the Registrar and Paying Agent of documentary proof of tax-exempt status of a Holder, the Bank may, in its sole and reasonable discretion, determine that such Holder is taxable and require the Registrar and Paying Agent to proceed to apply the tax due on the Bonds or Commercial Papers. Any question on such determination shall be referred to the Bank.

The Holders shall be responsible for monitoring and accurately reflecting their tax status in the Registry. The payment report to be prepared by the Registrar and submitted to the Bank in accordance with the Registry and Paying Agency Agreement, which shall be the basis of payments on the Bonds or Commercial Papers on any Interest Payment Date, shall reflect the tax status of the Holders as indicated in their accounts as of the Record Date.

(c) Secondary Trading of the Bonds and Commercial Papers

The Bank shall list the Bonds and Commercial Papers in PDEX for secondary market trading. Secondary market trading and settlement in PDEX shall follow the applicable PDEX rules, conventions and guidelines, including rules, conventions and guidelines governing trading and settlement between Holders of different tax status, and shall be subject to the relevant fees of PDEX and PDTC.

4. Ranking

The Bonds and Commercial Papers constitute direct, unconditional, unsecured and unsubordinated Philippine Peso-denominated obligations of the Bank and shall rank *pari passu* and ratably without any preference or priority amongst

GENERAL TERMS AND CONDITIONS

themselves and at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Bank, other than obligations preferred by the law.

5. Interest

(a) *Interest Basis*

Interest on each Series or Tranche of Bonds and/or Commercial Papers may be fixed and/or floating, as may be provided under the applicable Pricing Supplement.

The rate of interest payable from time to time in respect of floating rate Bonds and/or Commercial Papers shall be determined in the manner specified in the applicable Pricing Supplement.

(b) *Interest Payment Dates*

The Bonds and Commercial Papers bear interest on its principal amount from and including Issue Date at the rate indicated in the applicable Pricing Supplement for each Series or Tranche of Bonds or Commercial Papers. Interest shall be payable in arrear, at the dates specified in the applicable Pricing Supplement, or the subsequent Business Day without adjustment to the amount of interest to be paid, if such Interest Payment Date is not a Business Day.

The cut-off date in determining the existing Holders entitled to receive the interest or principal amount due shall be the second (2nd) Business Day immediately preceding the relevant Interest Payment Date (the “Record Date”), which shall be the reckoning day in determining the Holders entitled to receive interest, principal or any other amount due under the Bonds and Commercial Papers. No transfers of the Bonds or Commercial Papers may be made during this period intervening between and commencing on the Record Date and the relevant Interest Payment Date.

(c) *Interest Accrual*

Each Bond or Commercial Paper with respect to each Pricing Supplement shall cease to bear interest from and including the Maturity Date, as defined in the discussion on “*Final Redemption*” below, unless, upon due presentation, payment of the principal in respect of the Bond or Commercial Paper then outstanding is not made, is improperly withheld or refused, in which case the Penalty Interest (see “*Penalty Interest*” below) shall apply.

(d) *Determination of Interest Amount*

The interest shall be calculated on the basis of a 30/360-day basis, consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days.

6. Redemption and Purchase

(a) *Final Redemption*

Unless previously purchased and cancelled, the Bonds or Commercial Papers shall be redeemed at par, or 100% of face value on the relevant Maturity Date specified in the applicable Pricing Supplement. However, if the Maturity Date is not a Business Day, payment of all amounts due on such date will be made by the Bank through the Paying Agent, without adjustment in computation as to the amount of interest payable, on the succeeding Business Day.

(b) *Redemption for Tax Reasons*

If payments under the Bonds or Commercial Papers become subject to additional or increased taxes other than the taxes and rates of such taxes prevailing on the Issue Date as a result of certain changes in law, rule or regulation, or in the interpretation thereof, and such additional or increased rate of such tax cannot be avoided by use of reasonable measures available to the Bank, the Bank may redeem the Bonds or Commercial Papers in whole, but not in part, on any Interest Payment Date (having given not more than 60 nor less than 30 days’ notice to the Trustee and the Registrar)

GENERAL TERMS AND CONDITIONS

at par or 100% of face value plus accrued interest computed up to the date when the Bonds or Commercial Papers shall be redeemed earlier than its Maturity Date.

(c) *Change in Law or Circumstance*

If any provision of the Trust Indenture or any of the related documents is or shall become for any reason, invalid, illegal or unenforceable to the extent that it shall become, for any reason, unlawful for the Bank to give effect to its rights or obligations hereunder, or to enforce any provisions of the Trust Indenture or any of the related documents in whole or in part, or any law shall be introduced to prevent or restrain the performance by the parties hereto of their obligations under the Trust Indenture or any other related documents, such event shall be considered as change in law or circumstance (“Change in Law”) in reference to the obligations of the Bank and to the rights and interests of the Holders under the Trust Indenture and the Bonds and Commercial Papers.

In the event that the Bank shall invoke the foregoing as a Change in Law, the Bank shall provide the Trustee an opinion of legal counsel confirming the foregoing, such legal counsel being reasonably acceptable to the Trustee. Thereupon, the Trustee, upon notice to the Bank, shall declare the principal amount of the Bonds or Commercial Papers, including all accrued interest and other charges thereon, if any, to be immediately due and payable, and upon such declaration, the same shall be immediately due and payable without any pre-payment penalty, notwithstanding anything in the Trust Indenture and other related documents to the contrary.

(d) *Purchase and Cancellation*

The Bank may at any time purchase any of the Bonds or Commercial Papers at any price in the open market or by tender or by contract at any price, without any obligation to purchase Bonds or Commercial Papers pro-rata from all Holders, and the Holders shall not be obligated to sell. Any Bonds or Commercial Papers so purchased shall be redeemed and cancelled and may not be re-issued.

7. Payments

The principal of, interest on, and all other amounts payable on the Bonds and Commercial Papers shall be paid by the Bank through the Paying Agent to the Holders by crediting the settlement accounts designated by each of the Holders. The principal of, and interest on, the Bonds and Commercial Papers shall be payable in Philippine Pesos. The Bank shall ensure that so long as any of the Bonds or Commercial Papers remains outstanding, there shall at all times be a Paying Agent for the purposes of the Bonds or Commercial Papers. In the event the Paying Agent shall be unable or unwilling to continue to act as such, the Bank shall appoint a qualified financial institution in the Philippines authorized to act in its place. The Paying Agent may not resign its duties or be removed without a successor having been appointed.

8. Payment of Additional Amounts - Taxation

As of the date of the Offering Circular, interest income on the Bonds and Commercial Papers is subject to a final withholding tax at rates ranging from 20% to 30% depending on the tax status of the relevant Holder under relevant law, regulation or tax treaty. Except for such final withholding tax and as otherwise provided, all payments of principal and interest are to be made free and clear of any deductions or withholding for or on account of any present or future taxes or duties imposed by or on behalf of Republic of the Philippines, including, but not limited to, issue, registration or any similar tax or other taxes and duties, including interest and penalties, if any. If such taxes or duties are imposed, the same shall be for the account of the Bank; provided however that, the Bank shall not be liable for the following:

- (a) Income tax on any gain by a Holder realized from the sale, exchange or retirement of the Bonds or Commercial Papers;
- (b) The applicable final withholding tax on interest earned on the Bonds or Commercial Papers prescribed under the National Internal Revenue Code of 1997, as amended and its implementing rules and regulations as maybe in effect from time to time (the “Tax Code”). For the avoidance of doubt, any change in the applicable final withholding tax rate shall be for the account of the Holder

An investor who is exempt from the aforesaid withholding tax, or is subject to a preferential withholding tax rate shall be required to submit the following requirements to the Registrar, subject to acceptance by the Bank as being sufficient in form and substance: (i) certified true copy of the tax exemption certificate, ruling or opinion issued by the BIR confirming the exemption or preferential rate; (ii) a duly notarized undertaking, in the prescribed form, declaring and warranting its tax exempt status or preferential rate entitlement, undertaking to immediately notify

the Bank of any suspension or revocation of the tax exemption certificates or preferential rate entitlement, and agreeing to indemnify and hold the Bank and the Registrar free and harmless against any claims, actions, suits, and liabilities resulting from the non-withholding of the required tax; and (iii) such other documentary requirements as may be required under the applicable regulations of the relevant taxing or other authorities which for purposes of claiming tax treaty withholding rate benefits, which shall include evidence of the applicability of a tax treaty and consularized proof of the Holder's legal domicile in the relevant treaty state, and confirmation acceptable to the Bank that the Holder is not doing business in the Philippines; provided further that, all sums payable by the Bank to tax exempt entities shall be paid in full without deductions for taxes, duties assessments or government charges subject to the submission by the Holder claiming the benefit of any exemption of reasonable evidence of such exemption to the Registrar;

- (c) Gross Receipts Tax under Section 121 of the Tax Code;
- (d) Taxes on the overall income of any securities dealer or Holder, whether or not subject to withholding; and
- (e) Value Added Tax ("VAT") under Sections 106 to 108 of the Tax Code, and as amended by Republic Act No. 9337.

Documentary stamp tax for the primary issue of the Bonds and Commercial Papers and the execution of the Trust Indenture and other related documents, if any, shall be for the Bank's account.

9. Representation and Warranties

The Bank hereby represents and warrants to the Trustee and the Holders as follows:

- (a) each member of the Group is duly incorporated, validly existing and in good standing under the laws of its place of incorporation with full power and authority to conduct its business and is lawfully qualified to do business in those jurisdictions in which business is conducted by it;
- (b) except as otherwise disclosed in the Offering Circular, each of the members of the Group has legal title to all its property in each case free and clear of all liens, encumbrances and defects; and any real property and buildings held under lease by the Group are held by them under valid, subsisting and enforceable leases, except where such a failure would not result in an Adverse Effect;
- (c) the Bank has the corporate power under the laws of the Republic of the Philippines and its constitutive documents: (i) to issue the Bonds and Commercial Papers and to enter into and perform its obligations thereunder and to take all other actions and to do all other things provided for or contemplated in the Contracts; (ii) to conduct its business as presently being conducted and to own its properties and assets now owned by it as well as those to be hereafter acquired by it for the purpose of its business; and (iii) to incur the indebtedness and other obligations provided for in the Bonds and Commercial Papers;
- (d) the Bank has and will continue to have full capacity and authority to enter into the Contracts, issue the Bonds and Commercial Papers and to carry out the transactions contemplated in the Contracts and has taken and will continue to take all action (including the obtaining of all necessary corporate approvals and governmental consents) to authorize the execution, delivery and performance of the Contracts and the issue and delivery of the Bonds and Commercial Papers;
- (e) the Contracts have been duly authorised, executed and delivered by the Bank and constitute valid and legally binding obligations of the Bank;
- (f) the Bonds and Commercial Papers have been duly authorised by the Bank and, when duly executed, authenticated, issued and delivered in accordance with the Trust Indenture and the Registry and Paying Agency Agreement, will constitute valid and legally binding obligations of the Bank, enforceable in accordance with its terms;
- (g) the Bonds and Commercial Papers constitute the direct, unconditional, unsecured and unsubordinated Philippine Peso-denominated obligations of the Bank, and, when duly executed, authenticated, issued and delivered in accordance with the Trust Indenture and the Registry and Paying Agency Agreement, enforceable in accordance with its terms, and will at all times rank *pari passu* and ratably without any preference among themselves and at least *pari passu* with all other direct, unconditional, unsecured and unsubordinated Philippine Peso-denominated obligations of the Bank, present and future, other than obligations mandatorily preferred by law;

- (h) all necessary actions and things required to be taken, fulfilled or done (including without limitation the obtaining of any consent, authorisation, order or license or the making of any filing or registration) for the issue of the Bonds and Commercial Papers, the validity, performance or enforceability of the Bonds, the Commercial Papers or the Contracts, the carrying out of the other transactions contemplated by the Bonds, Commercial Papers and the Contracts or the compliance by the Bank with the terms of the Bonds, the Commercial Papers and the Contracts, as the case may be, have been taken, fulfilled or done;
- (i) the Bank has complied with all requirements of the BSP for the issuance of the Bonds and Commercial Papers, and the Bonds and Commercial Papers comply with all other terms and conditions imposed by the BSP regarding the issuance of the Bonds and Commercial Papers while any portion of the Bonds remain outstanding;
- (j) the Bank has complied with all qualifications and conditions of the BSP Rules to issue, maintain, service, pay out, redeem, and cancel the Bonds and Commercial Papers;
- (k) the execution and delivery of the Contracts, the issue of the Bonds and Commercial Papers, the carrying out of the other transactions contemplated by the Contracts and compliance with the terms of the Contracts, the Bonds and the Commercial Papers, as the case may be, do not and will not: (i) conflict with or result in a breach of any of the terms or provisions of, or constitute a default under, the documents constituting the Bank, or any indenture, trust deed, mortgage or other agreement or instrument to which the Bank or any of the Bank's subsidiaries is a party or by which it or any of its properties is bound; or (ii) infringe any existing applicable law, rule, regulation, judgment, order or decree of any government, governmental body or court, domestic or foreign, having jurisdiction over the Bank, any such subsidiary or any of their properties;
- (l) the (i) Offering Circular, including any amendments or supplements thereto, and the relevant Pricing Supplement and other materials used in the Offer: contain all information with respect to the Group and to the Bonds and Commercial Papers which is material in the context of the issue and offering of the Bonds and Commercial Papers (including, without limitation, all information required by the applicable laws and regulations of the Philippines and the information which, according to the particular nature of the Bank and of the Bonds and Commercial Papers, is necessary to enable potential Holders and their investment advisers to make an informed assessment of the assets and liabilities, financial position, profits and losses, and prospects of the Bank and of the rights attaching to the Bonds and Commercial Papers); (ii) the statements contained in the Offering Circular and the relevant Pricing Supplement relating to the Bank and the Group are in every material respect true, accurate and not misleading; (iii) the opinions and intentions expressed in the Offering Circular with regard to the Bank and the Group are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; (iv) there are no other facts in relation to the Group or the Bonds and Commercial Papers the omission of which would, in the context of the issue and offering of the Bonds and Commercial Papers, make any statement in the Offering Circular misleading in any material respect; and (v) all reasonable inquiries have been made by the Bank to ascertain such facts and to verify the accuracy of all such information and statements;
- (m) the Offering Circular accurately describes: (i) accounting policies which the Bank believes to be the most important in the portrayal of the Group's financial condition and results of operations (the "**Critical Accounting Policies**"); (ii) material judgments and uncertainties affecting the application of the Critical Accounting Policies; and (iii) an explanation of the likelihood that materially different amounts would be reported under different conditions or using different assumptions, and the Board of Directors and audit committee of the Bank have reviewed and agreed with the selection and disclosure of the Critical Accounting Policies in the Offering Circular and have consulted with their independent accountants with regards to such disclosure;
- (n) each member of the Group maintains systems of internal accounting controls sufficient to provide reasonable assurance that: (i) transactions are executed in accordance with management's general or specific authorisations; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with financial reporting standards in the Philippines for banks and to maintain asset accountability; (iii) access to assets is permitted only in accordance with management's general or specific authorisation; (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences; and (v) each member of the Group has made and kept books, records and accounts which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets of such entity and provide a sufficient basis for the preparation of the Bank's consolidated financial statements in accordance with financial reporting standards in the Philippines for banks; and the Bank's current management information and accounting control system has been in operation for at least twelve (12) months during which none of the

GENERAL TERMS AND CONDITIONS

Bank nor any other member of the Group has experienced any material difficulties with regard to (i) through (v) above;

- (o) there are no outstanding guarantees or contingent payment obligations of the Bank in respect of indebtedness of third parties except as described in the Offering Circular; the Bank is in compliance with all of its obligations under any outstanding guarantees or contingent payment obligations as described in the Offering Circular;
- (p) the Offering Circular accurately and fully describes: (i) all material trends, demands, commitments, events, uncertainties and risks, and the potential effects thereof, that the Bank believes would materially affect liquidity and are reasonably likely to occur; and (ii) all material off-balance sheet transactions, arrangements, and obligations; and neither the Bank nor any other member of the Group has any material relationships with unconsolidated entities that are contractually limited to narrow activities that facilitate the transfer of or access to assets by the Bank or any other member of the Group, such as structured finance entities and special purpose entities that are reasonably likely to have a material effect on the liquidity of the Bank or any other member of the Group or the availability thereof or the requirements of the Bank or any other member of the Group for capital resources;
- (q) all information provided by the Bank to its Auditors required for the purposes of their comfort letters in connection with the offering and sale of the Bonds and Commercial Papers has been supplied, or as the case may be, will be supplied, in good faith and after due and careful enquiry; such information was when supplied and remains (to the extent not subsequently updated by further information supplied to such persons prior to the date hereof), or as the case may be, will be when supplied, true and accurate in all material respects and no further information has been withheld the absence of which might reasonably have affected the contents of any of such letters in any material respect;
- (r) the Auditors are independent public accountants with respect to the Group, as required by the Philippine Institute of Certified Public Accountants and the applicable rules and regulations thereof;
- (s) save as disclosed in the Offering Circular, all transactions by the Bank with its directors, officers, management, shareholders, or any other person, including persons formerly holding such positions, are on terms that are available from other parties on an arm's-length basis;
- (t) each of the Bank and the other members of the Group: (i) has all licenses, franchises, permits, authorisations, approvals, registrations and orders and other concessions that are necessary to own or lease its other properties and conduct its businesses as described in the Offering Circular; (ii) is conducting its business and operations in compliance with all applicable laws and regulations in each of the jurisdictions in which it conducts business and operations, including, without limitation, all regulations, guidelines and circulars of the BSP, the SEC, the PSE and the BIR; (iii) has complied with, corrected and successfully and effectively implemented, to the satisfaction of the BSP, all findings and recommendations of the BSP resulting from all past audits and examinations conducted by the BSP on the Bank; and (iv) is otherwise in compliance with all agreements and other instruments to which it is a party, except where any failure to be in compliance with any of which would not qualify as, or result in, an Adverse Effect;
- (u) except as specifically described in the Offering Circular, the Bank and the other members of the Group own or possess (or can acquire on reasonable terms), all patents, licenses, inventions, copyrights, know-how, trademarks, service marks, trade names or other intellectual property (collectively, "**Intellectual Property**") necessary to carry on the business now operated by them; and neither the Bank nor any other member of the Group has received notice or is otherwise aware of any infringement of or conflict with asserted rights of others with respect to any Intellectual Property or of any facts or circumstances which would render any Intellectual Property invalid or inadequate to protect the interests of the Bank or other members of the Group therein; and which infringement or conflict (if the subject of any unfavourable decision, ruling or finding) or invalidity or inadequacy, singly or in the aggregate, would reasonably be expected to result in an Adverse Effect;
- (v) except as specifically described in the Offering Circular, there are no pending actions, suits or proceedings against or affecting the Bank or any other member of the Group or any of their properties which, if determined adversely would individually or in the aggregate have an Adverse Effect, and, to the best of the Bank's knowledge, no such actions, suits or proceedings are threatened or contemplated;

GENERAL TERMS AND CONDITIONS

- (w) no event has occurred or circumstance arisen which (whether or not with the giving of notice and/or the passage of time and/or the fulfillment of any other requirement) constitutes an event described under “Events of Default” hereunder;
- (x) the Bank and the other members of the Group are in compliance with the Anti-Money Laundering Laws of the Philippines in all material respects. The financial transactions and operations of the Bank and its subsidiaries are and have been conducted at all times in compliance with applicable financial record keeping and reporting requirements and anti-money laundering laws, rules, regulations or guidelines applicable to the Bank and its subsidiaries (collectively, the “**Anti-Money Laundering Laws**”) and no action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving the Bank or any of its subsidiaries with respect to the Anti-Money Laundering Laws is pending or, to the best knowledge of the Bank and each of its subsidiaries, after due inquiry, threatened; and
- (y) the Bank is Solvent. As used in this paragraph, the term “**Solvent**” means, with respect to a particular date, that on such date: (i) the present fair market value (or present fair saleable value) of the assets of the Bank is not less than the total amount required to pay the liabilities of the Bank on its total existing debts and liabilities (including contingent liabilities) as they become absolute and matured; (ii) the Bank is able to realise upon its assets and pay its debts and other liabilities, contingent obligations and commitments as they mature and become due in the normal course of business; (iii) the Bank is not incurring debts or liabilities beyond its ability to pay as such debts and liabilities mature; (iv) the Bank is not engaged in any business or transaction, and does not propose to engage in any business or transaction, for which its property would constitute unreasonably small capital after giving due consideration to the prevailing practice in the industry in which the Bank is engaged; (v) the Bank will be able to meet its obligations under all its outstanding indebtedness as they fall due; and (vi) the Bank is not a defendant in any civil action that would result in a judgment that the Bank is or would become unable to satisfy.

Each of the representations and warranties set forth hereof are made as of the date the Contracts, the Offering Circular and each Pricing Supplement, and will be true and accurate for as long as the Bonds and Commercial Papers or any portion thereof remains outstanding, and so long as any Bonds and Commercial Papers remains unissued under the Programme, with reference to the facts and circumstances existing from time to time.

10. Covenants

The Bank covenants that during the term of the Bonds and/or Commercial Papers and until payment in full and performance of all its obligations thereunder, the Bank shall act as follows and shall perform the following obligations:

- (a) The Bank shall pay all amounts due under the Bonds and Commercial Papers at the times and in the manner specified in, and perform all its obligations, undertakings, and covenants under the Bonds and Commercial Papers;
- (b) The Bank shall ensure that it will continue to have the legal and juridical personality to maintain the Bonds and Commercial Papers until Maturity Date or full payment of the claims under the Bonds and Commercial Papers, whichever is later, and accordingly, shall secure all necessary corporate and government approvals, and perform all necessary acts, for the renewal and extension of its corporate term, on or prior to the expiry thereof;
- (c) It shall, as soon as practicable, make available copies of its audited financial statements, consisting of the balance sheet of the Bank as of the end of its latest fiscal year and statements of income and retained earnings and of the source and application of funds of the Bank for such fiscal year, such audited financial statements being prepared in accordance with generally accepted accounting principles and practices in the Philippines consistently applied and being certified by an independent certified public accountant of recognized standing in the Philippines; and shall, as soon as practicable, upon written request from a Bondholder, furnish to such requesting Holder such updates and information as may be reasonably requested by a Bondholder pertaining to the business, assets, condition, or operations of the Bank, or affecting the Bank's ability to duly perform and observe its obligations and duties under the Bonds and Commercial Papers and the Contracts;
- (d) It shall, when so requested in writing, provide any and all information reasonably needed by the Paying Agent and/or Registrar, as the case may be, to enable them to respectively comply with their respective responsibilities and duties under the BSP Rules, and the Contracts; *Provided*, that, in the event that the Bank cannot, for any reason, provide the required information, the Bank shall immediately advise the party requesting the same and shall perform such acts as may be necessary to provide for alternative information gathering;

- (e) The Bank shall promptly advise the Holders through the Trustee of: (i) any request by any government agency for any information related to the Bonds or Commercial Papers; and (ii) the issuance by any governmental agency of any cease-and-desist order suspending the distribution or sale of the Bonds and Commercial Papers or the initiation of any proceedings for any such purpose and shall use its best efforts to obtain at its sole expense the withdrawal of any order suspending the transactions with respect to the Bonds at the earliest time possible;
- (f) The Bank shall ensure that any documents related to the Bonds and Commercial Papers will, at all times, comply in all material respects with the applicable laws, rules, regulations, and circulars, and, if necessary, make the appropriate revisions, supplements, and amendments to make them comply with such laws, rules, regulations, and circulars;
- (g) The Bank shall upon written request of the Trustee execute and deliver to the Trustee such reports, documents, and other information relating to the business, properties, condition, or operations, financial or otherwise, of the Bank and affecting the Bank's ability to duly perform and observe its obligations and duties under the Bonds, Commercial Papers and the Contracts; provided that if the updates and information requested are not public documents, such Holder must execute a non-disclosure agreement and an undertaking that it shall not benefit from the disclosure of such non-public updates and information;
- (h) The Bank shall, as soon as possible and in any event within five (5) Business Days after the occurrence of any default on any of the obligations of the Bank, or other event which, with the giving of any notice and/or with the lapse of time, would constitute a default under the material agreements of the Bank with any party, including, without limitation the Contracts, serve a written notice to the Bondholders through the Trustee, of the occurrence of any such default, specifying the details and the steps which the Bank is taking or proposes to take for the purpose of curing such default, including the Bank's estimate of the length of time to correct the same;
- (i) It will duly and punctually comply with all reporting, filing and similar requirements imposed by the BSP, the SEC and the PSE or in accordance with any applicable Philippine law and regulations from time to time relating to the Bonds, Commercial Papers and the Contracts;
- (j) The Bank shall maintain the services of the Auditors and in any event where the then existing Auditors shall cease to be the external auditor of the Bank for any reason, the Bank shall appoint another reputable, responsible and internationally accredited firm of auditors to be the external auditor of the Bank;
- (k) It shall fully and promptly comply with all BSP directives, orders, issuances, and letters, including those regarding its capital, licenses, risk management, and operations and promptly and satisfactorily take all corrective measures that may be required under BSP audit reports;
- (l) It shall use the net proceeds from the Bonds in accordance with the purpose of issuance provided in the Offering Circular; and
- (m) It shall ensure that there shall at all times be a Trustee and a Registrar and Paying Agent for the purposes of the Bonds and Commercial Papers, as provided in the Trust Indenture and Registry and Paying Agency Agreement, respectively.

11. Negative Pledge

The Bank covenants and agrees that, from the signing date of the Trust Indenture and for as long as the Bonds and Commercial Papers or any portion thereof remain outstanding, unless the Majority Bondholders and Majority CP Holders shall otherwise consent in writing:

- (a) the Bank will not create or permit to subsist any mortgage, charge pledge, lien or other form of encumbrance or security interest ("**Security Interest**") upon the whole or any part of its undertaking, assets or revenues (present or future) to secure any Indebtedness, or any guarantee of or indemnity in respect of any Indebtedness;
- (b) the Bank will procure that no other person creates or permits to subsist any Security Interest upon the whole or any part of the undertaking, assets or revenues present or future of that other person to secure (x) any of the Bank's Indebtedness, or any guarantee of or indemnity in respect of any of the Bank's Indebtedness, or (y) where the person in question is a Subsidiary of the Bank, any of the Indebtedness of any person other than that Subsidiary, or any guarantee of or indemnity in respect of any such Indebtedness, unless, at the same time or prior thereto, the Bank's obligations under the Bonds (i) are secured equally and ratably therewith or benefit from a guarantee or

GENERAL TERMS AND CONDITIONS

indemnity in substantially identical terms thereto, as the case may be, or (ii) have the benefit of such other security, guarantee, indemnity or other arrangement as shall be approved by the Majority Bondholders; and

- (c) the Bank will not create or permit to subsist any preference or priority in respect of any other Indebtedness of the Bank pursuant to Article 2244(14) of the Civil Code of the Philippines, or any successor Philippine law providing for preferences or priority in respect of notarised Indebtedness unless amounts payable under the outstanding Bonds and/or Commercial Papers are granted preference or priority equally and ratably therewith.

For the purposes hereof, **Indebtedness** means any present or future indebtedness in the form of, or represented by, bonds, notes, debentures, loan stock or other securities having an original maturity of more than one year from its date of issue and which are for the time being quoted, listed or ordinarily dealt in on any stock exchange, over-the-counter or other securities market, provided that in the case of (c) above, Indebtedness shall exclude (x) Indebtedness denominated, payable or optionally payable in US Dollars, and (y) if denominated, payable or optionally payable in Philippine Pesos, Indebtedness in an aggregate principal amount not exceeding 5% of the consolidated total assets as shown in the latest audited balance sheet of the Bank.

12. Events of Default

The Bank shall be considered in default under the Bonds, Commercial Papers and the Trust Indenture in case any of the following events (each an “Event of Default”) shall occur and is continuing:

- (a) The Bank fails to pay any principal and/or interest due on the Bonds and/or Commercial Papers issued under the Programme, provided, that such non-payment shall not constitute an Event of Default if the Bank has confirmed the Payment Instruction Report (as defined in the Registry and Paying Agency Agreement) prepared by the Registrar and Paying Agent and there are sufficient funds standing in the Payment Account (as defined in the Registry and Paying Agency Agreement) on a relevant payment date;
- (b) Any representation and warranty of the Bank or any certificate or opinion submitted by the Bank in connection with the issuance of the Bonds and/or Commercial Papers is untrue, incorrect, or misleading in any material respect;
- (c) The Bank fails to perform or violates its covenants under these General Terms and Conditions (other than the payment obligation under paragraph (a) above) or the Contracts, and such failure or violation is not remediable or, if remediable, continues to be unremedied for a period of fifteen (15) calendar days from notice to the Bank;
- (d) The Bank violates any term or condition of any contract, bond, note, debenture, or similar security executed by the Bank with any other bank, financial institution, or other person, corporation, or entity in respect of borrowed moneys in an aggregate amount exceeding Five Hundred Million Pesos (₱500,000,000.00) or its equivalent or, in general, the Bank violates any contract, law, or regulation which: (i) if remediable, is not remedied by the Bank within ten (10) calendar days from such failure; (ii) results in the acceleration or declaration of the whole financial obligation to be due and payable prior to the stated normal date of maturity; or (iii) will adversely and materially affect the performance by the Bank of its obligations under the Bonds and/or Commercial Papers and pay any amount outstanding on the Bonds and/or Commercial Papers;
- (e) Any governmental consent, license, approval, authorization, declaration, filing or registration which is granted or required in connection with the Bonds and/or Commercial Papers expires or is terminated, revoked or modified and the result thereof is to make the Bank unable to discharge its obligations hereunder or thereunder;
- (f) It becomes unlawful for the Bank to perform any of its material obligations under the Bonds and/or Commercial Papers;
- (g) The government or any competent authority takes any action to suspend the whole or the substantial portion of the operations of the Bank, or condemns, seizes, nationalizes or expropriates (with or without compensation) the Bank or any material portion of its properties or assets;
- (h) The Bank becomes insolvent or is unable to pay its debts when due or commits or permits any act of bankruptcy, including: (i) filing of a petition in any bankruptcy, reorganization, winding-up, suspension of payment, liquidation, or other analogous proceeding; (ii) appointment of a trustee or receiver of all or a substantial portion of its properties; (iii) making of an assignment for the benefit of its creditors of all or substantially all of its properties; (iv) admission in writing of its inability to pay its debts; or (v) entry of any order or judgment of any

GENERAL TERMS AND CONDITIONS

court, tribunal, or administrative agency or body confirming the insolvency of the Bank, or approving any reorganization, winding-up, liquidation, or appointment of trustee or receiver of the Bank or a substantial portion of its property or assets (each, an “**Insolvency Default**”);

- (i) Any final and executory judgment, decree, or arbitral award for the sum of money, damages, fine, or penalty in excess of Five Hundred Million Pesos (₱500,000,000.00) or its equivalent in any other currency is entered against the Bank and the enforcement of which is not stayed, and is not paid, discharged, or duly bonded within thirty (30) calendar days after the date when payment of such judgment, decree, or award is due under the applicable law or agreement;
- (j) Any writ, warrant of attachment or execution, or similar process shall be issued or levied against more than half of the Bank's assets, singly or in the aggregate, and such writ, warrant, execution or similar process shall not be released, vacated, or fully bonded within thirty (30) calendar days after its issue or levy; and
- (k) The Bank voluntarily suspends or ceases operations of a substantial portion of its business for a continuous period of thirty (30) calendar days, except in the case of strikes or lockouts when necessary to prevent business losses, or when due to fortuitous events or *force majeure*, and, provided that, in any such event, there is no Adverse Effect.

13. Notice of Default

Subject to the terms of the Trust Indenture, the Trustee shall, within ten (10) Business Days after receiving notice, or having knowledge of, the occurrence of any Event of Default, give to the Holders written notice of such default known to it unless the same shall have been cured before the giving of such notice; provided that, in the case of payment default under Section 10 above, the Trustee shall immediately notify the Holders upon the occurrence of such payment default. The written notice required to be given to the Holders hereunder shall be published in a newspaper of general circulation in Metro Manila for two (2) consecutive days, further indicating in the published notice that the Holders or their duly authorized representatives may obtain any information relating to such occurrence of an Event of Default at the principal office of the Trustee upon presentation of sufficient and acceptable identification.

14. Consequences of Default

If any one or more of the Events of Default shall have occurred and be continuing without the same being cured within the periods provided in the Trust Indenture and in these General Terms and Conditions, the Trustee may on its own, or, upon the written direction of the Majority Bondholders and Majority CP Holders, shall, by notice in writing delivered to the Bank, with a copy furnished the Registrar and Paying Agent, declare the principal amount of the Bonds and/or Commercial Papers, including all accrued interest and other charges thereon, if any, to be immediately due and payable, and upon such declaration the same shall be immediately due and payable.

All the unpaid obligations under the Bonds and/or Commercial Papers, including accrued interest, and all other amounts payable thereunder, shall be declared to be forthwith due and payable, whereupon all such amounts shall become and be forthwith due and payable without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by the Bank.

15. Penalty Interest

In case any amount payable by the Bank under the Bonds and/or Commercial Papers, whether for principal, interest, fees due to Trustee or Registrar or otherwise, is not paid on due date, the Bank shall, without prejudice to its obligations to pay the said principal, interest and other amounts, pay penalty interest on the defaulted amount(s) at the rate of 1% per month (the “**Penalty Interest**”) from the time the amount falls due until it is fully paid.

16. Payment in the Event of Default

The Bank covenants that upon the occurrence of any Event of Default, the Bank shall pay to the Holders, through the Paying Agent, the whole amount which shall then have become due and payable on all such outstanding Bonds and/or Commercial Papers with interest at the rate borne by the Bonds and/or Commercial Papers on the overdue principal and with Penalty Interest as described above, and in addition thereto, the Bank shall pay to the Trustee such further amounts as shall be determined by the Trustee to be sufficient to cover the cost and expenses of collection, including reasonable compensation to the Trustee, its agents, attorneys and counsel, and any reasonable expenses or liabilities incurred without negligence or bad faith by the Trustee.

17. Application of Payments

Any money collected or delivered to the Paying Agent, and any other funds held by it, subject to any other provision of the Trust Indenture and the Registry and Paying Agency Agreement relating to the disposition of such money and funds, shall be applied by the Paying Agent in the order of preference as follows: *first*, to the payment to the Trustee, the Paying Agent and the Registrar, of the costs, expenses, fees and other charges of collection, including reasonable compensation to them, their agents, attorneys and counsel, and all reasonable expenses and liabilities incurred or disbursements made by them, without gross negligence or bad faith; *second*, to the payment of the interest in default, in the order of the maturity of such interest with Penalty Interest; *third*, to the payment of the whole amount then due and unpaid upon the Bonds and/or Commercial Papers for principal, and interest, with Penalty Interest; and *fourth*, the remainder, if any shall be paid to the Bank, its successors or assigns, or to whoever may be lawfully entitled to receive the same, or as a court of competent jurisdiction may direct.

18. Prescription

Claims with respect to principal and interest or other sums payable hereunder shall prescribe unless made within ten (10) years (in the case of principal or other sums) or five (5) years (in the case of interest) from the date on which payment becomes due.

19. Remedies

All remedies conferred by the Trust Indenture to the Trustee and the Holders shall be cumulative and not exclusive and shall not be so construed as to deprive the Trustee or the Holders of any legal remedy by judicial or extra judicial proceedings appropriate to enforce the conditions and covenants of the Trust Indenture, subject to the discussion below on “*Ability to File Suit*”.

No delay or omission by the Trustee or the Holders to exercise any right or power arising from or on account of any default hereunder shall impair any such right or power, or shall be construed to be a waiver of any such default or an acquiescence thereto; and every power and remedy given by the Trust Indenture to the Trustee or the Holders may be exercised from time to time and as often as may be necessary or expedient.

20. Ability to File Suit

No Holder shall have any right by virtue of or by availing of any provision of the Trust Indenture to institute any suit, action or proceeding for the collection of any sum due from the Bank hereunder on account of principal, interest and other charges, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless (i) such Holder previously shall have given to the Trustee written notice of an Event of Default and of the continuance thereof and the related request for the Trustee to convene a meeting of the Holders to take up matters related to their rights and interests under the Bonds and/or Commercial Papers, as applicable; (ii) the Majority Bondholders and Majority CP Holders shall have decided and made the written request upon the Trustee to institute such action, suit or proceeding in the latter's name; (iii) the Trustee for 60 days after the receipt of such notice and request shall have neglected or refused to institute any such action, suit or proceeding; and (iv) no directions inconsistent with such written request shall have been given under a waiver of default by the Bondholders and CP Holders, it being understood and intended, and being expressly covenanted by every Holder with every other Holder and the Trustee, that no one or more Holders shall have any right in any manner whatever by virtue of or by availing of any provision of the Trust Indenture to affect, disturb or prejudice the rights of the holders of any other such Bonds and/or Commercial Papers or to obtain or seek to obtain priority over or preference to any other such holder or to enforce any right under the Trust Indenture, except in the manner herein provided and for the equal, ratable and common benefit of all the Holders.

21. Waiver of Default by the Bondholders and CP Holders

The Majority Bondholders or the Majority CP Holders (as the case may be) may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred upon the Trustee, or the Majority Bondholders or Majority CP Holders (as the case may be) may decide for and on behalf of the Holders to waive any past default, except the events of default specified in Sections 10 (a), (d) and (h) above. In case of any such waiver, the Bank, the Trustee and the Holders shall be restored to their former positions and rights hereunder; provided however that, no such waiver shall extend to any subsequent or other default or impair any right consequent thereto. Any such waiver by the Majority Bondholders and/or CP Holders shall be conclusive and binding upon all Holders and upon all future holders and owners thereof, irrespective of whether or not any notation of such waiver is made upon the certificate representing the Bonds and/or Commercial Papers.

22. Trustee; Notices

(a) *Notice to the Trustee*

All documents required to be submitted to the Trustee pursuant to the Trust Indenture and the Offering Circular and all correspondence addressed to the Trustee shall be delivered to:

To the Trustee:	Development Bank of the Philippines – Trust Banking Group
Attention:	SVP Ma. Teresa T. Atienza
Subject:	Metropolitan Bank & Trust Company - ₱54.5 Billion Programme
Address:	Development Bank of the Philippines Sen. Gil J. Puyat Avenue corner Makati Avenue, Makati City Philippines
Facsimile:	(632) 893-0942

All documents and correspondence not sent to the above-mentioned address shall be considered as not to have been sent at all.

(b) *Notice to the Holders*

The Trustee shall send all notices to Holders to their mailing address as set forth in the Registry. Except where a specific mode of notification is provided for herein, notices to Holders shall be sufficient when made in writing and transmitted in any one of the following modes: (i) registered mail; (ii) surface mail; (iii) by one-time publication in a newspaper of general circulation in the Philippines; or (iv) personal delivery to the address of record in the Registry of Bondholders. The Trustee shall rely on the Registry in determining the Bondholders and/or CP Holders entitled to notice. All notices shall be deemed to have been received (i) ten (10) days from posting if transmitted by registered mail; (ii) fifteen (15) days from mailing, if transmitted by surface mail; (iii) on date of publication or (iv) on date of delivery, for personal delivery.

(c) *Binding and Conclusive Nature*

Except as provided in the Trust Indenture, all notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained by the Trustee for the purposes of the provisions of the Trust Indenture, shall (in the absence of willful default, bad faith or manifest error) be binding on the Bank and all Holders. No liability to the Bank, the Paying Agent or the Holders shall attach to the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions under the Trust Indenture resulting from the Trustee's reliance on the foregoing.

23. Duties and Responsibilities of the Trustee

- (a) The Trustee is appointed as trustee for and on behalf of the Holders and accordingly shall perform such duties and shall have such responsibilities as provided in the Trust Indenture. The Trustee shall, in accordance with the terms and conditions of the Trust Indenture, monitor the compliance or non-compliance by the Bank with all its representations and warranties, and the observance by the Bank of all its covenants and performance of all its obligations, under and pursuant to the Trust Indenture. The Trustee shall observe due diligence in the performance of its duties and obligations under the Trust Indenture. For the avoidance of doubt, notwithstanding any actions that the Trustee may take, the Trustee shall remain to be the party responsible to the Holders, and to whom the Holders shall communicate with in respect to any matters that must be taken up with the Bank.
- (b) The Trustee shall, prior to the occurrence of an Event of Default or after the curing of all such defaults which may have occurred, perform only such duties as are specifically set forth in the Trust Indenture. In case of default, the Trustee shall exercise such rights and powers vested in it by the Trust Indenture, and use such judgment and care under the circumstances then prevailing that individuals of prudence, discretion and intelligence, and familiar with such matters, exercise in the management of their own affairs.
- (c) None of the provisions contained in the Trust Indenture or Offering Circular shall require or be interpreted to require the Trustee to expend or risk its own funds or otherwise incur personal financial liability in the performance

GENERAL TERMS AND CONDITIONS

of any of its duties or in the exercise of any of its rights or powers.

24. Resignation and Change of Trustee

- (a) The Trustee may at any time resign by giving thirty (30) days' prior written notice to the Bank and to the Holders of such resignation.
- (b) Upon receiving such notice of resignation of the Bank, the Bank shall immediately appoint a successor trustee by written instrument in duplicate, executed by its authorized officers, one (1) copy of which instrument shall be delivered to the resigning Trustee and one (1) copy to the successor trustee. If no successor shall have been so appointed and have accepted appointment within thirty (30) days after the giving of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor, or any Holder who has been a *bona fide* holder for at least six months (the "*Bona Fide* Holder") may, for and on behalf of the Holders, petition any such court for the appointment of a successor. Such court may thereupon after notice, if any, as it may deem proper, appoint a successor trustee.
- (c) A successor trustee should possess all the qualifications required under pertinent laws, otherwise, the incumbent trustee shall continue to act as such.
- (d) In case at any time the Trustee shall become incapable of acting, or has acquired conflicting interest, or shall be adjudged as bankrupt or insolvent, or a receiver for the Trustee or of its property shall be appointed, or any public officer shall take charge or control of the Trustee or of its properties or affairs for the purpose of rehabilitation, conservation or liquidation, then the Bank may within thirty (30) days therefrom remove the Trustee concerned, and appoint a successor trustee, by written instrument in duplicate, executed by its authorized officers, one (1) copy of which instrument shall be delivered to the Trustee so removed and one (1) copy to the successor trustee. If the Bank fails to remove the Trustee concerned and appoint a successor trustee, any *Bona Fide* Holder may petition any court of competent jurisdiction for the removal of the Trustee concerned and the appointment of a successor trustee. Such court may thereupon after such notice, if any, as it may deem proper, remove the Trustee and appoint a successor trustee.
- (e) The Majority Bondholders and Majority CP Holders, may at any time remove the Trustee for cause, and appoint a successor trustee, by the delivery to the Trustee so removed, to the successor trustee and to the Bank of the required evidence of the action in that regard taken by the Majority Bondholders and Majority CP Holders.
- (f) Any resignation or removal of the Trustee and the appointment of a successor trustee pursuant to any of the provisions the Trust Indenture shall become effective upon the earlier of: (i) acceptance of appointment by the successor trustee as provided in the Trust Indenture; or (ii) the effectivity of the resignation notice sent by the Trustee under the Trust Indenture (a) (the "Resignation Effective Date") provided, however, that after the Resignation Effective Date and, as relevant, until such successor trustee is qualified and appointed (the "Holdover Period"), the resigning Trustee shall discharge duties and responsibilities solely as a custodian of records for turnover to the successor Trustee promptly upon the appointment thereof by the Bank.

25. Successor Trustee

- (a) Any successor trustee appointed shall execute, acknowledge and deliver to the Bank and to its predecessor Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the predecessor Trustee shall become effective and such successor trustee, without further act, deed or conveyance, shall become vested with all the rights, powers, trusts, duties and obligations of its predecessor in the trusteeship with like effect as if originally named as trustee in the Trust Indenture. The foregoing notwithstanding, on the written request of the Bank or of the successor trustee, the Trustee ceasing to act as such shall execute and deliver an instrument transferring to the successor trustee, all the rights, powers and duties of the Trustee so ceasing to act as such. Upon request of any such successor trustee, the Bank shall execute any and all instruments in writing as may be necessary to fully vest in and confer to such successor trustee all such rights, powers and duties.
- (b) Upon acceptance of the appointment by a successor trustee, the Bank shall notify the Holders in writing of the succession of such trustee to the trusteeship. If the Bank fails to notify the Holders within 10 days after the acceptance of appointment by the trustee, the latter shall cause the Holders to be notified at the expense of the Bank.

26. Reports to the Holders

- (a) The Trustee shall submit to the Holders on or before February 28 of each year from the relevant Issue Date until full payment of the Bonds and/or Commercial Papers through electronic mail a brief report dated as of December 31 of the immediately preceding year with respect to any action taken by the Trustee in the performance of its duties under the Trust Indenture which it has not previously reported and which in its opinion materially affects the Bonds and/or Majority CP Holders, except action in respect of a default, notice of which has been or is to be withheld by it.
- (b) The Trustee shall submit to the Holders through electronic mail a brief report within 90 days from the making of any advance for the reimbursement of which it claims or may claim a lien or charge which is prior to that of the Holders on the property or funds held or collected by the Paying Agent with respect to the character, amount and the circumstances surrounding the making of such advance; provided that, such advance remaining unpaid amounts to at least ten percent (10%) of the aggregate outstanding principal amount of the Bonds and/or Commercial Papers at such time.
- (c) The following pertinent documents may be inspected during regular business hours on any Business Day at the principal office of the Trustee:
 - (i) Trust Indenture;
 - (ii) Registry and Paying Agency Agreement; and
 - (iii) Articles of Incorporation and By-Laws of the Bank.

27. Meetings of the Bondholders and CP Holders

A meeting of the Bondholders and CP Holders in respect of a particular Series or Tranche may be called at any time for the purpose of taking any actions authorized to be taken by or on behalf of the Bondholders and CP Holders of any specified aggregate principal amount of Bonds and Commercial Papers under any other provisions of the Trust Indenture or under the law and such other matters related to the rights and interests of the Holders under the Bonds and Commercial Papers.

(a) *Notice of Meetings*

The Trustee may at any time call a meeting of the Holders, or the Holders of at least twenty-five percent (25%) of the aggregate outstanding principal amount of Bonds and Commercial Papers may direct in writing the Trustee to call a meeting of the Holders, to take up any allowed action, to be held at such time and at such place as the Trustee shall determine. Notice of every meeting of the Holders, setting forth the time and the place of such meeting and the purpose of such meeting in reasonable detail, shall be sent by the Trustee to the Bank and to each of the registered Holders not earlier than forty-five (45) days nor later than fifteen (15) days prior to the date fixed for the meeting. Each of such notices shall be published in a newspaper of general circulation as provided in the Trust Indenture. All reasonable costs and expenses incurred by the Trustee for the proper dissemination of the requested meeting shall be reimbursed by the Bank within ten (10) days from receipt of the duly supported billing statement.

(b) *Failure of the Trustee to Call a Meeting*

In case at any time the Bank or the Holders of at least twenty five percent (25%) of the aggregate outstanding principal amount of the Bonds and Commercial Papers shall have requested the Trustee to call a meeting of the Holders by written request setting forth in reasonable detail the purpose of the meeting, and the Trustee shall not have mailed and published, in accordance with the notice requirements, the notice of such meeting, then the Bank or the Holders in the amount above specified may determine the time and place for such meeting and may call such meeting by mailing and publishing notice thereof.

(c) *Quorum*

The Trustee shall determine and record the presence of the Majority Bondholders and Majority CP Holders, personally or by proxy. The presence of the Majority Bondholders and Majority CP Holders shall be necessary to constitute a quorum to do business at any meeting of the Holders.

GENERAL TERMS AND CONDITIONS

(d) *Procedure for Meetings*

- (i) The Trustee shall preside at all the meetings of the Holders, unless the meeting shall have been called by the Bank or by the Holders, in which case the Bank or the Holders calling the meeting, as the case may be, shall in like manner move for the election of the chairman and secretary of the meeting.
- (ii) Any meeting of the Holders duly called may be adjourned for a period or periods not to exceed in the aggregate of one (1) year from the date for which the meeting shall originally have been called and the meeting as so adjourned may be held without further notice. Any such adjournment may be ordered by persons representing a majority of the aggregate principal amount of the Bonds represented at the meeting and entitled to vote, whether or not a quorum shall be present at the meeting.

(e) *Voting Rights*

To be entitled to vote at any meeting of the Holders, a person shall be a registered holder of one (1) or more Bonds and/or Commercial Papers or a person appointed by an instrument in writing as proxy by any such holder as of the date of the said meeting. Holders shall be entitled to one vote for every Ten Thousand Pesos (₱10,000) interest. The only persons who shall be entitled to be present or to speak at any meeting of the Holders shall be the persons entitled to vote at such meeting and any representatives of the Bank and its legal counsel.

(f) *Voting Requirement*

All matters presented for resolution by the Holders in a meeting duly called for the purpose shall be decided or approved by the affirmative vote of the Majority Bondholders and Majority CP Holders present or represented in a meeting at which there is a quorum except as otherwise provided in the Trust Indenture (please refer to the preceding discussion on “Quorum”).

Any resolution of the Bondholders or CP Holders which has been duly approved with the required number of votes of the Bondholders and CP Holders as provided in the Trust Indenture shall be binding upon all the Bondholders, CP Holders and the Bank as if the votes were unanimous; provided, that in respect of any matter pertaining to matters relating to the relevant Series or Tranche of Bonds and/or Commercial Papers, only the concerned Bondholders or CP Holders of a particular Series or Tranche will be considered for quorum and approval purposes in any meeting in which any such matter is presented for resolution;

(g) *Role of the Trustee in Meetings of the Holders*

Notwithstanding any other provisions of the Trust Indenture, the Trustee may make such reasonable regulations as it may deem advisable for any meeting of the Holders, in regard to proof of ownership of the Bonds and/or Commercial Papers, the appointment of proxies by registered holders of the Bonds and/or Commercial Papers, the election of the chairman and the secretary, the appointment and duties of inspectors of votes, the submission and examination of proxies, certificates and other evidence of the right to vote and such other matters concerning the conduct of the meeting as it shall deem fit.

28. Amendments

The Bank and the Trustee may, without notice to or the consent of the Bondholders, CP Holders or other parties, amend or waive these General Terms and Conditions if such amendment or waiver is of a formal, minor, or technical nature or to correct a manifest error or inconsistency provided in all cases that such amendment or waiver does not adversely affect the interests of the Holders and provided further that all Holders are notified of such amendment or waiver.

The Bank and the Trustee may amend these General Terms and Conditions without notice to every Holder, but with the written consent of the Majority Bondholders and Majority CP Holders (including consents obtained in connection with a tender offer or exchange offer for the Bonds and/or Commercial Papers). However, without the consent of each Holder affected thereby, an amendment may not:

- (a) reduce the percentage amount of Bonds and/or Commercial Papers that must consent to an amendment or waiver;
- (b) reduce the rate of or extend the time for payment of interest on any Bond or Commercial Paper;
- (c) reduce the principal of or extend the Maturity Date of any Bond or Commercial Paper;
- (d) impair the right of any Holder to receive payment of principal of and interest on such Holder's Bonds and/or

GENERAL TERMS AND CONDITIONS

Commercial Papers on or after the due dates therefor or to institute suit for the enforcement of any payment on or with respect to such Holders;

- (e) reduce the amount payable upon the redemption or repurchase of any Bond or Commercial Paper under these General Terms and Conditions or change the time at which any Bond or Commercial Paper may be redeemed;
- (f) make any Bond or Commercial Paper payable in money other than that stated in the Bond or Commercial Paper;
- (g) subordinate the Bonds or Commercial Paper to any other obligation of the Bank;
- (h) release any security interest that may have been granted in favor of the Holders;
- (i) amend or modify the Payment of Additional Amounts, Taxation, the Events of Default of these General Terms and Conditions or the Waiver of Default by the Holders; or
- (j) make any change or waiver of this Condition.

It shall not be necessary for the consent of the Holders under this Condition to approve the particular form of any proposed amendment, but it shall be sufficient if such consent approves the substance thereof. After an amendment under this Condition becomes effective, the Bank shall send a notice briefly describing such amendment to the Holders in the manner provided in the section entitled “Notices”.

29. Evidence Supporting the Action of the Holders

Wherever in the Trust Indenture it is provided that the Holders of a specified percentage of the aggregate outstanding principal amount of the Bonds or Commercial Papers may take any action (including the making of any demand or requests and the giving of any notice or consent or the taking of any other action), the fact that at the time of taking any such action the holders of such specified percentage have joined therein may be evidenced by: (i) any instrument executed by the Holders in person or by the agent or proxy appointed in writing or (ii) the duly authenticated record of voting in favor thereof at the meeting of the Holders duly called and held in accordance herewith or (iii) a combination of such instrument and any such record of meeting of the Holders.

30. Non-Reliance

Each Holder also represents and warrants to the Trustee that it has independently and, without reliance on the Trustee, made its own credit investigation and appraisal of the financial condition and affairs of the Bank on the basis of such documents and information as it has deemed appropriate and that he has subscribed to the Bonds and/or Commercial Papers on the basis of such independent appraisal, and each Holder represents and warrants that it shall continue to make its own credit appraisal without reliance on the Trustee. The Holders agree to indemnify and hold the Trustee harmless from and against any and all liabilities, damages, penalties, judgments, suits, expenses and other costs of any kind or nature with respect to its obligations under the Trust Indenture, except for its gross negligence or wilful misconduct.

31. Governing Law

The Trust Indenture and other related documents are governed by and are construed in accordance with Philippine law.

32. Venue

Any suit, action, or proceeding against the Bank with respect to the Bonds, Commercial Papers or the Contracts or on any judgment entered by any court in respect thereof may be brought in any competent court in the City of Makati, and the parties submit to the exclusive jurisdiction of such courts for the purpose of any such suit, action, proceeding or judgment, the Bank and Holders expressly waiving other venue.

CAPITALIZATION

The following table sets forth the indebtedness and capitalization of the Group as at 31 December 2019. This table should be read in conjunction with the Group's financial statements as at 31 December 2019 and the notes presented elsewhere herein.

	As at 31 December 2019
	Audited
	(P millions, except for %)
Short-term liabilities	
Deposit liabilities	1,643,489
Interbank loans, bills payable and other liabilities	276,337
Bonds Payable	27,914
Long-Term Negotiable Certificates of Time Deposit	8,000
Subordinated Notes due 2025 (MBT)	6,494
Total short-term liabilities	1,962,234
Long-term liabilities	
Deposit liabilities	26,915
Interbank loans, bills payable and other liabilities	53,695
Bonds Payable ⁽¹⁾	52,572
Long-Term Negotiable Certificates of Time Deposit	35,740
Subordinated Notes due 2023 (MCC)	1,166
Total long-term liabilities	170,088
Total liabilities	2,132,322
Capital Funds	
Issued share capital	89,948
Capital paid in excess of par value	85,252
Treasury stock	(72)
Surplus reserves	2,098
Surplus	144,154
Other equity adjustments	(11,826)
Non-controlling interest	8,937
Total capital funds	318,491
Total capitalisation and indebtedness	2,450,813
Capital Ratios⁽²⁾	
Common Equity Tier 1 ratio	16.2%
Tier 1 capital ratio	16.2%
Total capital ratio	17.5%

Note:

(1) On 4 February 2020, PSBank issued P4.65 billion fixed rate bonds with an issue price at 100% face value, which bear an interest rate of 4.50% per annum and will mature on 4 February 2023.

(2) Common Equity Tier 1, Tier 1 and total capital ratios are calculated based on Basel III rules.

DESCRIPTION OF THE BANK

OVERVIEW

Metropolitan Bank & Trust Company (the **Bank**) is a universal bank based in the Philippines which provides, through itself and other members of the Group, a wide range of banking and other financial products and services including corporate, commercial and consumer banking products and services as well as credit card, investment banking and trust services. As at 31 December 2019, the Group was the second largest Philippine bank by asset size, with total assets of ₱2.5 trillion and capital of ₱309.6 billion, and believes that it was among the top three Philippine banks in terms of net loans and receivables with an outstanding balance of ₱1.5 trillion. The Bank also believes that the Group was among the top three largest Philippine banks by total deposits with ₱1.7 trillion as at 31 December 2019, and, according to the BSP, also controlled 14.5% of the Philippine universal and commercial banking system's total asset base as at 31 December 2019.

The Group offers corporate and commercial banking products and services throughout the Philippines. The Group's corporate banking services consist of banking services provided to corporate customers (generally recognized by the Bank as the top 1,000 Philippine companies, multinational companies and Government-owned and controlled companies). The Group's commercial banking services consist of banking services provided to mid-market, micro industries and SMEs. As at 31 December 2017, 2018 and 2019, corporate and commercial loans represented 75.7%, 76.4% and 76.7% of the Group's total loan portfolio, respectively.

The Group, through the Bank and PSBank (an 88.4%-owned subsidiary of the Bank), is also a leading provider of consumer banking products and services in the Philippines. Through its network of branches, the Group offers a wide range of deposit, mortgage and vehicle finance products and services, targeted primarily at its existing customers. The Bank offers a variety of products to high net worth individuals, which is a growing demographic group in the Philippines.

The Group offers trust banking services, credit card services and investment banking services through subsidiaries of the Bank, and is also engaged in other businesses, some of which are unrelated to the financial services sector. See "Description of the Bank — Subsidiaries and Associates".

As at 31 December 2019, the Group had a total of 957 branches in the Philippines, of which 707 were operated by the Bank and 250 were operated by PSBank. The Group had a total of 2,345 ATMs as at 31 December 2019. The Bank's international operations consist of branches in Taipei, New York, Tokyo, Seoul, Pusan and Osaka, together with representative offices in Beijing and Hong Kong. The Bank also has an extensive network of remittance centers in Asia, Europe and North America which has enabled it to become a leading provider of remittance services to OFWs. As at 31 December 2017, 2018 and 2019, the Group's total assets amounted to ₱2.1 trillion, ₱2.2 trillion and ₱2.5 trillion, respectively, while equity attributable to equity holders of the Bank amounted to ₱202.0 billion, ₱283.0 billion and ₱309.6 billion, respectively. Consolidated net income attributable to equity holders of the Bank for the years ended 31 December 2017, 2018 and 2019, amounted to ₱18.2 billion, ₱22.0 billion and ₱28.1 billion, respectively.

The Bank has been listed on the PSE since February 1981 after its initial public offering. The Bank's market capitalization as at 31 December 2019 was ₱298.2 billion. The Bank was founded by the late Dr. George S.K. Ty. GT Capital Holdings, Inc. (**GT Capital**) is the single largest shareholder of the Bank, owning 36.6% of the Bank's outstanding shares as at 31 December 2019. As at 31 December 2017, 2018 and 2019, the Group's Tier 1 and total capital adequacy ratios as reported to the BSP were 11.8%, 14.6% and 16.2%, and 14.4%, 17.0% and 17.5%, respectively.

Over the years, the Bank has consistently received accolades from local and international award-giving bodies. Over the past three years, the Bank was recognised by The Asian Banker as the Best Managed Bank in the Philippines in 2019, the Best Trade Finance Bank in the Philippines in 2017, 2018, and 2019, the Best Transaction Bank in the Philippines in 2018 and 2019, the Best Foreign Exchange Bank in the Philippines in 2018 and 2019, the Remittance Product of the Year in 2019, the Retail Payment Product of the Year in 2017. The Bank was also conferred the Best Service Provider in Cash Management in 2019 and the Best Service Provider – Supply Chain – Rising Star in the

DESCRIPTION OF THE BANK

Philippines in 2018 by The Asset, the Best Investor Relations Company in 2019 by Corporate Governance Asia, the Cesar EA Virata Award for Best Securities House (Bank Category) for the sixth consecutive year and other recognitions by the Philippine Dealing System, various trading desk-related awards from the Fund Managers Association of the Philippines and The Asset, and Best Companies to Work For in Asia in 2019 by HR Asia.

Each of the Bank's product segments is among the leaders in the Philippine banking industry. In retail banking, the Group has the largest car financing portfolio and the third largest housing portfolio based on internal and analyst estimates. In addition, it has the third largest number of credit cards in force, through Metrobank Card Corporation (MCC), which has been merged into the Bank effective 3 January 2020, based on the December 2019 report of the Credit Card Association of the Philippines, with 1.5 million cards in force. The Group has the third largest trust business with assets under management (AUM) of ₱491.7 billion based on publicly available reports submitted by Philippine banks to the BSP, as at 31 December 2019. For the 2019 PDS Annual Awards, the bank will be awarded the Cesar E.A. Virata Award for the best securities house in the Bank Category along with awards for being the Top Dealing Participant in Corporate Securities, Top Fixed Income Dealing Participant, Top 5 Spot Foreign Exchange Dealers (#2), and Top Brokering Bank for Retail Transactions. In addition, the Bank was named Top Sellside firm in Corporate Bonds, Top Sellside firm in Government Bonds (#3), and Top Investment House (#3) by The Asset in the Asset's Benchmark Research Awards 2018. The Bank has been awarded Top Performing Government Securities Eligible Dealer in 2014 (#4), in 2015 (#2), and in 2016 (#2). In the trust banking space, the Bank was awarded the Best Managed Funds of the Year (Peso Medium-Term Bond Category) in 2019 by the Chartered Financial Analyst (CFA) Society of the Philippines, and the Best UITF Fund Provider in 2017 by Wealth & Finance International. In addition, the Group is also a leading provider of trade finance services to large corporates and middle market companies and one of the leading providers of remittance services. With ₱35.6 billion in total assets as at 31 December 2019, the Bank's subsidiary, First Metro Investment Corporation (**First Metro**) is the largest investment bank in the Philippines based on asset size. First Metro successfully participated in 18 Philippine capital market transactions in 2019. First Metro continues to be a leader in the domestic bond market with landmark deal in the debt capital markets. A concrete testament to First Metro's industry leadership is the string of awards and recognitions it has received over recent years. First Metro has consistently received recognition, and most recently was recognised as the Best Corporate & Investment Bank in the Philippines in 2019 by Asiamoney, and as the Best Equity House in the Philippines in 2018 and 2019, the Best M&A House in the Philippines in 2018 and the Best Investment Bank in 2017 by Alpha Southeast Asia. At the 2019 PDS Annual Awards, First Metro and its stockbrokerage arm, First Metro Securities Brokerage Corporation (First Metro Securities), reaped awards at the 2019 PDS Annual Awards. First Metro bagged the Top Corporate Securities Market Maker and ranked fifth in both the Top 5 Fixed Income Dealing Participant and Top 5 Corporate Issue Managers/Arrangers, while First Metro Securities placed fourth in the Top 5 Depository Brokering Participant award. First Metro has consistently received recognition at the 19th FMAP (Fund Managers Association of the Philippines) Awards. It ranked third in the Best Fixed Income House category and its officers were recognized as among the top traders and salespersons. First Metro remained the country's leading bond house as it received another slew of awards from The Asset Benchmark Research (ABR) of Hong Kong. In ABR's 2019 Asia Local Currency Bond Benchmark Review, First Metro ranked first among the Top Sell-Side Firms in Secondary Market – Corporate Bonds and the Top Sell-Side Firms in Secondary Market – Government Bonds. It ranked second as Top Arranger – Investors' Choice for Primary Issues – Government Bonds and fourth as Top Arranger – Investors' Choice for Primary Issues. PSBank is a leading savings bank in the Philippines that focuses on attracting deposits from the general public. The Bank co-operates with PSBank to help ensure wide market coverage for the Group. PSBank was conferred with several awards both in the local and international setting, like the Outstanding Partner in Digital Transformation in 2019 and the Pagtugon Award in 2015, 2016, 2018, and 2019 by the Bangko Sentral ng Pilipinas (BSP), and various customer experience recognitions in the 2017, 2018 and 2019 Customer Experience (CX) Asia Excellence Awards of the International Quality and Productivity Center (IQPC). The Bank believes that its strong positions across diverse product segments allow it to cross-promote each segment to its customers to increase revenues and the flexibility to invest in new products and services. The Bank believes that its leading position across a wide range of product categories allows it to serve as a "one-stop" financial centre for its customers.

HISTORY

The Bank was established on 5 September 1962 by a group of Filipino businessmen led by the late Chairman Emeritus, Dr. George S. K. Ty, principally to provide financial services to the Filipino-Chinese community. The Bank has continuously sought to diversify its business and now provides a broad range of banking products and services to

DESCRIPTION OF THE BANK

all sectors of the Philippine economy through an extensive domestic branch network and internationally through a network of foreign branches and representative offices.

The Bank was one of the first banks in the Philippines to gain a universal banking license, which was granted by the BSP in August 1981. This license allows the Bank to engage in finance-related businesses such as savings and consumer banking, credit card and leasing products and services as well as “non-allied undertakings”.

Since the establishment of its first office in Manila, the Bank’s operations in the Philippines, and in particular its domestic branch network, have expanded organically and through a series of acquisitions and mergers, including its acquisition of PSBank in 1983. Increased expansion of the Bank’s domestic branch network occurred following a change in 1993 to the BSP’s policy of restricting the opening of additional bank branches in the Philippines and the liberalization of the Philippine banking industry.

The Bank’s international network of foreign branches and representative offices has grown since the opening of its first international branch in Taipei in 1975. Such growth was principally in response to the increased volume of remittances by OFWs. As a result of the growth in the Bank’s international network, the Bank has been able to augment its foreign exchange sources during periods of political instability in the Philippines in which access to foreign exchange has been otherwise limited.

Recent Developments

On 1 June 2020, the Philippine Government transitioned to the general community quarantine in Metro Manila as well as other parts of the country, following the two-week modified enhanced community quarantine, and previously imposed enhanced community quarantine which started on 16 March 2020. Amid the two-month enhanced community quarantine, the Bank kept its banking services available to clients, without compromising the health and safety of its employees. On average, about 50% to 60% of consolidated branches stayed open, with corresponding adjustments in banking hours and cut-off times similar to the adjustments instituted by the BSP and the BAP. Consequently, the Bank further intensified its campaign to encourage clients to transact through digital channels with constant reminders on how to keep their accounts secure. The Bank also provided grace period for credit card, and auto and home loan payments, and waived interbank fund transfer fees thru InstaPay and PesoNet. In support of the efforts to combat the pandemic, Metrobank Group and GT Capital Group pledged ₱200.0 million worth of donations. As part of the Bank’s preventive measures, full disinfection of offices and branches was conducted nationwide. Additionally, the Bank has alternative communication channels which allow employees to continuously work remotely. The Bank will remain vigilant and will constantly adapt as new developments arise.

On 27 May 2020, the Bank’s Board of Directors decided not to pursue with their previously approved amendment of Articles of Incorporation to create a new class of shares, citing that it is not the appropriate time to present the matter to the Shareholders. The amendment proposed to convert a portion of the non-voting preferred shares forming part of the Bank’s authorised capital stock (ACS). Out of the Bank’s 1,000,000,000 non-voting preferred shares with par value of ₱20 per share (or an aggregate value of ₱20 billion), the Bank intends to convert ₱1.2 billion worth of such non-voting preferred shares into 6,000,000,000 voting preferred shares with a par value of ₱0.20 per share, leaving 940 million non-voting preferred shares with a par value of ₱20 per share (or an aggregate amount of ₱18.8 billion). There will be no change to the Bank’s authorised capital stock as a result of such amendment, which will still comprise ₱140 billion in the aggregate, consisting of ₱120 billion for common shares and ₱20 billion for preferred shares (both voting and non-voting).

On 8 May 2020, the Bank received BSP’s approval on the Bank’s application to exercise the call option on the ₱6.5 Billion 2025 Notes on August 8, 2020 in accordance with the terms and conditions of the notes. The same was earlier approved by the Bank’s Board of Directors on 19 February 2020.

On 19 February 2020, the Bank’s Board of Directors approved the exercise of its call option on its ₱6.5 billion 2025 Notes on 8 August 2020 in accordance with the terms and conditions of the notes, subject to BSP’s approval.

On 10 January 2020, the BSP approved the Bank’s application to issue up to ₱25.0 billion of LTNCDs over a period of one year from the date of BSP’s approval.

DESCRIPTION OF THE BANK

The Philippine Securities and Exchange Commission (Philippine SEC) approved the Bank's proposal to merge MCC, a finance company and general insurance agency that is 100% owned by the Bank, into the Bank, effective 3 January 2020. The merger was approved by the Board of Directors of the Bank on 13 March 2019, was ratified by the stockholders of the Bank on 24 April 2019, and was approved by the BSP on 23 October 2019. MCC was originally a joint venture between the Bank and ANZ Funds. The Bank acquired ANZ Funds' stake in MCC in 2018.

On 13 February 2019, the Board of Directors of the Bank approved the amendment of its Articles of Incorporation to increase its ACS from ₱100 billion to ₱140 billion consisting of 6,000,000,000 common shares and 1,000,000,000 non-voting preferred shares, both with par values of ₱20.0 per share. The Bank believes that the proposed increase in ACS will give it flexibility to take advantage of opportunities in the future to further expand its business. The Board of Directors also approved the declaration of a 13% stock dividend, equivalent to ₱10.3 billion, or 517,401,955 common shares at par value, which also complies with the 25% subscription and paid-up requirement on increases in authorised capital stock. Both proposals were approved by stockholders during the Annual Stockholders' Meeting held on 24 April 2019, and were subsequently approved by the BSP on 8 August 2019 and by the Philippine SEC on 4 October 2019. On 16 October 2019, the Bank received the order from the Philippine SEC fixing the record date of the 13% stock dividend on 31 October 2019. The 13% stock dividend was issued on 26 November 2019 and was approved for listing by the PSE on 19 November 2019.

On 24 October 2019, the Bank issued ₱13.75 billion fixed rate bonds with issue price at 100% face value, at a rate of 4.50% per annum, payable quarterly, with a tenor of three and a half years maturing on 24 April 2023.

On 3 July 2019, the Bank issued ₱11.25 billion fixed rate bonds with issue price at 100% face value, at a rate of 5.50% per annum, payable quarterly, with a tenor of two years maturing on 3 July 2021.

As approved by the BSP on April 25, 2019, on 27 June 2019, the Bank redeemed its 2024 Peso Notes amounting to ₱16.0 billion.

On 11 April 2019, the Bank issued ₱17.5 billion fixed rate bonds with issue price at 100% face value, at a rate of 6.30% per annum, payable quarterly, with a tenor of three years maturing on 11 April 2022.

DESCRIPTION OF THE BANK

COMPETITIVE STRENGTHS

The Group believes that it has certain key strengths that provide competitive advantages over many of its competitors, including, among others:

Top three player in the Philippines

As at 31 December 2019, the Group was the second largest Philippine bank by asset size, with total assets of ₱2.5 trillion and capital of ₱309.6 billion, and, according to the BSP, also controlled 14% of the Philippine universal and commercial banking system's total asset base.

As at 31 December 2019, the Group was also among the top three largest listed Philippine banks in terms of net loans and receivables with an outstanding balance of ₱1.5 trillion, and by total deposits with ₱1.7 trillion. The Bank believes its financial strength contributes to its strong market position. The Bank's strong financial condition gives the Group flexibility to invest in new products, services, branches, information technology and other infrastructure required for the execution of its growth strategy.

Metrobank also derives significant synergies from the diversified Group and affiliated franchises such as First Metro Investment Corporation, one of the largest Philippine investment banks in terms of assets; Metrobank Card Corporation, the third largest card issuer, with 1.5 million cards in force and in terms of receivables, based on data from the Credit Card Association of the Philippines as at 31 December 2019; Philippine Savings Bank the second largest savings bank in terms of assets with ₱224.9 billion as at 31 December 2019; and Philippine AXA Life Insurance Corporation, an associate of the Bank, which is ranked second in premium income among life insurance companies with a 12.8% market share and ranked fourth among insurance providers in the country based on total assets, and, according to the latest data from the Philippine Insurance Commission, as at 31 December 2018. The Bank's scale of operations, together with the Group's financial resources, allows the Group to cross-sell a wide range of financial products and services to its existing customers, as well as to potentially capture a broader range of new clients.

Extensive and strategically located domestic ATM and branch network backed by a strong sales force

The Bank believes its branch network is strategically located, both in Metro Manila and outside of Metro Manila, to take advantage of the economic growth potential throughout the country.

The Group, through the Bank and PSBank, operates one of the largest branch networks in the Philippines based on public filings, with a total of 957 domestic branches as at 31 December 2019. Of this, 517 branches are in the countryside, representing 54% of the Group's total network, and are strategically located in high growth areas outside the greater Metro Manila area.

Complementing the Group's extensive domestic branch network is the ATM network, which is the third largest in the Philippines, with 2,345 ATMs as at 31 December 2019. The Bank believes that its extensive domestic ATM and branch network provides for substantial coverage across the archipelago and allows it to tap into emerging high growth potential areas to diversify its customer base.

Middle-market, SMEs and consumer segments as key drivers of growth

The Group maintains a balanced loan portfolio providing corporate and commercial banking products and services to a significant number of large and middle market corporations, as well as to SMEs, through a multi-channel distribution system, including its extensive branch network. Further, the Bank and PSBank have focused on expanding their consumer banking business, principally through a directed marketing strategy, using their extensive domestic branch network and by direct sales channels.

The Group has enjoyed strong loan portfolio growth over the past three years, with its total loan portfolio growing from ₱1.3 trillion as at 31 December 2017 to ₱1.5 trillion as at 31 December 2019, representing a compound annual growth rate of 8.5%. The Group's loan portfolio consists mainly of corporate and commercial loans which comprised 75.7%, 76.4% and 76.7% of the Group's total loan portfolio as at 31 December 2017, 2018 and 2019, respectively.

DESCRIPTION OF THE BANK

As at 31 December 2019, the Group's corporate loan portfolio was highly concentrated on wholesale and retail trade, real estate activities, manufacturing, and private households, comprising 16.5%, 15.6%, 14.7% and 11.1% of the Group's total corporate and commercial loan portfolio.

Given the attractiveness of the SME and middle-market segment, the Group has increased its growth into such segment in the past three years, which achieved a compound annual growth rate of 7.9% from 31 December 2017 to 31 December 2019. The SME and middle-market segment is characterised by its high profitability and relatively low risk, coupled with strong customer loyalty and cross-selling opportunities that would present further upside for the Group.

Based on industry data from the BSP on the Philippine banking system, the Group had a 20.0% market share of aggregate auto, mortgage and credit card loans in the Philippine banking industry as at 31 December 2019. The Group continued to report significant growth in the residential mortgage, auto finance and credit card sectors of the Group's consumer loan portfolio, which grew at compounded annual growth rate of 5.0%, 1.4% and 19.5%, respectively, from 31 December 2017 to 31 December 2019. The Group maintains a balanced and diversified consumer loan portfolio, with home mortgage loans, auto loans, credit cards, and others, comprising 31.7%, 42.2%, 25.0%, and 1.1%, respectively, of the Group's total consumer loan portfolio as at 31 December 2019.

Industry leading margins with operating leverage and a well-balanced loan portfolio

The Group has maintained healthy operating income levels (net interest income, other operating income and share in net income of associates and a joint venture), with ₱84.2 billion, ₱92.6 billion, and ₱106.9 billion for the years ended 31 December 2017, 2018 and 2019, respectively. The Group's operating income is underpinned by the Group's strong net interest income base, which accounted for 72.9%, 74.3%, and 72.0% of its total operating income for the years ended 31 December 2017, 2018 and 2019, respectively.

The Group's balanced mix of interest earning assets and low cost of funding have also enabled the Group to maintain its net interest margin at 3.8% for each of the years ended 31 December 2017, 2018 and 2019. The Bank believes its net interest margin is one of the highest among its peer domestic banks.

The Group believes that it has a low cost of funding as compared to many of its key competitors. Through its extensive and strategically located branch network, the Group is able to attract a large number of low-cost depositors. From 31 December 2017 to 31 December 2019, total deposits of the Group increased from ₱1.5 trillion to ₱1.7 trillion, representing a compound annual growth rate of 5.9%. In addition, the Group believes that its strong brand name and perceived financial strength allows it to attract higher levels of deposits at lower rates than many of its competitors. As at 31 December 2019, saving and demand deposits, which typically represent the lowest cost of funding for a bank, increased to 62.9% of the Group's total deposit base, compared to 62.2% as at 31 December 2017. The Group's savings and demand deposits expanded at an average annual growth rate of 6.5% over the same period. Because the Group's low-cost deposits are primarily comprised of working capital accounts of its commercial clients, the Group believes that it will be able to maintain its low funding cost despite a potential increase in interest rates or an increase in competitive pressure.

Similarly, the Group believes based on public filings of Philippine banks, that it maintains relatively higher asset yields compared to its peers mainly due to the composition of its loan portfolio. As at 31 December 2019, the Group's total loan portfolio (receivables from customers), amounted to ₱1.5 trillion, representing 60.5% of total assets. Of the Group's total outstanding loans as at 31 December 2019, corporate loans represented 68.2%, commercial loans represented 8.5%, and consumer loans represented 23.3%. Moreover, as at 31 December 2019, 46.9% of the Group's loan portfolio had a maturity of less than one year. As such, the Group believes that it is well-positioned to capitalise on a rise in interest rates by repricing its loan portfolio, which would further contribute to an improvement in the Group's net interest income.

Superior asset quality

The Group believes it has benefitted from its prudent credit and risk management framework and policies as well as conservative lending practices, as it continues to maintain its high asset quality with NPL ratios of 1.0%, 1.2% and 1.3% as at 31 December 2017, 2018 and 2019, respectively. The Group's NPL ratio for the year ended 31 December 2019 was among the lowest in its peer group, based on publicly filed financial statements of Philippine banks. The

DESCRIPTION OF THE BANK

Group believes that its NPLs have been maintained at reasonable levels of ₱12.7 billion, ₱16.9 billion and ₱19.3 billion as at 31 December 2017, 2018 and 2019, respectively.

Strong and experienced Board of Directors and management team

The Group has assembled a strong management team. The Bank's senior executive officers (consisting of those officers at the executive vice-president level and above) have, on average, over 30 years of experience in the banking sector.

As at 31 December 2019, the Bank has banking industry leaders on its Board of Directors, including Jesli A. Lapus and Francisco F. del Rosario, Jr., while its other top executives have a proven track record in banking, finance and in other industries given their experience with leading Philippine corporations. The late Dr. George S.K. Ty, the founder of the Bank used to be Chairman Emeritus of the Board.

In addition, the Board of Directors has a strong independent element, with five of its 12 members being independent Directors, and only two Directors related to the Ty Family. The Bank believes that the extensive experience and financial acumen of its management provide the Group with a significant competitive advantage.

STRATEGIES

The Bank's medium-term strategy remains anchored on sustaining and expanding its market relevance through continuous improvement in customer experience, operational efficiency and people development. The Bank intends to focus on enhancing customer experience by continuously undertaking investments and enhancements in key customer touch points, which include face-to-face through branches and front liners, as well as e-channels such as ATMs, phone banking, online and mobile banking. The Bank also intends to continue its efforts in defining customer satisfaction standards and developing new capabilities in complaints resolution. To achieve these goals, the Bank intends to continue allocating resources to improve process and IT capabilities, leadership development, and technical and people management skills. Key milestones under each pillar are set forth below:

Customer experience

As part of its commitment to enhance overall customer experience, the Bank established a Service Excellence Group (SEG) to act as customer advocate and driver of service excellence across the Bank, providing a comprehensive and authoritative view of the customer and ensuring that the voice of the customer is considered in every business decision. The Bank regularly conducts "branch mystery shopper" and "net promoter score" surveys through the SEG. "Branch mystery shopper", which aims to monitor the customer service delivery of the branches, is embedded in the performance scorecards of the branches and have been at satisfactory levels in the last three years. The "net promoter score" (NPS) measures the probability of a customer recommending a firm's products and services to others. The Bank's retail NPS has continuously improved from 2015 to 2019. The SEG also oversees customer complaints resolution across the Bank's customer touch points.

Moreover, the Bank established a Customer Experience Committee to drive the development and execution of customer experience (CX) projects, monitor the Bank's performance on customer service metrics, and to direct the formulation of the Bank's customer protection program in compliance with regulatory requirements.

The Bank has recently initiated a service culture transformation program, which included (i) the crafting and refinement of the Bank's service levels to its customers, and (ii) the definition of both the basic and differentiating customer experiences that the Bank's customer touch points, including branch employees, relationship managers, e-channels and contact centre personnel, are able to offer. The Bank has also prioritised process improvements in consumer loans and branch queue management, which has resulted in more efficient decision-making for MetroCar and MetroHome applications as well as improvement in customer wait times.

The Bank's ongoing migration campaign to electronic channels has resulted in increased transaction volumes for cash acceptance machines and internet banking. The Bank is further preparing to serve technology-enabled clients and next generation business owners with the creation of a digital platform ideation and development team. Meanwhile, the Bank continues to rationalise its geographic footprint with calibrated hiring of both frontline and backroom headcount to balance scalability, productivity and profitability.

Process and information technology

In the process and information technology front, the Bank has established its Information Technology Group's Enterprise Architecture Department tasked with crafting and rolling out the Bank's information technology (IT) architecture blueprint to ensure that it is aligned with, and supports, the Bank's overall customer experience strategy and the Bank's push towards further rolling out digital banking services. The Bank's IT strategy includes (i) building the digital platform and services to serve as the foundation of the Bank's "next wave" applications, and increase utility and add value to the customer's experience, (ii) creating a robust scalable technology base to quickly deliver key systems and technology, and (iii) developing enhanced IT capabilities that allows the Bank's Information Technology Group to scale the delivery of services, and help the Bank deliver key features and products to the customer. Further, a re-engineering team under the SEG continues to focus on (a) reducing turnaround time and improving efficiency, (b) improving work queue management and service delivery, (c) reducing customer wait-time and increasing contact rate, (d) maximising use of self-service portals, and (e) eliminating and reducing errors through implementation of "Lean Six Sigma" methodologies and robotic process automation (RPA). The Group's ongoing core banking replacement project is at the centre of both the Bank's and PSBank's information technology strategy. As the Group moves towards the implementation of the system by 2021, the Group's core banking efforts will be focused on stability and further simplification.

Leadership development

Among the key measures of the success of the Bank's leadership development strategic focus is the ability to build its leadership team. The Bank's "ASCEND" leadership development framework has been put in place to achieve this, combining succession planning, development planning and mentoring under one umbrella. The Bank's Human Resource Management Group and Learning and Development Division also continue to (a) identify successors to the Bank's key roles, and support their personal development plans, (b) increase employee engagement satisfactory ratings, and (c) ensure that the Bank's attrition rate remains better than current market standards.

Operationally, the Group's strategy is focused on (a) improving margins by generating low-cost funding to further fuel loan growth, (b) increasing efficiency and productivity, (c) ensuring prudent credit risk expansion in priority segments, particularly the commercial middle-market, through rigorous risk management practices, and (d) expanding its suite of products and services in the retail and wealth management segments.

Improving margins by generating low-cost funding to support loan growth

For the last four years, the Group's reported net interest margins have been one of the highest among its peer domestic banks, according to publicly filed financial statements of Philippine banks. The Group reported a consistent net interest margin of 3.8% for the years ended 31 December 2017, 2018 and 2019. The Bank is confident in its ability to maintain and improve this advantage under current market conditions.

The Bank believes that it is well positioned to take advantage of growth areas in the countryside. In the past three years, approximately 54% of the Bank's domestic branches have been located outside Metro Manila, thereby enhancing the Bank's ability to generate low-cost funding and to further expand its commercial loan segment particularly in high growth areas in the countryside.

The Bank also believes that its strong and stable low-cost funding base will allow the Bank to safeguard and improve margins. The Group's low-cost deposits accounted for 62.9% of total deposits as at 31 December 2019. The Group has managed to grow its low-cost deposits despite the challenging environment, with a compound annual growth rate of 6.5% from 31 December 2017 to 31 December 2019. As at 31 December 2019, the Group's savings and demand deposits amounted to ₱1.1 trillion. These deposits are mainly comprised of working cash accounts of commercial clients and have proven to be stable despite movements in interest rates. As such, the Group believes that it will continue to maintain an advantage over other banks whose funding costs may be more likely to increase in a rising interest rate environment or under stronger competitive pressure.

Further, the Group is confident of its ability to reprice its loan yields. As at 31 December 2017, 2018 and 2019, 83.1%, 83.2% and 82.5% of the Group's loans, respectively, are on a floating rate basis and can be repriced within periods of typically 30 to 90 days. Additionally, the strong growth prospects for the Philippines are expected to bode

DESCRIPTION OF THE BANK

well for the Group's commercial portfolio, which has been growing at a compound annual growth rate of 12.9% from 31 December 2017 to 31 December 2019.

With the combination of its large network and well diversified geographic footprint, stable funding base and loan composition, the Bank believes it is in the strong position to maintain or even increase net interest margins going forward.

Increase efficiency and productivity

The Group believes that it currently has an optimal number of branches nationwide and plans to maximise the use of its strategically located network in order to increase the efficiency and productivity of its branches and loan officers.

In previous years, the Bank and PSBank had opened close to 10 branches annually until the total domestic branch network of the Group reached 957 as at 31 December 2019. Additionally, from 2015 to 2017, the Group completed a hiring program of approximately 1,000 frontliners for its branches. The Group believes that it has reached an optimal state in terms of its branch network and branch personnel headcount, and is confident that it has the size and scale to pursue its future growth plans.

The Group's profitability metrics have begun to exhibit positive results, with deposits per branch increasing from ₱1.6 billion as at 31 December 2017 to ₱1.8 billion as at 31 December 2019. On the other hand, outstanding loans per employee of the Bank has also increased from ₱71.9 million as at 31 December 2017 to ₱78.8 million as at 31 December 2019.

Going forward, the Group does not anticipate that it will open a significant number of branches or substantially increase its current headcount. The Group believes that its productivity metrics will further improve as a result of its continued growth plans for both loans and deposits.

Ensure prudent credit expansion

The Bank recognises that good risk management goes beyond regulatory compliance and must be part of its growth strategy and day-to-day business. With increasingly strict corporate governance requirements and compliance targets under Basel III, the Bank aims to promote continued focus on credit excellence, detailed attention on market and operational risks, and account for other important risks. It will continue to apply rigorous risk management practices that are supported by high quality information systems and risk management tools.

To promote credit excellence, the Bank implemented the Achieving Credit Excellence Project to automate and accelerate credit processing as well as minimise attendant credit-related risks. A main component of the said project is the roll-out of an electronic credit approval and central liability system, a manifestation of the Bank's commitment to credit risk management. Supporting tools such as the Internal Credit Risk Rating System (ICRRS) have been developed to rate the overall borrower and facility risk of a particular corporate or commercial counterparty. Likewise, statistically based rating models depending on market-segment have been developed and deployed on parallel run with ICRRS to ensure the Bank's credit accommodations are sensitive to the risks inherent in each market segment. These tools are expected to enable the Bank to gain a more robust credit risk-based capital assessment and allocation.

To minimise market and operational risks, the Bank has completed the upgrade of its automated market risk management and asset-liability management systems, the refinement of all its market risk models, such as value-at-risk, interest rate repricing gap and earnings-at-risk, the implementation of risk documentation and a risk database to track loss events and fraud cases, and the tightening of its business continuity plan. To safeguard asset quality, the management of its NPAs remains a top priority.

Ultimately, the Bank believes that this would allow it to maintain its strong asset quality and high capital efficiency. In recent years, based on available industry data, the Group's NPL ratio has been relatively lower compared to many of its peer banks at 1.0% as at 31 December 2017, 1.2% as at 31 December 2018 and 1.3% as at 31 December 2019.

DESCRIPTION OF THE BANK

Expand product suite to boost fee income

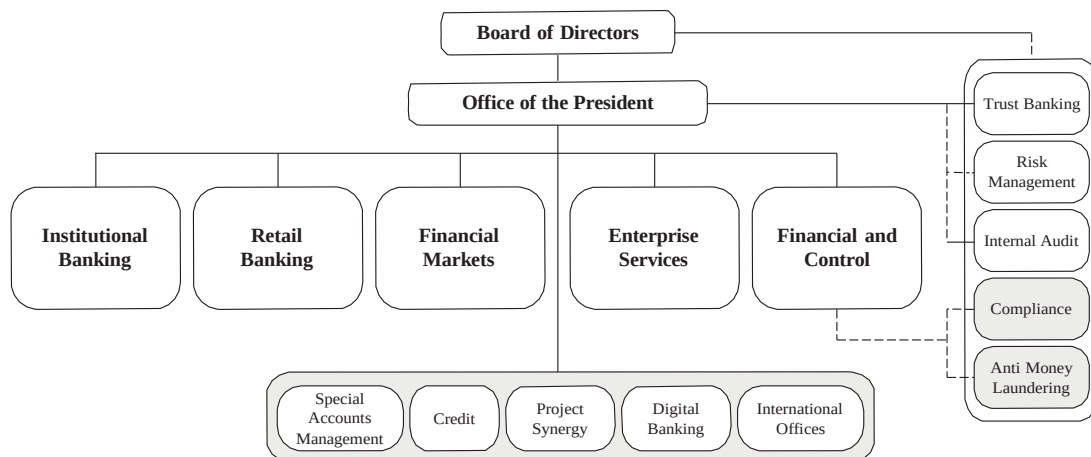
The Bank, also via PSBank, currently offers a wide range of consumer deposit, mortgage and vehicle finance products and services, targeted primarily at its existing customers. The Bank intends to introduce new products and services to its existing customers and attract new customers. Apart from offering more consumer financing solutions, the Bank intends to focus on providing more value-added services such as investments and foreign exchange products and services, as well as insurance, which would target both the retail and high net worth segments.

As part of this strategy, the Bank has been training more sales officers for its Institutional Banking and Financial Markets sectors to boost coverage. Moving forward, the Bank aims to offer existing products and services and introduce new products and services to customers to drive higher transaction volume, and promote cross-selling of the Bank's financial products and services to increase its customers' wallet share. Ultimately, the Bank believes that these initiatives would increase the loyalty of its retail and high net worth individual customers, and create new sustainable revenue streams to bolster the Bank's fee income.

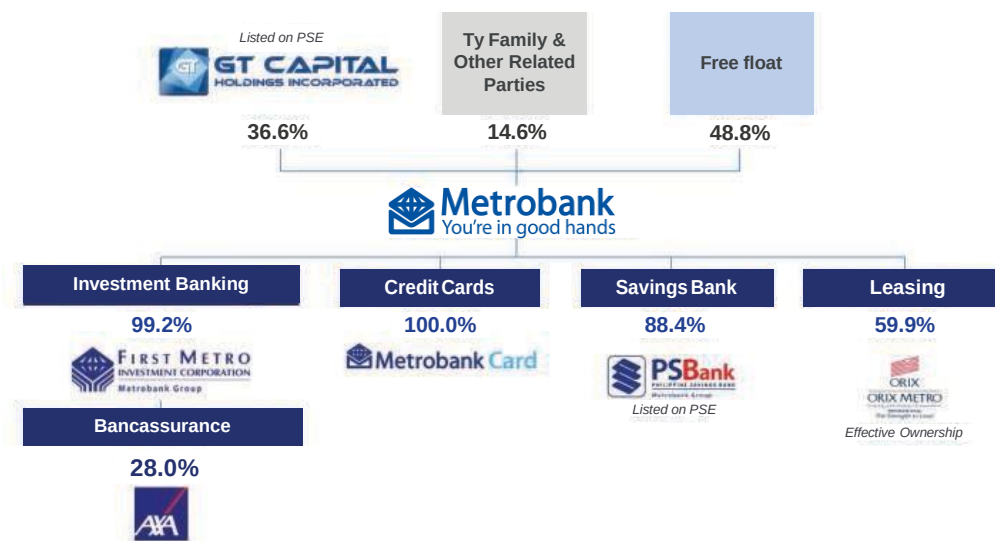
DESCRIPTION OF THE BANK

ORGANISATIONAL AND OWNERSHIP STRUCTURE

The following chart sets forth an overview of the organizational structure of the Bank and its principal activities as at 31 December 2019:



The following chart sets forth an overview of the ownership structure of the Group as of 31 December 2019:



* MCC has been merged into the Bank effective 3 January 2020,

DESCRIPTION OF THE BANK

PRINCIPAL BUSINESS ACTIVITIES

The Group's principal areas of business are corporate banking, commercial and SME banking, consumer banking, treasury, investment banking, and branch banking. The following table sets out the amounts and percentages of revenue net of interest expense generated by each of these businesses in the years ended 31 December 2017, 2018 and 2019.

	For the year ended 31 December					
	2017		2018		2019	
	(P millions, except for %)					
Corporate, commercial and SME banking	18,551	22.2%	11,490	12.5%	14,341	13.5%
Consumer banking	22,088	26.4%	24,297	26.5%	23,523	22.2%
Branch banking	22,462	26.9%	30,413	33.2%	38,392	36.2%
Treasury	11,912	14.3%	12,953	14.1%	18,614	17.6%
Investment banking	307	0.4%	347	0.4%	441	0.4%
Others ⁽¹⁾	8,233	9.8%	12,232	13.3%	10,740	10.1%
Total Revenue⁽²⁾	83,553	100.0%	91,732	100.0%	106,051	100.0%

Notes:

- (1) Others include remittances, leasing, account financing and other support services.
- (2) Total revenue consists of net interest income before provision for credit losses, service charges, fees and commissions, trading and securities gain (loss) – net, foreign exchange gain (loss) – net, leasing and rental income, profit on assets sold or exchanged, income from trust operations, recovery on written-off assets and other miscellaneous income.

In 2017, 2018 and 2019, 3.2%, 3.5%, and 3.2%, respectively, of the Group's net operating income was generated from its operations outside of the Philippines.

The Group's core businesses are its corporate and commercial banking and consumer banking businesses. The following table sets out the gross amounts and percentages of loans made by these businesses as at 31 December 2017, 2018 and 2019:

	As at 31 December					
	2017		2018		2019	
	(₱ millions, except for %)					
Corporate loans ⁽¹⁾	848,064	67.2%	946,959	68.0%	1,013,280	68.2%
Commercial loans ⁽²⁾	107,954	8.5%	116,754	8.4%	125,790	8.5%
Consumer loans.....	306,097	24.3%	329,367	23.6%	346,566	23.3%
Total Loans	1,262,115	100.0%	1,393,080	100.0%	1,485,636	100.0%

Notes:

- (1) Loans made to large Philippine corporations, generally with total assets of more than P100 million.
- (2) Loans made to micro industries and SMEs generally with total assets of P100 million and below.

Institutional Banking Segment

The Group provides corporate and commercial banking products and services to a significant number of large and middle market corporations and their subsidiaries, as well as to SMEs in the Philippines, through a multi-channel distribution system, including its extensive branch network. The Bank believes it is the leading bank in the Philippines for middle-market Filipino-Chinese businesses in terms of deposit-taking and lending.

In 2017, 2018 and 2019, the Group's corporate and commercial and SME banking business generated net interest income of P17.7 billion, P10.4 billion, and P12.3 billion, respectively. As at 31 December 2017, 2018 and 2019, loans

DESCRIPTION OF THE BANK

to corporate and commercial customers represented 75.7%, 76.4% and 76.7%, respectively, of the Group's total loan portfolio. Small-to-medium sized commercial loans (consisting of loans to Philippine companies other than large corporate loans) represented 13.3% in 2017, 12.3% in 2018 and 10.8% in 2019 of the Group's total loan portfolio

The Bank offers corporate and commercial banking customers a range of trade finance products and services including letters of credit (LCs), standby LCs, export advances and the discounting of commercial bills.

Corporate banking

The Group offers a wide range of products and services to its corporate customers, including term loans, revolving credit lines, foreign currency loans, infrastructure loans, trade finance and cash management products and services. The Bank also provides omnibus credit lines for its large corporate customers, allowing customers to use such lines for short-term loans, trade financing or other forms of credit.

As at 31 December 2017, 2018 and 2019, corporate loans of the Bank represented 65.5%, 67.4% and 68.0% of the Group's total loan portfolio, respectively. The Bank believes that more than half of the top 1,000 Philippine companies are currently customers of the Bank. Most of the Bank's corporate lending is typically undertaken on a non-syndicated basis, although the Bank does syndicate certain large transactions. Substantially all of the Bank's corporate clients are based in the Philippines and are engaged in manufacturing, services, wholesale and retail trade, power generation and distribution, leasing and financing, tourism and real estate. Almost all of the Bank's corporate lending activities support projects and businesses in the Philippines. Facilities offered to corporate customers include both secured and unsecured loan products, with pricing based on the credit risks associated with the customer and their business. The majority of the Bank's current corporate lending consists of short- to medium-term loans. The Bank participates in syndicated loans and provides a limited amount of working capital funding by way of bills purchased and/or trade finance. The Bank also offers deposit taking and cash management services for its corporate clients.

For the Bank's corporate banking business, the Bank has become increasingly market-focused and has established different sub-groups and desks to serve multinational companies, conglomerates, Japanese corporations, large corporates, the public sector and entrepreneurial firms.

The Bank offers both Peso-denominated and foreign currency (primarily U.S. Dollar-denominated) loans to its corporate customers. It is the Bank's policy to extend foreign currency loans only to those customers who have U.S. Dollar revenues or who are otherwise hedged. Most of the Bank's corporate loans are made on a floating rate basis.

The Bank has also obtained accreditation from various multinational export credit agencies and multilateral agencies to provide corporate clients with additional sources of medium- to long-term funding to finance imports of capital goods and equipment at fixed and floating rates for longer tenors. Accreditation is required for export credit agencies to determine credit-worthiness of the participating bank, as well as lay out the rules of engagement for all parties to a loan transaction. The Bank may lend out the cash against an export credit agency guarantee, or the export credit agency may provide the funds for the Bank to lend out to the corporate customer. Export credit agency programs provide longer-term funding and address tenor mismatches between long-term loans and typical short-term funding.

The Bank has a customer-focused strategy and has recruited qualified professionals, including relationship managers and other management personnel, to strengthen its business development and portfolio management capabilities. The Bank aims to develop and maintain mutually beneficial relationships with institutional clients within its target market segments by providing wholesale banking services including, but not limited to, corporate finance, investment banking, cash management, trade services and structured finance. The Bank's relationship managers are responsible for business generation, new product development, customer satisfaction and maintenance of a high quality loan portfolio. Relationship managers are also focused on selling the Group's wide range of financial products and services. The expanded line of non-lending services offered by the Group, including investment and trust banking services, are actively promoted by the Bank's relationship managers to existing and potential clients of the Bank. As at 31 December 2019, the Group's corporate loan portfolio was highly concentrated on wholesale and retail trade, real estate activities, manufacturing, private households, and financial and insurance. These five sectors comprised 16.5%, 15.6%, 14.7%, 11.1% and 10.1%, respectively, or 68.0% in aggregate, of the Group's total loan portfolio as at 31 December 2019.

DESCRIPTION OF THE BANK

The Bank has also directed its efforts toward increasing low-cost deposits, representing demand and regular savings deposits, from its corporate banking clients. Such deposits accounted for a substantial portion of the Bank's total deposit business, contributing ₱891.3 billion, ₱900.2 billion and ₱1.0 trillion, or 67.8%, 67.9% and 66.9%, of the Bank's total deposits as at 31 December 2017, 2018 and 2019, respectively. The Bank believes it is a major depository bank for many of its corporate banking customers.

Commercial and SME banking

The Group provides a wide range of banking products and services to its commercial middle-market customers. The Bank classifies all customers engaged in business, other than corporate customers handled by its head office, as commercial banking customers. The Branch Lending Group was created in 2006 to centralize efforts in the middle-market segment and is focused primarily on commercial lending for amounts ranging from approximately ₱5.0 million. In addition to term loans and revolving credit facilities, the banking products and services offered by the Bank to its commercial banking customers include deposit products, bills purchase facilities, trade finance, payment remittances and foreign exchange transactions. Further, the Bank cross-sells the other products and services of the Group, including investment and trust banking services, to its commercial banking customers.

As at 31 December 2017, 2018 and 2019, the Bank had 16,848, 15,990 and 15,416 commercial loan accounts, respectively, with a significant portion attributable to the Filipino-Chinese community, and outstanding commercial loans constituted 6.4%, 6.1% and 5.3%, respectively, of the Group's total loan portfolio. As at 31 December 2017, 2018 and 2019, the contribution of the Bank's commercial banking business to the Group's loan portfolio was ₱80.8 billion, ₱84.6 billion and ₱79.4 billion, respectively. Most of the Bank's commercial customers are engaged in the manufacturing, wholesale and retail trade industries. The predominant needs of the Bank's Filipino-Chinese commercial middle-market customers are trade financing facilities (such as LCs, trust receipts, export-financing and the discounting of commercial bills, as well as inventory financing) and term loans.

The Bank offers both Peso-denominated and foreign currency (primarily U.S. Dollar-denominated) loans to its commercial customers. It is the Bank's policy to extend foreign currency loans primarily to customers who have foreign currency revenues or who are otherwise hedged. Most of the Bank's commercial loans are made on a floating rate basis.

The Bank's strategy is to increase its small- and medium-market customer base by continuing to pursue a selective lending program that will help ensure the quality of its loan portfolio and maintain a low loan delinquency ratio. The Bank believes that there are many underserved customers within this market that have the asset base, cash flows, management and business plan necessary to become quality customers of the Bank.

The Bank has also directed its efforts towards increasing low-cost demand and savings deposits from commercial clients by increasing its market share of deposits for existing prime accounts and acquisition of new accounts. This is made possible through a program of providing cash management solutions for this client segment. Dedicated teams focused on product development, sales, implementation and customer care ensure the seamless set-up of the client's collections, payment and liquidity solutions. By doing so, the Bank is able to capture the operating accounts of its key clients, as well as that of its client's own customers and suppliers.

Trade Finance

The Bank believes that it is a leading provider (by value and by volume) of commercial import LCs and bank guarantees in the Philippines. In addition, the Bank provides documentary collections for exports by local and multinational companies in the Philippines. The Bank's position as a market leader reflects its strategy to leverage the geographic reach of its international branch network in the provision of its trade finance products and services.

The Bank also extends other trade finance-related services to its customers including advice on documentary credits and advances to exporters against export bills. Trade finance loans typically have short maturities and the Bank's primary focus is on providing working capital trade finance.

DESCRIPTION OF THE BANK

Consumer Banking Segment

The Group provides consumer banking services through the Bank, PSBank and MCC. The Group's principal consumer banking products and services include bank deposits, home mortgage loans, vehicle finance and consumer finance, including credit cards through MCC, and remittances. Consumer loan applications are generally reviewed and pre-screened at the branches, as the Group's primary distribution channel. Thereafter, applications are endorsed to the appropriate processing units for evaluation and approval.

The following table sets out consumer loans to as of the date indicated:

	the Bank	PSBank	MCC	Others	Total (Group)
			(₱ billions)		
31 December 2017	77.7	133.7	60.8	16.1	288.3
31 December 2018	77.8	142.7	70.5	18.3	309.3
31 December 2019.....	72.7	149.8	86.8	18.5	327.8

While the operations of the Bank are largely run separately from those of PSBank, the two banks co-operate to ensure wider market coverage for the Group. The Bank focuses on its own customer base, while PSBank targets the general public. Since 1981, when the Bank acquired PSBank, the Bank conducted a substantial proportion of its small personal deposit-taking and lending business for home purchases and vehicle finance through PSBank. In order to market consumer banking products and services to its own customer base more effectively, the Bank established its own Consumer Lending Group in 1996.

In recent years, both the Bank and PSBank have focused on expanding their consumer banking business, principally through a directed marketing strategy, using their extensive domestic branch network, and by direct sales methods. In particular, the Bank offers a wide range of consumer banking products to customers that are employees of the Bank's corporate customers and to owners of SMEs. To increase face-to-face contact with consumer banking clients, the Bank is currently working to expand its branch network to be more accessible to its clients and to reach clients in areas that have previously been underserved. The Bank, to a lesser extent, also utilizes traditional communication channels, such as print and advertising, to offer the Bank's consumer loan products to the market. As part of its growth strategy, the Bank has been developing a comprehensive database of target customers for its consumer banking products and services.

The Group's consumer banking business generated net interest income of ₱15.3 billion, ₱17.4 billion, and ₱17.0 billion in 2017, 2018 and 2019, respectively.

Branch banking

The Bank's branch banking business offers a wide range of products and services from demand deposit accounts, savings and time deposits to lending facilities. In addition, dedicated trade finance and foreign exchange facilities are offered at certain branches where such services may be required. The branch banking business is different from the consumer banking group in that branch banking focuses primarily on deposit taking, branch related fee-based services and branch-based consumer lending (both home and auto), while consumer banking focuses both on individual depositors for their car and home loan needs as well as on corporate clients which require car fleet financing and large scale home developers.

Since 2010, the Bank increased its sales force and adjusted the size and location of certain branches in order to maximize their efficiency. As at 31 December 2019, the Bank and PSBank had a total of 957 branches in the Philippines.

The Bank has a regional branch control system with branches reporting to, and receiving support services from, their sub-regional offices ran by cluster heads, who themselves report to the area heads. This system seeks to ensure control at all levels and is complemented by each branch accountant also being required to report on significant matters directly to the Controllership Group at the Bank's head office.

DESCRIPTION OF THE BANK

The Bank has, as a matter of policy, endeavored to balance the responsibility given to its branches with the need for centralized control. Branch Credit Committees, for example, are permitted to process and approve bills, purchase accommodations and approve back-to-back loans (loans with deposits as collateral). The Bank has established Business Lending Divisions and Credit Support Units at the regional level to centralize the branches' lending operations in order to improve efficiency and maximize cost-effectiveness. Following approval of a loan, these units are responsible for the documentation, bookkeeping, and ongoing administration of the loan.

The Group, through the Bank and PSBank, operates a total of 2,345 ATMs as at 31 December 2019. The Bank is expanding the availability of its ATMs at its branches and off-site, principally in shopping malls and large factories. The Bank has upgraded its ATM infrastructure to be Europay, MasterCard and Visa (EMV) compliant.

Deposits

The Bank offers corporates and consumers a range of deposit products, including current accounts, which are interest and non-interest bearing demand deposits, savings accounts and time deposits in Pesos, U.S. Dollars and other foreign currencies.

The Group's principal depositors are individuals in the Philippines and customers using the Bank's cash management services. As at 31 December 2017, 2018 and 2019, the Group's total deposits were ₱1.5 trillion, ₱1.6 trillion and ₱1.7 trillion, respectively. As at the same dates, 83.7%, 83.6% and 81.7% of the Group's deposits were Peso-denominated, with the remainder denominated in foreign currencies, principally U.S. Dollars.

Home mortgage loans

Home mortgage loans issued by the Bank and PSBank represented ₱99.7 billion, or 32.6%, as at 31 December 2017, ₱107.9 billion, or 32.8%, as at 31 December 2018, and ₱109.9 billion, or 31.7%, as at 31 December 2019 of the Group's consumer loan portfolio. The Group is currently growing its home mortgage loan business through tie-ups with real estate developers, other corporates and, to a lesser extent, advertising campaigns. The Bank offers a range of different home mortgage products under the "Metro Home Financing" brand and PSBank offers its home mortgage products under the "Home Loan" brand. The Bank typically relies on existing customers for the majority of its home mortgage sales, while PSBank relies more on direct marketing activities to capture new customers.

The majority of the Group's home mortgage loans are extended to property buyers in the Philippines who intend to occupy the premises, with a small proportion being extended to individuals purchasing residential units for investment purposes. All of the Group's home mortgage loans are secured by a first ranking legal charge over the property. In the case of loans to certain corporate borrowers, the Group often requires personal guarantees to be given by appropriate officers of the borrower as additional security. Traditionally, the Group, as well as other lenders, have required home mortgage borrowers to have an equity interest equal to at least 30.0% of the value of the property. Due to an increase in competition in the mortgage industry, however, many borrowers are now able to secure mortgages for certain types of residential property from lenders, including the Bank, with a 20.0% down payment.

The typical maturity of the Group's home mortgage loans is ten years. In accordance with industry practice in the Philippines, interest rates on the Group's home mortgage loan portfolio are generally agreed with the relevant borrower at a fixed rate applicable for an initial period of between one and five years, depending on the maturity of the loan. Following the expiry of this initial period, the interest rate is reset at a fixed rate applicable for succeeding periods. The Group believes that the repayment term on the average mortgage loan issued by the Group is shorter than the industry average due to the quality of its customers, which helps lower the default rates on its mortgage loans, while also promoting sustainable growth in its mortgage loan portfolio.

When a borrower falls in arrears with its mortgage payments, it can either agree to a voluntary disposition of the property to the Group or the Group may commence foreclosure proceedings. It generally takes between six and 12 months to foreclose mortgaged collateral, which is then typically sold by public auction or through brokers on behalf of the Group. However, the individual mortgagor or any of its creditors having a lien over the collateral continues to have the right to repurchase such collateral within one year of completing foreclosure in return for payment of principal and interest owed plus the Group's out-of-pocket expenses.

DESCRIPTION OF THE BANK

The Bank established its Acquired Assets for sale Disposition Group (**AAMDG**) to actively manage and, where appropriate, sell properties acquired in connection with its lending activities. In 2017, 2018 and 2019, the Group sold ₱2.3 billion, ₱1.4 billion, and ₱1.6 billion, respectively, worth of investment properties, which primarily consist of foreclosed real estate properties. Efforts to diversify methods for the disposal of investment properties have been actively pursued by the Group and include public auctions, sales conducted through brokers and pursuant to employee referrals, as well as entering joint venture projects with property developers. The Group has also increased its early intervention efforts in order to reduce the number of mortgages that need to be foreclosed.

Vehicle finance

The Group believes it has the largest car financing portfolio in the Philippines based on internal and analyst estimates. As at 31 December 2017, 2018 and 2019, loans advanced by the Bank and PSBank for the purchase of vehicles amounted to ₱117.9 billion, ₱119.7 billion and ₱118.1 billion, respectively, or 38.5%, 36.3% and 34.1% of the Group's consumer loan portfolio, respectively. Vehicle loans advanced by the Group generally have maturities of between 12 and 60 months, and the Group retains the right to repossess the vehicle in the event of payment default. PSBank typically targets dealers for its vehicle loans, while the Bank primarily relies on its own depositors.

Remittances

Reflecting the large market in OFW foreign currency remittances to the Philippines, the activities of the international branches of the Bank, together with those of its subsidiaries and its associates which act as remittance centers, are geared towards the handling of remittances to the Philippines, as well as supporting the trade and capital flows of the Philippines. Income from the remittance business is generated from an administration fee and, more significantly, from the foreign exchange margin. In addition, the Bank generates foreign currency holdings which can be utilized in meeting its import LC obligations. Remittances are now being distributed in the Philippines not only through the Group's domestic branches and ATM network, but also through its local remittance payout partners, such as pawnshops, extending its remittance services outside normal banking hours.

The Group that it is one of the largest and fastest growing providers in the Philippines of remittance services for OFWs totalling about U.S.\$30.1 billion of total remittance volume, based on BSP reports as at 31 December 2019. The Group has achieved this by utilizing its international network of branches, subsidiaries, associates and representative offices and through its relationships with correspondent banks and other overseas providers of remittance services. The systems installed in the foreign branches and offices enable real-time remittances to be processed.

As a result of the liberalization of foreign exchange controls in the Philippines in the 1990s, the Group continues to expand facilities for the handling of foreign currency remittances. The Group intends to (i) expand its existing international presence by establishing partnerships with local and international remittance service providers in Europe, the United States, Australia and the Middle East, (ii) rationalize its correspondent banking relationships and (iii) enhance its technology in electronic remittance processing to enable the quickest delivery of remittance services in the industry such as door-to-door delivery of remittance within hours and cash pick-up at Group and local payout partner's branches in seconds.

As at 31 December 2019, the Group had 31 foreign branches, subsidiaries and representative offices in close to 10 countries and territories worldwide.

The Group has several remittance arrangements with banks and remittance tie-ups and agents in regions with high concentrations of OFWs. The Group currently has a joint remittance agreement with PT Bank Central Asia, the largest private bank in Indonesia, which allows selected international branches of the Group to process remittances for overseas Indonesian workers, as well as an arrangement with the United Overseas Bank (Thai Public Company Limited) in Thailand which caters to overseas Thai workers and with CIMB Bank Berhad to cater to Filipinos working in Malaysia. The Bank has also entered into additional joint venture agreements with several new money transfer and financial institutions. As at 31 December 2019, the Group had 133 remittance tie-ups and approximately 145 remittance agents present in the United States, Europe, the Middle East, Asia and the Asia-Pacific. The Group is continuously seeking to expand this type of relationship for other countries with large numbers of OFWs and expects that this line of business will continue to increase the volume of remittances made by the Group's international network.

DESCRIPTION OF THE BANK

The higher value per transaction of remittances by correspondent banks and other financial institutions, compared to the Bank's foreign branches, reflects the practice of large foreign corporations, such as shipping companies, making large lump sum remittances for multiple beneficiaries in the Philippines using their regular banking providers.

Financial Markets Segment

Treasury

The Bank's Treasury Group is focused on servicing customer requirements through the sales and trading of global markets products as well as providing support for the core banking business through asset and liability management. The Bank's Treasury Group derives its revenue primarily from fixed income, foreign exchange, derivatives and interest rate differential activities. The customers of the Bank's Treasury Group include domestic and offshore banks, insurance companies, financial institutions, corporations, SMEs, high net worth individuals and retail companies.

The Bank's Treasury Group is responsible for its treasury operations, managing its domestic liquidity and funding position in accordance with regulatory reserve requirements and the objective of the Bank's management. As part of its liquidity management, the Treasury Group invests in sovereign and corporate debt instruments, commercial paper and other securities. The Treasury Group also manages the Bank's foreign currency exposure, engaging in proprietary trading of currencies and offering foreign exchange and risk hedging derivative instruments to the Bank's corporate customers such as forward contracts, interest rate swaps, currency swaps and foreign currency options.

Through its treasury operations, the Bank manages its required regulatory reserves and investment portfolio with a view to maximizing efficiency and return on capital. The Bank also seeks to optimize profits from its trading portfolio by taking advantage of market opportunities.

The Treasury Group engages in domestic and foreign exchange operations. As part of its treasury activities, the Bank also maintains proprietary trading portfolios in domestic debt and equity securities and in foreign currency assets. During the fiscal year the Bank undertakes foreign exchange sales and purchases on behalf of its corporate customers by engaging in back-to-back derivatives transactions. The Bank also sells hedging products to large and medium-sized corporate customers. The Bank offers derivative products to its clients including foreign exchange forward contracts, options, and currency and interest rate swaps.

The Bank believes it is among the top interbank dealers in foreign exchange, interest rate and foreign currency swaps, government securities and euro bonds in the Philippine financial markets. The Bank has received numerous awards and recognitions for its treasury activities, including the following:

- Chartered Financial Analyst (CFA) Society of the Philippines
 - Best Managed Funds of the Year (Peso Medium-Term Bond Category)
- 2020 Annual Philippine Dealing System (PDS) Awards
 - Cesar E.A. Virata Award (Bank Category)
 - Top Dealing Participant for Corporate Securities
 - Top Fixed Income Dealing Participant
 - Top Brokering Participant - Retail Transactions
 - Top 5 PDDTS -PvP Participant (2nd)
- The Asset Benchmark Research Awards 2019
 - Top Investment Houses in Asian G3 Bonds (Rank 1)
 - Top Investment Houses in Asian Local Currency Bonds (Rank 2)
 - The most Astute Investors in Asian G3 Bonds (Rank 3)
 - Best Local Currency Bond Individual – Trading (Highly Commended)
 - Best Local Currency Bond Individual – Sales (Ranks 3, 5 & Highly Commended)
- 19th Fund Managers Association of the Philippines (FMAP) Awards & Fellowship Night
 - Best Fixed Income House (Rank 2)
 - Best Fixed Income Strategist (Rank 2)
 - Best Foreign Fixed Income Trader (Rank 2)

DESCRIPTION OF THE BANK

- Best Local Fixed Income Trader (Rank 3)
- Best Fixed Income Salesperson (Rank 2)

Trust banking group

The Trust Banking Group's trust banking business offers a wide range of funds and asset management products and services catering to corporates, high net worth individuals (defined as individuals with liquid assets of over ₱20.0 million) and retail investors. As at 31 December 2017, 2018 and 2019, the Group had ₱450.5 billion, ₱429.2 billion and ₱491.7 billion in AUM, respectively.

Revenue from the trust business is generated through trust fees from the management of UITFs and corporate and personal trust products and services, as well as from custody and other agency services. Increased market competition has compressed income from management of UITFs, leading the Bank to refocus increasingly on trust banking services offered to private wealth clients. The Bank has recently looked to broaden its UITF customer base by offering a more diverse range of products. Products introduced in 2017 included a short-term UITF, a U.S.\$-denominated UITF and a unit paying fund. In 2018, the Bank also launched a U.S.\$-denominated fixed income feeder fund and three U.S.\$-denominated equity feeder funds. In 2019, the Bank also amended certain features of its UITFs to accommodate market demand and further expand the client base of such products.

The Trust Banking Group offers a broad range of trust banking products and services that address the needs of each of the market segments it serves, such as the management of retirement, corporate and pre-need funds, employee benefit trusts, and custody and facility agency services for corporate clients. Products and services offered to high net worth individuals include estate planning trusts, personal investment trusts and investment management arrangements.

The Trust Banking Group also offers other fiduciary services, such as escrow agency services, mortgage trust indenture services and transfer agency services for public offerings by Philippine corporations.

Income from the Bank's Trust Banking Group was at ₱1.4 billion, ₱1.3 billion and ₱1.2 billion for the years ended 31 December 2017, 2018 and 2019, respectively.

Markets sales group

The Bank's markets sales group handles all financial markets dealings of the Bank's different customer segments. It is comprised of licensed sales traders, investment specialists, structurers and securities brokers. Revenues are generated from fees and spreads from fixed income, foreign exchange, derivatives, funds, structured products and other alternative investments. The Bank's markets sales group is comprised of three divisions: an institutional sales division, an investment distribution division, and a client solutions division.

The institutional sales division is a sales team that works closely with the relationship managers of the Bank's institutional banking and national branch banking sectors to deliver financial markets products and solutions typically related to foreign exchange and interest rate exposures and investment requirements to corporate and financial institution customers.

The investment distribution division has a nationwide network, manned by Philippine SEC-licensed sales personnel, catering to the financial markets and wealth needs of high net worth individuals and other investor entities. Its customer base consists of persons seeking alternatives to regular deposits with investment portfolios of at least ₱5 million and who are able to make their own investment decisions. The investment distribution division provides such customers with access to live markets for various onshore and offshore fixed income instruments, foreign exchange, derivatives, funds, and other alternative investments. For ultra-high net worth individuals, the investment distribution division works closely with the relationship managers in the Bank's private wealth division.

The client solutions division supports the institutional sales division and investment distribution division by structuring products and solutions tailored to the specific needs of customers, and providing value-added analyses and tools. The securities brokering desk of the division assists sales personnel by executing customer orders, with the aim of delivering smooth and efficient execution of customer transactions.

DESCRIPTION OF THE BANK

Private wealth division

The Bank's private wealth division is comprised of a team of relationship managers that provides highly personalized services and that works closely with the Group's partners for product delivery. The Group's product partners include the investment distribution division, the Trust Banking Group, Metrobank branches and AXA for financial products. The relationship managers serve as the primary point of contact of the client for the Metrobank Group. The private wealth division covers clients who generally have a higher level of assets under management compared to the Bank's investment distribution division and Trust Banking Group, and provides portfolio management, investment advice, insurance, wealth & tax planning through various product providers to its customer base.

Institutional Investors Coverage Division

The Bank's institutional investors coverage division (**IICD**) is responsible for managing the Bank's relationships with its non-bank financial institutional (**NBFIs**) clients, both locally and offshore. The IICD is tasked with identifying new-to-bank institutional investors with high revenue growth potential and cross-selling opportunities, and thereafter on-boarding such clients onto the Bank's various product platforms (primarily Treasury, Trust, Credit, and Institutional Transaction Banking). The IICD is also responsible for deepening the bank's relationships with existing-to-bank institutional clients by serving as such client's relationship manager, the singular point of contact for all of the Bank's products and services.

INFORMATION TECHNOLOGY

The Group's strategy for providing better customer service, improving operations management and enhancing operating efficiency is dependent upon its IT systems. The Group generally uses off-the-shelf hardware and software to create complex applications and infrastructure for its operations. This modular approach allows the Group to modify its systems to address changing needs and incorporate new technology as necessary. This approach also allows the Group to make modifications and upgrades more cost effectively than if it employed a proprietary systems architecture.

The Group continues to undertake initiatives to combine, to the extent permitted by BSP regulations, the operating platforms of entities within the Group, to develop common service systems and otherwise upgrade its centralized computing equipment, which now services all online requirements of the Bank's branches, the Bank's 24-hour point-of-sale facilities, the Bank's ATM operations, PSBank's online system and MCC's credit card processing system.

The Bank utilizes a disaster recovery system as part of its business contingency recovery plan. This system allows the Bank to mirror and duplicate all critical operations and resume business during disaster situations. The disaster recovery system is provided through a third party. The Bank maintains a backup ATM switch in its disaster recovery center which will enable uninterrupted ATM use even when the primary computer center is inaccessible or rendered inoperable due to a disaster. In addition, the Bank uses an online disk replication system between the Bank's corporate headquarters and the Bank's business recovery data centers, thereby minimizing data loss during disaster scenarios and resulting in the capability to be online within three hours upon declaration of a disaster for all critical applications of the Bank. Aside from the online disk replication system, the Bank uses a virtual tape system to replace the slower conventional tape-based backup mechanisms.

INTERNAL AUDIT

The Bank's Internal Audit Group (**IAG**) provides independent objective assurance and consulting services designed to add value and improve the Bank's operations. IAG helps in achieving the Bank's objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes, including the IT systems and applications. It is independent from the operating units and reports directly to the Board through the Audit Committee, chaired and co-chaired by independent Directors. IAG's scope of work ensures that: risks are appropriately identified and managed; interaction with the various governance groups occurs as needed; significant financial managerial and operating information is accurate, reliable, and timely; employees' actions are in compliance with the Bank's code of conduct, policies, standards, procedures and applicable laws and regulations; resources are acquired economically, used efficiently and adequately protected; programs, plans, and objectives are achieved; quality and continuous improvement are fostered in the Bank's control process; and significant legislative or regulatory issues impacting the Bank are recognized and addressed properly.

The internal audit activity is performed in accordance with the International Standards for the Professional Practice of Internal Auditing (**ISPPIA**) and the Code of Ethics. An independent Quality Assurance Review of the Bank's internal audit activity was conducted in 2014 by a reputable professional firm that confirmed in the Quality Assurance Review report that the Bank's internal audit activities generally conform (the highest among three classifications) to the ISPPIA and the Code of Ethics and exceeds the global conformance rating. The review team also opined that the maturity level of IAG is 4.0 (five-point scale system, of which 5 is the highest) or "Managed", wherein IAG is able to integrate information from across the organisation to improve risk management and governance processes. The Bank's Internal Audit Quality Assessment and Improvement Program includes continuous independent quality assurance reviews benchmarked against ISPPIA, continuous implementation of process improvements (e.g. increased use of technology in audit engagements) and successful practices, which ensure that IAG activities add value and meet stakeholder's expectations.

IAG's annual audit plan is developed based on the Bank's strategic plan, which reflects the overall business objectives and the Bank's attitude toward risk. IAG employs integrated IT and operational audits and follows a risk-based approach in its internal audit programs and procedures. Using this approach, the nature, timing and scope of audit are based on the preliminary evaluation of the degree of risks and adequacy of risk management, mitigating factors and internal controls within each particular operating unit being audited. Business risks are assessed through discussions with management and review of management-accomplished risk measurement tools such as value-at-risk, earnings-at-risk and operational risk self-assessment. The performance of audit engagements, including complete documentation of all audit work, is guided by a clear set of standards and is achieved by employing various leading audit tools and techniques. IAG also advises project teams, management and the Bank's Board of Directors on key areas, such as governance, risk management and controls.

The effectiveness of an auditable unit's implementation of controls and risk mitigation techniques are measured using a risk-based audit rating system, which was developed in-house vetted by the Bank's senior management and approved by the Audit Committee. It is periodically updated to incorporate emerging risks. The audit rating result impacts the performance appraisal of business and support units. IAG monitors management actions to resolve audit findings to ensure timely risk mitigation, and to identify and elevate critical areas for improvement and risk re-evaluation. IAG also has a dedicated team to assist the Bank's management through fact-finding and investigation of fraud, irregularities and money laundering, in close coordination with other units of the Bank.

IAG staff members are mostly Certified Public Accountants, moreover, some auditors hold global certifications such as Certified Internal Auditor, Certified Information Systems Auditor, Certified Internal Control Auditor, Certified Anti-Money Laundering Specialist, Certified Fraud Examiner, Certified Financial Services Auditor, and Certified Treasury Professional, among others. To further strengthen the Bank's internal audit capabilities and ensure continuing professional education, the IAG implements a training program to ensure that officers and staff obtain the necessary skills and are kept abreast with current developments to better discharge their responsibilities.

Based on the results of IAG's internal audit assurance and consulting services and the work of other control and monitoring functions within the Bank, such as the Risk Management Group and the Compliance Division, the IAG renders an opinion on the Bank's framework of control as to the adequacy and effectiveness in relation to the Bank's business objectives and within limit of internal controls.

CORPORATE SOCIAL RESPONSIBILITY

The Group not only prioritizes its financial performance, but also focuses on making meaningful contributions to the development of the nation and welfare of the larger society. This approach is made real through the Bank's corporate social responsibility arm, Metrobank Foundation, and its employee volunteerism arm, the Purple Hearts Club (PHC).

On 8 January 1979, the Metrobank Foundation, Inc. (the **Foundation**) was established by the Group to contribute to social development efforts of the Government. As at 31 December 2019, the Foundation held 0.6% of the Bank's common shares.

The Foundation seeks to foster a culture of excellence by funding and implementing programs in education, health services, the visual arts, as well as dynamic social development partnerships in the Philippines. Foremost among the Foundation's initiatives include the annual search for Metrobank Foundation Outstanding Filipinos, which honors ten ordinary individuals with extraordinary accomplishments, rendering service above and beyond the call of duty and making a lasting positive impact on communities. The Foundation has also continued promoting the arts in the Philippines, including by providing a platform for up-and-coming artists to springboard their work into greater creative fronts through the Metrobank Art & Design Excellence, recognizing and awarding visual artists and launching a cultural and heritage education program with a primary thrust on built environment and built heritage in 2018. The Foundation has also continued to support education in the Philippines through programs such as the Metrobank Math Challenge, the Metrobank Scholarship Program, the National Teachers' Month, and professorial lectures in various fields. The Foundation continues to forge more partnerships with like-minded organizations that share in the mission of raising the quality of life for underserved sectors in society. The Foundation's priority thrusts are captured by the acronym HEAL — health, education, arts, and livelihood — which, along with the United Nations' Sustainable Development Goals, serve as the guiding framework for the organization's activities towards nation-building. In 2019, a total of 50 socio-civic and charitable organizations including government and non-government institutions were provided with grant assistance. The consolidated amount approved amounts to ₱20 million catering to around 24,115 individuals (students and teachers, primarily from public schools, urban poor communities, fisher folk, farmers, young artists, indigent women and children, persons with disabilities, calamity survivors) and 11,397 families. As validation of its choice of activities, the Foundation was awarded three Gold Anvils and three Silver Anvils at the 54th Anvil Awards organized by the Public Relations Society of the Philippines, and two Quill Awards of Excellence and two Quill Awards of Merits at the 17th Philippine Quill Awards organized by the International Association of Business Communicators (IABC)-Philippines.

Metrobank continues to grow in its advocacy of corporate social responsibility through PHC, the volunteerism arm of the Bank. Through PHC, employees practice socially responsible leadership and champion volunteerism. Now in its 17th year of existence, PHC is composed of 65 chapters with 7,970 members across units and branches nationwide.

PHC's success is attributed to the passion for service exhibited by the Bank's employee-volunteers in taking part in different CSR programs on education, environmental stewardship, and health. PHC also engages in worthwhile partnerships to provide new opportunities for volunteerism that both interest employee-volunteers and support identified sectors in society.

PHC's environmental program "You're In Green Hands" is an environmental stewardship program which centres on combating various environmental issues faced by the country through restoration activities such as tree planting, coastal clean-up and other efforts for the environment. In 2019, the Bank renewed its partnership with Haribon Foundation through the Buhay Punlaan Tree Nursery Program at Lumban, Laguna and the Coastal Clean-up Activity at Las Piñas – Parañaque Critical Habitat and Ecotourism Area (LPPCHEA).

Metrobank also collaborated with GT Foundation, Inc. for the latter's initiated thematic program "Salamin sa Maliwanag na Bukas" which aims to improve the lives of our countrymen in need through the provision of reading eyeglasses, especially to the elderly citizens.

DESCRIPTION OF THE BANK

INVESTOR RELATIONS

The Bank's Investor Relations Office strives to ensure that the market prices of the Bank's securities accurately reflect the values of the assets and expectations of future earnings. It also provides the Bank's management critical information on relevant developments in the financial markets that may be utilized by the Bank in formulating its long-and short-term plans. It also oversees all corporate communication with analysts, investors, and stockholders.

The Investor Relations Office of the Bank may be reached at (632) 8857-5348 or via email at investor.relations@metrobank.com.ph.

DOMESTIC AND INTERNATIONAL BRANCH NETWORK

Domestic Branch Network

As at 31 December 2019, the Group had a total domestic branch network of 957 branches, comprising 707 branches of the Bank and 250 branches of PSBank.

The Bank believes that it has reached the optimal number of branches to support its growth strategy. The Bank also believes that it has achieved an ideal geographic split of 440 branches in Metro Manila and 517 branches in the countryside, which would also allow the Bank to capture growth areas in the countryside. Moving forward, the Bank does not expect to open as many branches a year as it had in previous years. Any new branches to be opened will be in specific areas where the Bank believes there is the greatest need for additional banking services.

The following table illustrates the coverage of the Bank and PSBank's network in recent years and sets forth the number of domestic branches as at 31 December 2017, 2018 and 2019:

	As at 31 December		
	2017	2018	2019
Metro Manila			
Bank	316	316	316
PSBank.....	124	124	124
	<u>440</u>	<u>440</u>	<u>440</u>
Countryside Luzon			
Bank	197	199	198
PSBank.....	85	85	85
	<u>282</u>	<u>284</u>	<u>283</u>
Visayas			
Bank	111	112	113
PSBank.....	23	23	23
	<u>134</u>	<u>135</u>	<u>136</u>
Mindanao			
Bank	79	80	80
PSBank.....	18	18	18
	<u>97</u>	<u>98</u>	<u>98</u>
Total for the Bank	<u>703</u>	<u>707</u>	<u>707</u>
Total for the PSBank.....	<u>250</u>	<u>250</u>	<u>250</u>
Total Group branches.....	<u>953</u>	<u>957</u>	<u>957</u>

DESCRIPTION OF THE BANK

International Branch Network

The Bank has a network of six strategically located branches outside of the Philippines, which, together with its representative offices, subsidiaries, and a network of correspondent banks, complements the domestic activities of the Group. The Bank's network outside the Philippines can be summarized as follows:

Branches	Representative Offices	Subsidiaries
Taipei	Hong Kong	Metro Remittance (Japan) Co. Ltd.
New York	Beijing	First Metro International Investment Company Limited and Subsidiary
Seoul		Metro Remittance (Hong Kong) Limited
Pusan		Metro Remittance (Singapore) Pte. Ltd.
Tokyo		Metropolitan Bank (China) Ltd.
Osaka		Metro Remittance (USA), Inc.
		Metro Remittance (USA), Inc. Subsidiaries:
		Metro Remittance (Canada), Inc. MB Remittance Center (Hawaii), Ltd.
		Metro Remittance (UK) Limited

The Bank's foreign branches deliver full banking operations and have been predominantly engaged in lending to local businesses, primarily those involved in trade finance. The Bank channels a substantial part of its import LCs through this international network. In addition, the Bank's international offices are licensed to handle remittances for OFWs and other nationalities. The Bank's current strategy is to position its operations internationally to take advantage of trade flows with, and investment in, the Philippines and the presence of large Filipino populations overseas.

Each of the Bank's international branches conducts commercial and trade-related lending operations within each of the jurisdictions in which it operates. The loan portfolio of the Bank's overseas branches, including commercial loans and trade finance, amounted to ₱9.1 billion, ₱14.7 billion and ₱18.9 billion as at 31 December 2017, 2018 and 2019, respectively.

In 2017, 2018 and 2019, 1.4%, 2.3%, and 2.0%, respectively, of the Group's net income attributable to equity holders of the Bank was generated from its operations outside of the Philippines.

Electronic banking

The Bank's electronic banking or direct banking platform allows customers of the Bank to carry out banking activities using cash accept machines, ATMs, SMS text messaging via mobile telephones or via the internet. As at 31 December 2019, the Group's network reached 2,345 ATMs. Committed to bringing services closer to customers, the Group continues to have a wide geographical compared to other top domestic banks.

EMPLOYEES

As at 31 December 2019, the Bank had a total of 13,249 employees (including the Bank's foreign branches), of which 6,328 were engaged in a professional management capacity and classified as bank officers, and 6,921 were classified as staff members.

All of the Bank's regular rank and file employees, other than those expressly excluded under the collective bargaining agreement, are represented by a union affiliated with the Associated Labor Union — Trade Union Congress of the Philippines. In the fourth quarter of 2018, the Bank successfully concluded a new Collective Bargaining Agreement for the years 2019 to 2021. The Bank's management believes it has a good relationship with its staff and strives to maintain a positive and rewarding work environment for its employees.

The following table presents the number of employees (including the Bank's foreign branches) by category as of the dates indicated:

DESCRIPTION OF THE BANK

	As at 31 December		
	2017	2018	2019
Staff.....	6,315	6,927	6,921
Officers	5,918	6,025	6,328
Total	12,233	12,952	13,249

The following table provides the total employee headcount for the Bank (including the Bank's foreign branches), as at 31 December 2019:

	Number of Employees
President.....	1
Senior Officers	487
Junior Officers	5,840
General Staff	6,921
Total Headcount	13,249

The mandatory retirement age for a Bank employee is 55 years or on completion of 30 years of service, whichever comes first. The normal compulsory retirement benefit for the employee who has rendered 30 years of service consists of a lump sum benefit equivalent to 210% of the employee's gross monthly salary at the time of his retirement for each year of service rendered. For employees that retire with less than 30 years of service, the retirement benefit will be a lesser percentage of the gross monthly salary of the employee at the time of his retirement for each year of service rendered. The retirement benefit vests after ten years of service and the percentage of the gross monthly salary used to calculate the benefit increases over time.

Consistent with the Bank's goal of being one of the Philippines' preferred employers, the Bank has adopted a compensation policy that it believes is competitive with industry standards in the Philippines. Salaries and benefits are reviewed periodically and adjusted to retain current employees and attract new talent. Tied to this is a competency-based performance management system that calls for the alignment of individual key results, competencies, and development plans with the Bank's overall business targets and strategy. Performance is reviewed annually and employees are rewarded based on the attainment of pre-defined objectives. The Bank currently has no plans of hiring additional employees, except where necessary to complement its commercial lending, business intelligence, product development and customer service.

The Bank provides its employees with group life insurance coverage with double indemnity in case of accidental death and dismemberment in line with good business practice and in accordance with Philippine standards. Insurance premium payments for these policies are paid entirely by the Bank.

PROPERTIES

The Bank's head office is located at Metrobank Plaza, Sen. Gil Puyat Avenue, Makati City, 1200 Philippines. The Bank owns the premises occupied by its head office, including most of its branches. For a geographic breakdown of the Group's branch network, see "Domestic Branch Network" and "International Branch Network" above. In certain cases, the Bank also leases premises occupied by the rest of its branches. Generally, lease contracts are for periods ranging from one year to 25 years and are renewable under certain terms and conditions. Currently, the Bank has no plans for property acquisition, except where feasible, the Bank may explore properties to set up branches to improve its network coverage.

DESCRIPTION OF THE BANK

INSURANCE

The Group's policy is to adequately insure all of its properties against fire and other usual risks. The Group also maintains insurance for operational risks such as the loss of cash or securities through loss or theft, both through a program of self-insurance and by obtaining insurance from third party providers. The Group does not have business interruption insurance covering loss of revenues in the event that its operations are affected by unexpected events. The Group also has a policy of requiring appropriate insurance coverage for any collateral provided by its customers.

The Group's insurance policies are subject to exclusions which are customary for insurance policies of the type held by the Bank, including those exclusions which relate to war and terrorism-related events. The Group believes that its insurance policies are appropriate for its business.

INTELLECTUAL PROPERTY

The Group has applied to the Intellectual Property Philippines Office in Makati City for, and received, intellectual property protection for all of its major brand names and trademarks, such as "Metrobank", the Metrobank logo, the tagline "You're in Good Hands" and the names of the Bank's major products and services, such as MetroHome and MetroCar, various e-banking channels and various remittance services. The Group has not been the subject of any disputes relating to its intellectual property rights

LEGAL PROCEEDINGS AND PERMITS AND LICENSES

As at 31 December 2019, the Group was a party to various unresolved legal proceedings which arise in the ordinary course of its operations, including several suits and claims relating to the Group's lending operations. In the opinion of the Bank's management, if such unresolved legal proceedings are decided adversely, they will not have a material adverse effect on the Group or its consolidated financial condition.

The Bank also believes that it has all material permits and licenses necessary for its business and that these are valid and subsisting as of the date of this Offering Circular.

DESCRIPTION OF THE BANK

SUBSIDIARIES AND ASSOCIATES

The following table sets out summary information in respect of the Group's significant subsidiaries and associate as of and for the year ended 31 December 2019:

Significant Subsidiaries and Associate	Group's effective ownership	Activity	Principal place of business	Issued capital stock	Total assets	Total revenues	Net income
(P millions)							
Philippine Savings Bank . . .	88.38%	Savings Banking	Philippines	3,831	224,907	20,762	3,028
First Metro Investment Corporation including its subsidiaries	99.27%	Investment Banking Holding Company	Philippines	4,209	35,635	3,529	402
Metrobank Card Corporation (A Finance Company and General Insurance Agency)	100.00%	Credit Card Services	Philippines	1,000	94,247	21,330	4,911
ORIX Metro Leasing and Finance Corporation including its subsidiaries	59.85%	Leasing, Finance	Philippines	7,144	52,821	7,745	1,147
Philippine AXA Life Insurance Corporation . . .	27.96%	Life Insurance	Philippines	1,000	141,938	17,813	2,669

For more information on the Group's subsidiaries and associates, please refer to the notes in the financial statements of the Group elsewhere in this Offering Circular.

- (1) First Metro, directly or indirectly through its subsidiaries, holds interests in First Metro Securities, PBC Capital Investment Corporation, SBC Properties, Inc., Prima Ventures Development Corporation, First Metro Save & Learn Dollar Bond Fund, Inc., First Metro Asia Focus Equity Fund, Inc., First Metro Asset Management, Inc., FMIC Equities, Inc., Resiliency (SPC), Inc., First Metro Philippine Equity Exchange Traded Fund, Inc., First Metro Save & Learn Fixed Income Fund, Inc., First Metro Save & Learn Equity Fund Inc., First Metro Save & Learn Balanced Fund, Inc. and First Metro Insurance Brokers Corporation. First Metro also holds interests in Philippine AXA Life Insurance Corporation, Lepanto Consolidated Mining Company and Cathay International Resources Corporation. The financial information relating to First Metro includes its equity investments in those subsidiaries and its own associates.
- (2) The Bank holds interests in associates Northpine Land, Inc., Taal Land, Inc. and SMBC Metro Investment Corporation while PSBank holds interests in associate Sumisho Motor Finance Corporation.
- (3) Each of the Group's subsidiaries have been incorporated in the Philippines, other than Metropolitan Bank (China) Ltd., Metropolitan Bank (Bahamas) Limited, First Metro International Investment Company Limited, Metro Remittance (Hong Kong), Limited, Metro Remittance (Singapore) Pte. Ltd., Metro Remittance Center, Inc., Metro Remittance Center (USA), Inc., Metro Remittance (UK) Limited, Metro Remittance (Japan) Company Limited, and Metro Remittance (Italia), S.p.A.
- (4) Recent Developments:

DESCRIPTION OF THE BANK

- On 21 April 2020, the BOD of PSBank declared a 7.50% regular cash dividend for the first quarter of 2020 amounting to ₱320.14 million or ₱0.75 per share payable on 21 May 2020 to all stockholders of record as of 7 May 2020.
- On 4 February 2020, PSBank issued ₱4.65 billion fixed rate bonds with an issue price at 100% face value, which bear an interest of 4.50% per annum and will mature on 4 February 2023.
- The Philippine SEC approved the Bank's proposal to merge MCC, a finance company and general insurance agency that is 100% owned by the Bank, into the Bank, effective 3 January 2020. The merger was approved by the Board of Directors of the Bank on 13 March 2019, was ratified by the stockholders of the Bank on 24 April 2019, and was approved by the BSP on 23 October 2019. MCC was originally a joint venture between the Bank and ANZ Funds. The Bank acquired ANZ Funds' stake in MCC in 2018.
- On 16 January 2020, PSBank received an order from the Philippine SEC fixing the record date of its 11.42% stock dividend consisting of 43.75 million shares on 31 January 2020. Payment date of 21 February 2020 was set in accordance with PSBank's board of directors' approval and the rules of the PSE. The issuance of such stock dividend was in relation to the increase of PSBank's authorised capital stock in 2019.

Subsidiaries

The Bank provides operational support to all of its subsidiaries. The support provided includes information technology, controllership, legal, operations and human resource services.

A brief description of the Group's significant subsidiaries is provided below.

Philippine Savings Bank

The Group offers a range of retail and consumer banking products and services through PSBank, a subsidiary which is managed and operated independently of the Bank. PSBank is a savings bank authorized by the BSP to engage in savings and mortgage banking in the Philippines. PSBank was listed on 4 October 1994 and became the first publicly listed savings bank in the Philippines and, as at 30 September 2019, was the second largest savings bank in the country in terms of total deposits, total loans (net), total assets and total capital according to BSP data.

PSBank offers a wide range of products and services primarily to the consumer market, principally to individuals, but also to SMEs in the form of support services such as vehicle financing. As at 31 December 2017, 2018 and 2019, PSBank had total assets of ₱223.3 billion, ₱237.7 billion and ₱224.9 billion, respectively, total deposits of ₱188.9 billion, ₱200.7 billion and ₱172.5 billion, respectively, and total loans and receivables of ₱145.0 billion, ₱156.2 billion and ₱164.4 billion, respectively. PSBank's net income in 2017, 2018 and 2019 was ₱2.7 billion, ₱2.7 billion, and ₱3.0 billion, respectively.

PSBank's branch network is operated separately from the Bank's domestic network. However, to take advantage of the Bank's brand recognition, PSBank also includes the phrase "Metrobank Group" in its logo. As at 31 December 2019, PSBank had a total of 250 branches, 113 of which were located in Metro Manila. As at 31 December 2019, PSBank had 557 ATMs, of which, 267 are installed in PSBank's branches, and 290 are installed in off-site locations. PSBank, like the Bank, is a member of BancNet, the first and currently the largest ATM consortium in the Philippines. BancNet ATMs been pooled for the common use of their respective customers.

PSBank offers a wide range of consumer banking products and services to its customers. Its deposit products and services include savings, checking, and time deposit accounts, denominated in Peso, U.S. Dollars and Euro. PSBank's consumer loan products include Home Loan, Auto Loan, and Flexi Personal Loan. Home loans and Auto Loans account for the bulk of PSBank's loan portfolio. Aside from Flexi Personal Loan, PSBank also offers Multipurpose Personal Loans to its corporate clients. Multipurpose Loan is available to employees of accredited partner companies as a ready loan facility. Payments are made thru direct deduction from the borrower's salary.

DESCRIPTION OF THE BANK

Other product offerings include trust services, bills payment collection, remittance services, Business Online Buddy (corporate internet banking), e-Credit, PSBank-AXA Bancassurance and commercial loans that include PSBank SME Business Credit Line, PSBank Credit Line, PSBank SME Term Loan with Prime Rebate, among others.

PSBank undertakes a different customer acquisition strategy and has a different customer profile to that of the Bank. PSBank's customer acquisition strategy involves sourcing new customers from various retail segments and through various sales channels. Currently, PSBank Online Loan Application (**POLA**) is available for both Auto and Flexi Personal Loans. Auxiliary to new customer acquisition, additional business is also sourced via direct marketing, whereby the Bank principally cross sells to its existing customers. The Bank and PSBank focus on different customer segments in order to protect their respective market share even as they collaborate to ensure wider market coverage.

PSBank's principal source of funding is deposits from the general public. As at 31 December 2017, 2018 and 2019, PSBank's total deposits represented 12.4%, 12.9% and 10.1% of the Group's total deposits, respectively. As at 31 December 2017, 2018 and 2019, PSBank had total loans and receivables of ₱145.0 billion, ₱156.2 billion and ₱164.4 billion, respectively, representing 11.5%, 11.2% and 11.1% of the Group's total loan portfolio. On 8 December 2016, the BSP authorized PSBank to issue up to ₱10.0 billion in LTNCDs through one or multiple tranches over a period of one year. On 30 January 2017, PSBank issued the first tranche of LTNCDs amounting to ₱3.4 billion due 30 April 2022 with an interest rate of 3.50% per annum payable quarterly. Also, on 31 July 2018, the BSP authorized the Bank to issue LTNCDs up to ₱15.0 billion through one or multiple tranches over a period of one year. On 9 August 2018, the Bank issued the first tranche of LTNCDs amounting to ₱5.08 billion due on February 9, 2024 with an interest rate of 5.0% per annum payable quarterly.

As at 31 December 2017, 2018 and 2019, home mortgage, vehicle finance and personal loans represented 91.8%, 91.8% and 91.7% of PSBank's total loan portfolio, respectively.

As at 31 December 2017, 2018 and 2019, PSBank's total NPLs represented 3.3%, 4.2% and 3.6% of its total loan portfolio. PSBank's allowance for credit losses on receivables from customers as at 31 December 2017, 2018 and 2019, were ₱4.0 billion, ₱3.5 billion and ₱3.0 billion, respectively, representing 83.3%, 53.3% and 50.9%, respectively, of its total NPLs (the NPL coverage ratio).

PSBank's Tier 1 capital adequacy ratio and total capital adequacy ratio as reported to the BSP were at 16.8% and 17.8% as at 31 December 2019, respectively; compared to 11.3% and 13.9% as at 31 December 2018, respectively, and 11.1% and 13.9%, as at 31 December 2017, respectively. As at 31 December 2019, PSBank had a market capitalisation of ₱24.5 billion.

The tables below set forth selected financial ratios of PSBank as of and for the years ended 31 December 2017, 2018 and 2019:

	As at and for the year ended 31 December		
	2017	2018	2019
		(%)	
Return on average assets ^{*(1)}	1.3%	1.2%	1.3%
Return on average equity ^{*(2)}	12.5%	11.4%	10.3%
Net interest margin on average interest earning assets ⁽³⁾	6.1%	5.8%	5.8%
Capital adequacy ratio ⁽⁴⁾	13.9%	13.9%	17.8%
Total gross loans.....	146,332	156,693	164,115
Total deposit liabilities	188,913	200,688	172,505
Loans to deposits ratio ⁽⁵⁾	77.5%	78.1%	95.1%
NPLs.....	4,771	6,616	5,917
NPLs to total gross loans ⁽⁶⁾	3.3%	4.2%	3.6%

DESCRIPTION OF THE BANK

	As at and for the year ended 31 December		
	2017	2018	2019
		(%)	
Non-accruing loans.....	4,382	10,966	11,926
Non-accruing loans to total gross loans ⁽⁷⁾	3.0%	7.0%	7.3%
Allowance for credit losses - loans	3,976	3,524	3,013
Allowance for credit losses – loans to NPLs (NPL coverage ratio) ⁽⁸⁾	83.3%	53.3%	50.9%
Allowance for credit losses to non-accruing loans ⁽⁹⁾	90.7%	32.1%	25.3%

* Average is current balance plus previous year's balance divided by two

(1) Net income divided by average total assets for the year

(2) Net income divided by average total equity for the year

(3) Net interest income divided by average interest-earning assets (including due from the BSP, due from other banks, interbank loans receivable and SPURA, investment securities, current gross receivables from customers, sales contract receivable, unquoted debt instruments and bills purchased).

(4) Total qualifying capital divided by total risk-weighted assets, as reported to the BSP

(5) Total loans divided by total deposits (excluding from other banks)

(6) Total NPLs divided by total loans (excluding interbank call loan)

(7) Total non-accruing loans divided by total loans

(8) Allowance for credit losses divided by total NPLs

(9) Allowance for credit losses divided by total non-accruing loans

In 2019, PSBank aggressively pursued its digital transformation roadmap with initiatives focused on creating a seamless customer experience, automating internal processes to increase efficiency, and launching of new services for customers. PSBank launched the fourth version of its mobile banking app which featured services such as the “mobile check deposit” and “PaSend”. The “mobile check deposit” service, a first in the local banking industry, allows PSBank mobile app users to deposit local checks by taking a photo of the checks and uploading the images to the application, and thus eliminating the need to go to a bank branch to deposit and clear checks. “PaSend” is a mobile remittance service that enables PSBank depositors to conveniently send instant cash to anyone 24/7, which can be withdrawn from any PSBank or Metrobank ATM nationwide. PSBank likewise refreshed and upgraded its website to improve user experience.

PSBank’s e-Bid system was also rolled out for prospective automobile buyers to bid on-site for repossessed vehicles at the PSBank “automart”.

The foregoing initiatives followed the introduction of other digital solution such as the PSBank online loan application (POLA) for auto and flexi personal loans, cardless withdrawal, ATM lock, “PayMe”, “Qanywhere”, among others in previous years.

PSBank’s first robotics process automation was implemented in the monitoring of ATMs which eliminated the tedious process of downloading configurations and also enabled the sending of notifications to service teams which led to a significant increase in ATM service availability. PSBank’s mobile appraisal System (MAPPS) automated the previously manual processes of preparing, reviewing, and encoding report details needed for mortgage loan applications. PSBank’s integrated loan application processing system (ILAPS) interfaced with TransUnion for expanded cross-credit validation processes. Structural improvements were likewise made in PSBank’s payment gateway utilizing KAFKA and API designs, an open-source stream-processing software platform that provides a unified, high throughput and low-latency platform in the handling of real-time processing of transactions.

In compliance with the BSP’s mandate to adopt an electronic anti-money laundering system, PSBank implemented Base60, a system which detects, raises alerts, and reports accounts that fall in the category of covered transactions under the AMLA.

DESCRIPTION OF THE BANK

As a testament to PSBank's commitment to customer-centricity in its banking products and services, PSBank received several awards in 2019. The BSP conferred the prestigious "Pagtugon Award" for the fourth time to PSBank for its consistency and exceptional standards in addressing customer service concerns. The BSP likewise named PSBank as "Outstanding Partner in Digital Transformation."

PSBank also bagged four major awards at the 2019 Customer Experience (CX) Asia Excellence Awards: Gold recognition for Best Customer Experience and Best Digital Experience; Silver for Best CX Team; and Bronze for Best Social Media Experience. Locally, the Bank Marketing Association of the Philippines (BMAP) awarded PSBank's Social Media Program as the best in the industry.

First Metro Investment Corporation

The Group's investment banking activities are principally undertaken through First Metro Investment Corporation (**First Metro**) a majority-owned subsidiary of the Bank. First Metro is a leading investment bank in the Philippines with over 50 years of service in the development of the country's capital markets. Together with its subsidiaries — First Metro Securities Brokerage Corporation (**First Metro Securities**) and First Metro Asset Management, Inc. (**FAMI**) — First Metro offers a wide range of services, from debt and equity underwriting, loan syndication, project finance, financial advisory, investment advisory, government securities and corporate debt trading, equity brokering, online trading, asset management, and research.

First Metro was incorporated in 1972, making it one of the Philippines' oldest and most established investment banks. In September 2000, the Bank acquired Solid Bank Corporation, a listed Philippine commercial bank, and Solid Bank Corporation's investment banking license was later transferred to First Metro. This merger resulted in First Metro becoming the first PSE-listed investment bank. Since that time, First Metro has become the largest Philippine investment banking institution in terms of total assets.

On 12 October 2012, First Metro filed a disclosure with the PSE stating its intention to voluntarily delist its shares and buy back all of its publicly owned shares via a tender offer following the decision of its Board of Directors to operate as a non-listed entity. The delisting of the First Metro's shares from the Official Registry of the Exchange was subsequently approved by the PSE effective 21 December 2012. As a result of First Metro's buyback of its own shares, the Bank's ownership in First Metro increased from 98.06% to 99.23% and 99.21% as at 31 December 2013 and 2012, respectively. As at 31 December 2019, the Bank owned 99.27% of First Metro.

First Metro successfully completed 18 capital markets deals in 2019, including debt and equity issuances of the Government and other private and public institutions for their expansion, acquisition and general financing requirements.

First Metro's subsidiary, The First Metro Philippine Equity Exchange-Traded Fund (**FMETF**), the first and only exchange-traded fund in the Philippines, celebrated its sixth anniversary in December 2019. The FMETF continues to be one of the top performing equity funds in the Philippine market.

Moving forward, First Metro intends to continue to pursue and enhance its investment banking business while aligning plans and strategies with the changing business environment. First Metro will continue to explore the development of new products through a financial solutions unit which will study and evaluate new products for existing and future clients. As part of its strategy, First Metro is looking to expand its distribution channels and to increase distribution capacity to support cross-selling opportunities within the First Metro and wider Metrobank Group. To develop and enhance the organisation to support this growth drive, First Metro plans to prepare its employees through training and mentoring to ensure continuity of leadership, good governance, and professional excellence.

First Metro has garnered the following significant awards and recognitions from various institutions:

- Best Corporate & Investment Bank in the Philippines 2019 – Asiamoney
- Best Equity House 2018 and 2019 – Alpha Southeast Asia

DESCRIPTION OF THE BANK

- Most Innovative Deal: AEON Credit Service (Philippines), Inc.'s ₱1 billion Fixed Rate Corporate Notes – The Asset Triple A Country Awards
- Top Arranger, Investors' Choice for Primary Issues in Asian Currency Bonds, Corporate Bonds, Philippines (Ranked 4th) – The Asset Benchmark Research
- Top Arranger, Investors' Choice for Primary Issues in Asian Currency Bonds, Government Bonds, Philippines (Ranked 2nd) – The Asset Benchmark Research
- Top Sell-side Firms in Secondary Market, Government Bonds, Philippines (Ranked 1st) – The Asset Benchmark Research
- Top Sell-side Firms in Secondary Market, Corporate Bonds, Philippines (Ranked 1st) – The Asset Benchmark Research
- Best Fixed Income Deal (Small-Mid Cap): AEON Credit Service (Philippines), Inc.'s ₱1 billion Fixed Rate Corporate Notes – Investment House Association of the Philippines
- Best Fixed Income House (Ranked 3rd) – Fund Managers Association of the Philippines
- Top Corporate Securities Market Maker, Top 5 Fixed Income Dealing Participants (5th) and Top 5 Corporate Issue Managers/Arrangers (5th) in the 2019 PDS Annual Awards – PDS Group
- Top Government Securities Eligible Dealer Market Makers 2019 and 2018 – Bureau of the Treasury

First Metro's subsidiary, FAMI, has also won top awards for the outstanding performance of the First Metro Save & Learn Mutual Funds at the 2019 Philippine Investment Funds Association Annual Awards. The Save & Learn Balanced Fund (**SALBF**) won first place in the 10-year return category and third place in the 1-year category. The Save & Learn Fixed Income Fund (**SALFIF**) bagged first place in the 10-year return category and second place in the 5-year return category. The Save & Learn Equity Fund (**SALEF**) was awarded second place for the 10-year return category.

For the second consecutive year, another subsidiary of First Metro, First Metro Securities, was awarded Best Broker in the Philippines by the Hong Kong-based finance publishing firm FinanceAsia at its Country Awards for Achievement 2018. First Metro Securities was also awarded Top 5 Depository Brokering Participant (4th) at the 2018 PDS Group Annual Awards. In 2019, First Metro Securities was awarded back-to-back Best Online Broker and Best Online Trading Platform by UK-based financial publishing firm International Finance. First Metro Securities was also named Philippines' Best Online Trading Platform, Best Online Broker, and Most Innovative Brokerage House by UK-based financial publishing firm, Global Business Outlook.

First Metro's operating businesses are organized and managed separately according to the nature of services and products provided and the markets served, with each segment representing a strategic business unit. First Metro's operating segments are:

- *Investment Banking*: First Metro's Investment Banking Group helps businesses through debt and equity underwriting, arranging and syndicating large, long-term funding requirements, financial advisory, project finance, and structured financial solutions.
- *Financial Markets Group*: First Metro's Financial Markets Group is responsible for the distribution and trading of financial instruments such as Peso- and U.S. Dollar-denominated government securities and corporate papers, as well as managing the liquidity requirements of First Metro. As a quasi-bank licensed institution, First Metro accesses public funds through the issuance of promissory notes. As a Government Securities Eligible Dealer authorized by the Bureau of the Treasury, First Metro is considered one of the most active dealing and brokering participants in the industry. The Financial Markets Group also provides investment advisory service, which develops and enhances the wealth of private clients, uncovering investment opportunities and seeking a thorough understanding of the market through first-hand research.

DESCRIPTION OF THE BANK

- *Fund Management:* First Metro's subsidiary FAMI is engaged in the mutual funds business, promotes savings mobilisation, and advocates investment literacy amongst Filipinos. FAMI is an investment company adviser licensed by the Philippine SEC to manage and distribute its First Metro Save & Learn Mutual Funds.
- *Equity Brokering:* First Metro's subsidiary First Metro Securities is an equity trading house licensed to trade in the PSE. It has been a trusted provider of equity brokering services and solutions to individuals, public and private corporations, and other financial institutions. It provides investors with easy and convenient access to the listed securities in the stock market, either through its state-of-the-art online trading platform, FirstMetroSec, or with the assistance of seasoned and knowledgeable equity brokers.

First Metro's total assets amounted to ₱53.6 billion, ₱43.2 billion and ₱35.6 billion as at 31 December 2017, 2018 and 2019, respectively. First Metro's total assets as at 31 December 2019 were 17.6% lower than as at 31 December 2018, and capital decreased by 0.2% to ₱14.9 billion, which translates into a capital adequacy ratio of 45.6%. In 2017, 2018 and 2019, First Metro's net income was ₱1,175.0 million, ₱503.0 million, and ₱402.4 million, respectively. Year-on-year return on equity in 2019 was 2.6%. As at 31 December 2019, First Metro had 143 employees.

First Metro's stockbrokerage arm, First Metro Securities Brokerage Corporation, is a licensed trading participant in the PSE. Serving both institutional and retail clients, it was incorporated in the Philippines on 16 October 1987 and started commercial operations in June 1994. In October 2006, First Metro Securities established an online stock trading platform, FirstMetroSec, where clients can trade listed securities online, access timely and accurate market research, and be provided with reliable client support and investor education programs. FirstMetroSec can also be accessed through Android and Apple devices by downloading the FirstMetroSec app from the Play Store and App Store.

Metrobank Card Corporation

Metrobank Card Corporation (A Finance Company and General Insurance Agency) (MCC) was initially incorporated in the Philippines as Unibancard Corporation, a credit card company, on August 6, 1985. Among the pioneers in the credit card industry, it has merged with AB Card Corporation and Solidcard Products Corporation on 4 June 2002 and has then become identified as Metrobank Card Corporation.

In 2003, a joint venture was formed between Metrobank and ANZ Funds Pty Ltd (ANZ Funds), holding 60% and 40% stake of the business, respectively. ANZ Funds' initial entry into MCC provided MCC with access to the technology platforms and innovations necessary for broadening MCC's card business.

On 18 October 2017, the Bank's Board approved the acquisition by the Bank of ANZ Funds' stake in MCC, which transaction was approved by the BSP on 28 December 2017. The acquisition was made in two tranches-the acquisition of the first 20% stake for a consideration of ₱7.4 billion was completed on 8 January 2018, and the acquisition of the remaining 20% was completed on the same terms on 4 September 2018. The Bank's acquisition of ANZ Funds' stake in MCC resulted in the Bank's recognition of additional earnings from MCC, in line with the Bank's capital planning initiatives, and has improved operational efficiencies between MCC and the Bank.

For the year ended 31 December 2019, MCC posted a net profit after tax of ₱4.9 billion. MCC's receivables were at ₱86.3 billion as at 31 December 2019, a growth of 23.2% from its receivables as at 31 December 2018. MCC's receivables level was the second largest in the industry based on the December 2019 report of the Credit Card Association of the Philippines (CCAP). As at the date of this Offering Circular, MCC has approximately 1.5 million credit cards-in-force. In 2019, MCC also yielded a 19.5% growth in "merchant acquiring billings", which was higher than the average industry growth rate of 11.9% based on data from the CCAP.

MCC's goal is to be the Philippine's leading payment solutions provider and it strives to constantly improve its products, programs, and facilities. The emergence and adoption of digitalization on banking services have strengthened MCC's commitment to adopt digital functionalities to increase card usage, pursue untapped segments and enhance the overall customer experience. These include new cards, improved strategic reward tie-ups with key merchant partners, 0% instalment promotions, sustained availability of special instalments, and the development of convenient services.

DESCRIPTION OF THE BANK

MCC continues to lead in the premium card segment – registering a 13% year-on-year growth rate in cards-in-force in 2019, with sustained exclusive offers. Metrobank Femme Signature Visa and Metrobank Travel Platinum Visa offer the “Signature Lifestyle Program” with 50% discounts on accommodations at selected hotels, and up to triple rewards points on airfare, hotel accommodations and international spend. The Metrobank Peso Platinum Mastercard and Metrobank World Mastercard offer the “Premium Taste, Premium Perks Program”, in partnership with premier restaurants, entertainment and retail partners.

The Metrobank World Mastercard, MCC’s most premium credit card, registered a 27% year-on-year increase in its cards-in-force in 2019 and was recognized for a regional award in 2019. Since its re-launch on 11 October 2018, the Metrobank World Mastercard has strengthened its core card features via the launch of the Mastercard Traveler Rewards and Mastercard Airport Experiences, the first to be launched in Asia and the Philippines, respectively. These features enabled cardholders to enjoy instant access, discounts and deals at over 1,000 airports and 500 airport lounges worldwide, as well as rebates from special partners in Australia, Hong Kong, Japan, Macau, Singapore, United Kingdom and the United States.

In 2019, MCC’s all-digital “National Usage Programs” continued to receive positive responses from cardholders and have been rebranded into a unified campaign called “My Swipe, My Treat”, offering instant treats from partner merchants with every qualified use.

As part of its digitalization efforts, MCC launched the “Metrobank Interactive Assist” (MIA) in September 2019. MIA is MCC’s official chatbot on Facebook Messenger to assist applicants for credit cards 24/7 through Facebook Messenger.

On 1 October 2019, MCC launched three new credit cards, namely, the Metrobank Vantage Card, the Metrobank Titanium Mastercard, and the Metrobank Rewards Plus Visa. The new Metrobank Vantage Mastercard and Metrobank Vantage Visa provide cardholders with annual fee waivers in addition to perks and privileges. The new Metrobank Titanium Mastercard incorporates retail essentials by rewarding cardholders with double rewards points on dining, department store, and online expenditure. The Metrobank Rewards Plus Visa offers double rewards on gadgets and electronics, telecommunications and transportation, and online expenditure. MCC’s existing cardholders also benefit from the launch of these three new credit cards, and also are able to enjoy the enhanced benefits and rewards from the new cards.

On 10 October 2019, MCC and Davao’s home-grown retail and shopping mall operator, New City Commercial Center (NCCC) launched the NCCC Mastercard, aimed to give NCCC clients greater financial flexibility. Cardholders earn NCCC Mastercard Rewards Points for their purchases and can convert these points to their NCCC Loyalty Card to be exclusively used at NCCC stores. The NCCC Mastercard also provides a credit facility for the members of the NCCC Rewards Club, loyalty and rewards program of NCCC established in 1991.

MCC continuously amplifies the promotion of paperless statements. Under this program, more cardholders opt to enrol in MSOA to receive monthly statements via email instead of courier delivery, resulting to a monthly savings of ₱5.8 million in printing and delivery costs in 2019.

MCC has been recognized by a number of regional award-giving bodies for its diverse card offerings, progressive promos, and operational initiatives. For example:

- The Metrobank Travel Platinum Visa Card was named the Best New Product in 2017 at the Visa Card Center Managers Forum.
- The Robinsons Mastercard was awarded the Best Segment Solution – South East Asia, at the Mastercard Innovation Forum 2017. MCC was the only Philippine credit card issuer to win a regional award during the forum.
- In 2018, MCC received six regional awards at the 5th Cards and Electronic Payments International Asia Awards in Singapore, which recognizes the best players in the cards and payments industry and celebrates market-leading offerings in cards, mobile and e-payments, remittances, merchant acquiring, and marketing campaigns in Asia-Pacific. The awards are as follows:

DESCRIPTION OF THE BANK

- Best Prepaid Card Product in Asia Pacific for its Yazz Prepaid Visa;
- Best Brand Engagement Programme for The Winzone promotion;
- Best Digital Marketing Campaign for its social media Lead Generation Program;
- Best Technology Implementation – Back End;
- Highly Commended citation for the Most Innovative Digital Solution;
- Highly Commended Citation for the Best Card Offering for Southeast Asia.
- In September 2019, MCC was recognized for three regional awards:
 - CX Asia awarded MCC the Bronze Award for “Best Brand Experience” at the 5th CX Asia Excellence Award for the re-launch of its premium credit card, Metrobank World Mastercard.
 - The Digital Banker also awarded MCC with two accolades at the 2nd Annual Global Retail Banking Innovation Awards 2019:
 - MCC was recognized as the Winner for “Best Social Media Marketing Initiative” for its well-received Social Media Influencers Campaign of Co-Branded Cards; and
 - MCC was “highly acclaimed” for “Outstanding Digital Marketing Initiative” for its McDonald’s National Usage Program.
- On 29 May 2019, MCC was awarded the People Program of the Year – NCR (Private Sector) by the People Management Association of the Philippines for its Employee Engagement Champion (E-Champ) Model. MCC’s E-Champ Model was recognized as reflective of MCC’s continuing success in strengthening employee engagement throughout the organization. MCC’s E-Champ Model encourages collaborations and partnerships across other business units and helps cultivate a corporate culture where employee engagement is everyone’s responsibility.

MCC currently issues a variety of credit and prepaid cards branded as Metrobank Visa, Metrobank Mastercard, PSBank Credit Mastercard, Toyota Mastercard, NCCC Mastercard, YAZZ Prepaid Visa, Victory Liner Premiere Card, and the NWorld Cash Card. MCC retains its operations and place of business in its current location at The MCC Center, 6778 Ayala Avenue Makati City, Philippines.

On 13 March 2019, the Board of the Bank approved the proposal to merge MCC into the Bank, subject to shareholder and regulatory approvals. In October 2019, the BSP approved the merger of MCC with the Bank, and the Philippine SEC issued the certificate of merger on 3 January 2020. The Bank believes the merger will unlock the value of MCC’s business and help realize the following objectives: (1) enhance synergy, (2) increase profitability and improve capital efficiency, and (3) enable MCC’s core operations to continue to grow and expand its business, thus becoming more competitive in the market.

ORIX Metro Leasing and Finance Corporation

The Group operates a leasing business through a 60.0%-owned subsidiary of the Bank, ORIX Metro Leasing and Finance Corporation (**ORIX Metro**), a joint venture with Orix Corporation, Japan. ORIX Metro is principally involved in both financial and mortgage loans for all kinds of vehicles such as cars, trucks and buses; industrial machinery such as printing and packaging equipment; office equipment which includes computers, servers, copiers and facsimile machines; medical equipment including CT scans, MRIs, optical and dental equipment; and other types of personal property. In 2007, ORIX Metro was given a quasi-banking license. In 2019, ORIX Metro opened six new branches, increasing its total branch network to 112 offices located in key cities throughout the country. ORIX Metro’s lending units in the countryside contributed approximately 83% to the company’s new bookings in 2019

DESCRIPTION OF THE BANK

ORIX Metro's wholly owned subsidiaries include ORIX Rental Corporation, which is engaged in long-term full service operating leases of cars and light trucks and OMLF International Trading and Development Corporation, which is engaged in warehouse leasing. Moving forward, ORIX Metro plans to create more opportunities by opening more branch offices in the countryside and marketing its full-service operating lease product to multinationals and established local corporations.

For the years ended 31 December 2017, 2018 and 2019, ORIX Metro generated net income of ₱1.3 billion, ₱1.2 billion, and ₱1.1 billion, respectively

Associates

Set forth below is a brief description of the Group's significant associate.

Philippine AXA Life Insurance Corporation

Established in 1999, AXA Philippines is one of the largest and fastest growing life insurance companies in the country. It offers financial security to more than one million individuals through its group and individual life insurance as well as general insurance products through its subsidiary Charter Ping An.

AXA Philippines is one of the first to introduce bancassurance operations in the country, and is among the pioneers in the investment-linked insurance sector.

AXA offers a complete range of products for all its customers' insurance and financial protection needs, including savings and investments, health plans, income protection, and health coverage; and through its general insurance subsidiary Charter Ping An Insurance Corporation: fire, motor car, marine cargo, personal accident, bonds, casualty, and engineering insurance products.

AXA Philippines closed 2019 with ₱26.2 billion in total premium income and ₱5.4 billion in gross written premiums from Charter Ping An. As at 31 December 2019, AXA has more than 7,000 financial advisers in 44 branches, and more than 1,000 financial executives in over 900 Metrobank and PSBank branches nationwide. Charter Ping An, on the other hand, has 25 branches nationwide and over 2,000 agents.

AXA Philippines is a joint venture between the AXA Group, headquartered in France, and the Metrobank Group, one of the largest financial conglomerates in the Philippines.

COMPETITION

The Group faces competition in all its principal areas of business. Philippine domestic and foreign banks are the Group's main competitors, followed by finance companies, mutual funds and investment banks. The Group seeks to gain a competitive advantage by offering innovative products and services, maximizing the functions of its extensive branch network, particularly in provincial areas, investing in technology, leveraging synergies within GT Capital Holdings, Inc. and building on relationships with the Bank's key customers.

Mergers, acquisitions and closures reduced the number of players in the Philippine banking system from a high of 785 banks in 2009 to 547 banks as at 31 December 2019. However, with the entry of foreign banks under new and liberalized banking laws and regulations, the number of universal and commercial banks has grown to 46 as at 31 December 2019. Lending from universal and commercial banks posted a growth of 11% in the year ended 31 December 2019 based on statistics of the BSP. Some corporations also decided to access the debt market instead of seeking funds from the financial institutions. Corporate lending thus remained competitive resulting in even narrower spreads especially under a low interest rate environment. Pockets of growth were, however, seen in the middle corporate market, SMEs and consumer segments.

The extensive competition for large ticket corporate loans prompted banks to venture more extensively into middle-market, SME and consumer lending. The Bank, being a well-entrenched, long-term player in the commercial banking space, enjoys the advantage of having experience that includes origination, credit selection, collection and asset recovery activities.

DESCRIPTION OF THE BANK

The Group believes its principal competitors are BDO Unibank and Bank of the Philippine Islands. For a description of the Group's principal competitors see "Investment Considerations — Considerations Relating to the Philippine Banking Industry — The Group's principal businesses are in the highly competitive Philippine banking industry and increases in competition may result in declining margins in the Group's principal businesses."

RISK MANAGEMENT

The Bank is exposed to risks that are particular to its lending and trading businesses and the environment within which it operates. The Bank's goal with respect to risk management is to ensure that it identifies, understands, measures, controls and monitors the various risks that arise from its business activities, and that it strictly adheres to the policies and procedures which are established to mitigate these risks.

RISK MANAGEMENT

The Bank employs a disciplined, structured and integrated approach to managing all the risks pertaining to its business to protect and optimize shareholder value. The risk management infrastructure covers all identified risk areas.

The Board of Directors has the ultimate overall authority and responsibility for corporate risk management of the Bank. By virtue of its approval of the Bank's strategic plans, the Board effectively approves the ways and means by which the plans are carried out, including the risk stance to be adopted. On the other hand, the risk management processes of the Bank's subsidiaries are the separate responsibilities of their respective boards.

The Bank and its subsidiaries manage their respective financial risks separately. The subsidiaries have their own risk management processes but are structured similar to that of the Bank. To a certain extent, the respective risk management programs and objectives are the same across the Group. Risk management policies adopted by the subsidiaries and affiliates are aligned with the Bank's risk policies. To further promote compliance with PFRS and Basel III, the Bank created a Risk Management Coordinating Council (**RMCC**) composed of the risk officers of the Bank and its financial institution subsidiaries.

The Risk Management Group (**RSK**) is an independent unit of the Bank that identifies, analyses, measures, and monitors credit, market, liquidity, and operational risks in close coordination with other business units. The Group reports directly to the Board of Directors through the Risk Oversight Committee, which is composed primarily of independent members of the Board. The Committee's active role in overseeing the Bank's risk infrastructure, operating policies, and exposures ensures consistency among strategies and a good balance between risk appetite and prudence. RSK, which has matrix reporting lines to the Office of the President, is composed of five divisions covering the three major risk silos (credit, market and liquidity, and head office and branch operational risks) and a strategic support division.

The Bank continues to upgrade its risk management structure and processes in order to further improve its evaluation and monitoring of risks and returns and to help produce sustainable revenue, reduce earnings volatility and increase shareholder value.

The Bank has established the following committees and operational groups to deal with risk policy and management:

Risk Oversight Committee

The Risk Oversight Committee (**ROC**), as an extension of the Board of Directors, is responsible for the development and oversight of the risk management program of the Bank, including its Trust Banking Group. The ROC reviews and endorses for approval, confirmation, or notation, the Board's principles, policies, strategies, processes and control frameworks pertaining to risk management as well as recommends to the Board any necessary modifications or amendments to the foregoing.

The ROC's responsibilities include, but are not limited to, the following:

- identify and evaluate risk exposures. The ROC shall assess the chances of each risk becoming real and assess the potential effect and cost. Priority shall be given to those risks that are deemed most likely to occur and are costly should they happen.

DESCRIPTION OF THE BANK

- develop risk management strategies. The ROC shall develop a written plan defining strategies for managing and controlling the major risks. It shall identify practical strategies to reduce the chance of harm or failure, and minimize losses if the risk is realized.
- oversee the implementation of the risk management plan. The ROC shall conduct regular discussions on the Bank's risk exposures based on regular management reports, and evaluate how the concerned units monitored and reduced these risks.
- review and revise the risk management plan as needed. The ROC shall evaluate the plan to ensure its continued relevance, comprehensiveness, and effectiveness. It shall revisit strategies, look for emerging or changing exposures, and stay abreast of developments that affect the likelihood of harm or loss. The ROC shall report regularly to the Board on the Bank's overall risk exposure, actions taken to reduce the risks, and recommend further actions and/or plans if deemed necessary.

Audit Committee

The Audit Committee (**AC**) is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of risk management practices in relation to the risks faced by the Bank. The AC is assisted in these functions by the IAG. The IAG undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the AC.

Executive Committee

The Executive Committee is responsible for reviewing and approving credit proposals that may pose material risks to the Bank's business strategy or reputation and working closely with the ROC in managing the overall credit risk of the Bank. It also reviews specific business or operating plans regarding significant investments, acquisition or disposal of assets. The Executive Committee also evaluates loan proposals in excess of the authority delegated to the Senior Credit Committee and approves risk exposure for the following types of entities: (a) Commercial Exposures to Corporations and Businesses, (b) Consumer/Retail Exposures under Existing Policy, (c) Bank and Non-Bank Financial Institutions, and (d) Country Risk Limits.

Credit Committee

The Credit Committee at the management level, is responsible for executing and managing the credit strategy of the Bank. It is also tasked to review and approve credit applications lodged with it by the Bank's head office and branches in Metro Manila and in provincial areas.

Asset and Liability Committee

The Bank's Asset and Liability Committee (**ALCO**) is composed of the Chairman, the President, and certain group and division heads of the Bank. It meets daily to assess the financial condition of the Bank in the light of current economic factors to ensure that the Bank maintains adequate liquidity, sufficient capital and appropriate funding to meet all business requirements and comply with all regulatory requirements. In particular, ALCO manages the balance sheet and ensures that the Bank's strategies are in accordance with adequate liquidity, capital and diversified funding.

In reviewing compliance with existing Bank policies and formulating new strategies, ALCO's role is to ensure that the Bank's exposure to interest rate, credit, operational, market risks and liquidity risks, is within prudent limits determined from time to time by the ROC to be acceptable. ALCO also sets the general policy for the Bank's overseas lending and borrowing activities as well as the Bank's risk appetite.

Treasury Group

The Treasury Group is principally responsible for managing the Bank's funding and liquidity requirements as well as its investment and trading portfolio. Under the supervision of ALCO, it engages in money market and foreign

DESCRIPTION OF THE BANK

exchange dealing, and oversees the Bank's funding requirements. The Treasury Group also engages in derivative transactions for hedging and trading purposes as applicable.

LIQUIDITY RISK

Liquidity risk is defined as the current and prospective risk to earnings or capital arising from the Group's inability to meet its obligations when they become due.

The Group manages its liquidity risk through analyzing net funding requirements under alternative scenarios, diversification of funding sources and contingency planning.

Specifically for the Bank, it utilizes a diverse range of sources of funds, although short-term deposits made with its network of domestic branches comprise the majority of such funding. To ensure that funding requirements are met, the Bank manages its liquidity risk by holding sufficient liquid assets of appropriate quality. It also maintains a balanced loan portfolio that is repriced on a regular basis. Deposits with banks are made on a short-term basis.

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

CREDIT RISK

Credit risk is the risk that an obligor/counterparty in a transaction may default and arises from lending, trade finance, treasury, derivatives and other activities undertaken by the Bank. Credit risk, on an account-by-account basis, is the primary responsibility of the Bank's corporate and commercial relationship managers/account officers. Loan proposals are evaluated and monitored by the Bank's credit group for both corporate borrowers and retail accounts. The Consumer Lending Group, on the other hand, keeps track of consumer financing loans available via MetroHome and MetroCar credit facilities for individual borrowers. The Bank manages its credit risk by evaluating the creditworthiness of obligors/counterparties, carrying out detailed cash flow analyses, setting credit limits for counterparties and industry sectors, and obtaining collateral where appropriate. The Bank assigns a credit risk rating to each corporate counterparty after reviewing the financial condition of the counterparty, conducting an industry analysis and assessing the quality of the counterparty's management. The Bank's credit risk rating process is intended to provide management with:

- a means of dividing the credit portfolio into standard levels of quality;
- a process of uniformly assessing the entire corporate portfolio; and
- a means to determine a portfolio's potential for default and loss.

Although the application of the Bank's credit approval systems includes a valuation of the collateral to be provided in the case of secured lending, the financial review carried out by the Bank focuses, in particular, on a detailed analysis of the current and projected cash flows of the obligor. The Bank uses ICRRS on corporate accounts. This particular model used by the Bank is endorsed by the BAP as it conforms to the minimum requirements of the BSP. Some enhancements were employed on the system using a wider range of factors that were more compatible to and could more effectively rate accounts under the Bank's loan portfolio structure. Internal credit risk rating is performed for all new loan applications as well as on existing loans on an annual basis.

The components of the ICRRS are (1) Borrower Risk Rating (**BRR**), (2) Facility Risk Factor (**FRF**), (3) Adjusted Borrower Risk Rating (**ABRR**), and (4) Composite Risk Rating (**CRR**).

The BRR is an assessment of the credit worthiness of the borrower without considering the type or amount of the facility or security arrangement. In assigning BRR, major industry groups are given different ratings in calculating the borrower risk ratings, with market share as a key factor. The Corporate Banking Group and the Bank's other client management divisions are responsible for assessing the counterparty's management quality through regular

DESCRIPTION OF THE BANK

meetings with their management. The Bank has a conservative approach to the granting of credit, especially in its use of collateral. It values collateral at below market values and only lends up to 60.0% of its appraised value. The BRR is derived by adding up the net scores of the three segments of the credit risk rating system namely, financial, industry and management quality.

The recommended credit rating factor weights are given below:

Component	Description	Credit factor weight
Financial Condition.....	Evaluation of the financial condition and profitability of the borrower using financial ratios	40.0%
Industry Analysis	Analysis of the industry and its prospects, and the position of the company in the industry	30.0%
Management Quality.....	Ability of management to run business successfully	30.0%

FRF, on the other hand, is primarily determined through the terms of the facility and security arrangements in place. These risk factors could either be upgraded or downgraded based on the quality and position of the collateral. After which, the BRR and the FRF are combined to arrive at the ABRR. In cases where a borrower is entitled to multiple facilities, a CRR is computed to give proportional weights on the facilities measured to arrive at the most accurate default probability. The final internal credit risk rating grades and their respective descriptions are specified below:

ICCRS grades	Description
1	Excellent
2	Strong
3	Good
4	Satisfactory
5	Acceptable
6	Watchlist
7	Especially Mentioned
8	Substandard
9	Doubtful
10	Loss

More stringent and strict evaluation processes are implemented on accounts with lower credit ratings from 6 to 10. Other requirements that can mitigate risks such as marginal deposits, loan covenants, guarantees and sureties, insurance and bonds may be required. Higher pricing considerations and spreads can be imposed if the perceived risk is greater. Conversion of existing accommodations to amortizing loans may also be considered. The Group also stringently sets ceilings on its exposures to these accounts. The counterparty's audited financial statements, collateral data information, as well as macroeconomic conditions and assumptions are all considered. Relationship managers and other client management officers initially rate qualified borrowers in accordance with the ICCRS. They manually perform the financial factor evaluation and conduct industry analysis and management quality evaluation. The Bank's credit group on the other hand validates the rating results of applications for credit accommodations of qualified borrowers, based on actual account performance and BSP-prescribed criteria. The Group's IAG, on the other hand, reviews the ICCRS and its operations, including the operations of the credit risk control function annually.

The Bank continuously pursues various initiatives to eventually replace the ICCRS with statistical credit rating models and systems that conform to both the loan loss methodology section of BSP Circular No. 855 and international accounting standards for PFRS 9. The derived expected credit loss from the different segment models serves as the recommended allowance for probable losses.

Actual credit exposures, limits, and asset quality are regularly monitored and controlled by the Board and Bank's senior management. The Bank's policy runs consistent with BSP's prohibition of any bank incorporated in the

DESCRIPTION OF THE BANK

Philippines from maintaining a financial exposure to any single person or group of connected persons in excess of 25.0% of its net worth.

CREDIT APPROVAL AND ADMINISTRATION

The Bank has an independent credit group which oversees the end-to-end credit operations for corporate, commercial and consumer lending. The credit group undertakes the following tasks: credit investigation, collateral appraisal, evaluation, approval by senior credit officers within their delegated authority, approval by voting members of the Credit Committee, documentation, collateral custody and loan administration.

The credit approval process is initiated by the branch or marketing unit to which the applications for loan proposals are made. Such branch or marketing unit is also responsible for the preparation of such loan proposals. Loan proposals originating from the head office are referred to the credit group in the head office for financial analysis and evaluation, collateral appraisal and credit investigation. For middle market lending by the regional lending offices and branches, the financial evaluation, collateral appraisal, credit investigation and documentation review functions are being handled by the credit support units (CSUs) and centralized credit units (CCUs) in the relevant regions. Loan proposals within the approving authority of the area supervisor or regional head are evaluated by the CSUs and CCUs in the relevant region. CSUs are located nationwide in select business centers in Metro Manila and provincial areas.

PSBank and First Metro implement similar credit approval processes to those of the Bank.

Once a loan or a credit application has been approved, examination of documents as to completeness is conducted by the credit group's collateral and documentation department for head office accounts and the CSUs for branch and branch lending group accounts. Each loan transaction is subject to evaluation for compliance with the Bank's credit policies and the completeness and accuracy of the documentary requirements for types of loans and collateral. The Bank's credit group reviews individual accounts at least every year to ensure the quality of credit.

The Bank also has a non-performing assets committee which oversees the remedial management process of the Bank, which includes the management of accounts that are flagged for close monitoring or for inclusion in a watch list and adversely classified account reports every quarter.

MARKET RISK

Market risk is the possibility of loss to future earnings, fair values or future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates, foreign currency exchange rates, equity prices and other market factors. The Bank's market risk originates from its holdings in foreign currencies, debt securities and derivatives transactions.

The Bank manages market risk by segregating its balance sheet into a trading book and a banking book. ALCO, chaired by the Bank's Chairman is the senior review and decision-making body for the management of all related market risks. The Bank enforces a set of risk limits to properly monitor and manage the market risks. The risk limits are approved by the Board. The RSK serves under the ROC and performs daily market risk analyses to ensure compliance with the Bank's policies. The Treasury Group manages asset/liability risks arising from both banking book and trading operations in financial markets.

Market risk — trading book

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

The Bank is using 260-day Historical Simulation Method to compute the VaR. This method assumes that market rates volatility in the future will follow the same movement that occurred within the specified historical period. In calculating VaR, the Bank uses a 99.00% confidence level and a one-day holding period. This means that, statistically, within a one-day horizon, the trading losses will exceed VaR in one out of 100 trading days. Like any other model,

DESCRIPTION OF THE BANK

the Historical Simulation Method has its own limitations — it cannot predict volatility levels which did not happen in the specified historical period. The validity of the VaR model is verified through a daily backtesting analysis, which examines how frequently both actual and hypothetical daily losses exceed VaR. The result of the daily backtesting analysis is reported to the ALCO weekly and ROC monthly. The Bank measures and monitors the VaR daily and this value is compared against the set VaR limit.

The limitations of the VaR methodology are recognized by supplementing VaR limits with other position and sensitivity limit structures and by doing stress testing analysis. These processes address potential product concentration risks, monitor portfolio vulnerability and give the management an early advice if an actual loss goes beyond what is deemed to be tolerable to the bank, even before the VaR limit is hit.

The Bank and PSBank perform stress testing on a quarterly basis while First Metro performs stress testing on a daily basis to complement the VaR methodology. The stress testing results of the Bank are reported to the ALCO and subsequently to the ROC and the Board of Directors.

INTEREST RATE RISK

The Bank follows a prudent policy on managing its assets and liabilities so as to ensure that exposure to fluctuations in interest rates is kept within acceptable limits.

A substantial proportion of the Bank's total loan portfolio has a repricing term of less than one year, and the majority of the balance of its medium-term portfolio is on a floating rate basis. As a result of these factors, the Bank's exposure to interest rate fluctuations and other market risks is significantly reduced. The Bank maintains a large portion of its deposit base in short-term deposits. No interest is paid on regular demand accounts, while rates on savings accounts are set by different criteria. The interest rate of time deposit accounts is set by reference to prevailing market rates.

One method by which the Bank measures the sensitivity of its assets and liabilities to interest rate fluctuations is by way of gap analysis. This analysis provides the Bank with a static view of the maturity and repricing characteristics of its balance sheet positions. An interest rate gap report is prepared by classifying all assets and liabilities into various time period categories according to contracted maturities or repricing dates, whichever is earlier. The difference in the amount of assets and liabilities maturing or being repriced in any time period category gives the Bank an indication of its exposure to the risk of potential changes in net interest income.

A gap is considered negative when the amount of interest rate-sensitive liabilities exceeds the amount of interest rate-sensitive assets. A gap is considered positive when the amount of interest rate-sensitive assets exceeds the amount of interest rate-sensitive liabilities. Accordingly, during a period of rising interest rates, the Bank would be better positioned with a positive gap than being in a negative gap position. When this occurs, the Bank should be able to reprice or reinvest in higher yielding assets at an earlier rate than it would need to refinance its interest-bearing liabilities. During a period of falling interest rates, a positive gap would lend to assets repricing earlier than one with a negative gap. This may restrain the growth of its net income or result in a decline in net interest income.

The Bank also monitors its exposure to fluctuations in interest rates by measuring the effect of interest rate movements on net interest income. This is done by modeling the impact of various changes in interest rates to the Bank's interest-related income and expenses.

FOREIGN CURRENCY RISK

Foreign exchange risk is the probability of loss to earnings or capital arising from changes in foreign exchange rates. The Group takes on exposure to effects of fluctuations in the current foreign currency exchange rates on its financial performance and cash flows. Foreign currency liabilities generally consist of foreign currency deposits in the Group's foreign currency deposit unit (FCDU) account. Foreign currency deposits are generally used to fund the Group's foreign currency-denominated loan and investment portfolio in the FCDU. Banks are required by the BSP to match the foreign currency liabilities with the foreign currency assets held in FCDUs. In addition, the BSP requires a 30.00% liquidity reserve on all foreign currency liabilities held in the FCDU. Outside the FCDU, the Group has additional foreign currency assets and liabilities in its foreign branch network.

DESCRIPTION OF THE BANK

The Group's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines.

SYSTEMS RISK

The Bank has designed systems to minimize the threat of disruption and has implemented procedures for passive recovery. Key components of the Bank's system have multiple back-ups, including an independent back-up site outside Makati City. In addition, critical data is replicated. As a result, loss of part or all of any portion of the systems should not result in a major disruption in service and will allow restoration and recovery of these systems in the event of a malfunction. The Bank developed a technology risk assessment tool that it uses to identify, measure, monitor and mitigate technology related risks. The Bank continuously monitors system security as well as its continuity of business to maintain readiness. The Bank introduces new systems and changes in a controlled manner and designs new systems to run in parallel with old ones, minimizing the risk of incompatibility.

OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems and external events. Operational risk includes legal risk, but excludes strategic and reputational risk. The Bank's operational risks are managed through Bank-wide or line of business specific policies, procedures, and risk and control monitoring tools. In keeping with the Bank's operational risk management governance structure, the lines of business are responsible, on a day-to-day basis, for all the operational risks within the business. The Bank recognizes three level of defense in mitigating operational risk exposures. The first level of defense is everyone in the organisation. Each employee is a fundamental part of operational risk management since they are in the best position to identify, manage and report operational risk. The second line of defense is the Bank's risk team, which supports the business by ensuring that people are given the right tools to help manage operational risk while the IAG, as the third line of defense, conducts independent reviews of the business and operating units' adherence to risk policies.

The Bank maintains a database of risk events that enable it to analyze the cause of the operational risk in order to implement risk mitigation measures. In addition, the Bank has developed risk management tools to help business units identify, assess, manage, monitor, analyze and report operational risk. One tool the business units utilize is a bank-wide self-assessment process, which is used to identify and evaluate the status of gross and residual risks; controls in place; and risk mitigation plans, if appropriate. Its goal is to identify and assess on a continuing basis all operational risks impacting the line of business due to changing market and business conditions. Another tool is used to monitor risk factors/drivers, exposure and control as well as provide insights to potential risk events. This tool acts as an early warning signal through predictive risk indicators which highlight changes in the risk environment, control effectiveness and potential risk issues, before they crystallize and result in losses or other exposures.

BUSINESS CONTINUITY PROGRAM

The Bank is committed to safeguarding its business operations and stakeholders' interests. The Bank has a Board approved Business Continuity Program (**BCProg**) to ensure that the risks of potential and unexpected business disruptions to the Bank's essential business processes are addressed and all critical business units may resume at reasonable/acceptable levels of operations after the onset of any identified/disruptive event.

The Bank's BCProg currently includes the identification of the backup operations and data recovery requirements, alternate communication facilities, secondary data center or Business Recovery Center, alternate recovery sites and applicable manual processes, which address the worst case scenario of complete business disruption. The Bank's Business Continuity Plans (**BCPlans**), which form part of the BCProg, may also be activated in order to quickly recover and resume business operations.

The BCPlans are periodically updated and tested in accordance with the requirements of the BSP, to ensure the Bank's readiness for probable business disruptions. Based on the results of the latest Bank-wide BCP test, the exercise was deemed successful. Although the test may not be able to replicate the actual extreme conditions that the Bank may experience in a real emergency (e.g., control over the various entities that the Bank must rely upon in the event

DESCRIPTION OF THE BANK

of an emergency, unpredictability of significant business disruption scenarios), the Bank is committed to continue enhancing its BCProg to address potential disruptive events.

SELECTED STATISTICAL DATA

The following information should be read together with the Group's consolidated financial statements included in this Offering Circular. All amounts presented in this section have been prepared in accordance with PFRS.

FUNDING

Overview

The Bank's funding is primarily provided by time, savings, demand deposits, and Long-Term Negotiable Certificates of Time Deposit (**LTNCDs**), which amounted to 30.8%, 42.1%, 24.8% and 2.3%, respectively, of the total amount of deposits of ₱1.5 trillion as at 31 December 2019. The Bank believes that its branch network is important to attract deposits from the public. The Bank also sources part of its funding requirements from the interbank market and occasionally from the BSP rediscount window, which generally results in lower overall funding costs due to the relatively lower interest rate charged at the rediscount window as compared to other sources of funding. The Bank may also, from time-to-time, issue various subordinated notes to increase its funding.

Sources of Funding

The Bank has been successful in attracting and retaining its low cost deposit base. While the cost of deposits has largely been driven by interest rate movements, the average cost of deposits is also bolstered by the continued rise in the percentage of checking or demand and savings accounts (**CASA**) in relation to total deposits. The Bank will continue to emphasize growth in its CASA by launching various CASA products aimed towards retail, middle market and corporate customers. The maturities of the Bank's funding portfolio enable it to achieve funding stability and liquidity while achieving its desired profile of loan and deposit maturities. The Bank's depositors typically roll over their deposits at maturity, effectively providing the Bank with a base of core liquidity.

The following table sets out an analysis of the Bank's principal sources of funding for the periods indicated:

	As at 31 December								
	2017			2018			2019		
	Amount	% of total	Average cost of funding	Amount	% of total	Average cost of funding	Amount	% of total	Average cost of funding
(₱ millions, except for %)									
Deposits by type:									
Demand.....	314,542	23.9%	0.2%	322,371	24.3%	0.2%	372,303	24.8%	0.2%
Savings.....	576,807	43.9%	0.2%	577,815	43.6%	0.2%	630,946	42.1%	0.2%
Time.....	395,948	30.2%	1.6%	390,475	29.4%	2.6%	461,713	30.8%	3.4%
LTNCD.....	26,650	2.0%	3.9%	35,330	2.7%	4.0%	35,330	2.3%	4.3%
Total.....	1,313,947	100.0%	0.7%	1,325,991	100.0%	1.0%	1,500,292	100.0%	1.3%
Deposits by currency:									
Peso.....	1,113,496	84.7%	0.8%	1,122,107	84.6%	1.1%	1,246,361	83.1%	1.4%
Foreign.....	200,451	15.3%	0.4%	203,884	15.4%	0.6%	253,931	16.9%	0.9%
Total.....	1,313,947	100.0%	0.7%	1,325,991	100.0%	1.0%	1,500,292	100.0%	1.3%
Borrowings (including subordinated notes):									
Peso.....	47,437	36.8%	5.3%	70,297	34.9%	5.2%	76,604	35.5%	6.4%
Foreign.....	81,483	63.2%	1.9%	131,079	65.1%	3.1%	139,072	64.5%	3.7%
Total.....	128,920	100.0	2.8%	201,376	100.0%	3.7%	215,676	100.0%	4.9%

As at 31 December 2019, 66.9% of the Bank's outstanding deposits were demand and savings deposits, which can be withdrawn on demand without any prior notice from the customer. The following table sets out an analysis of the maturities of the deposit base of the Bank as of the dates indicated:

SELECTED STATISTICAL DATA

	As at 31 December		
	2017	2018	2019
		(₱ millions)	
Demand.....	314,542	322,371	372,303
Savings.....	576,807	577,815	630,946
Time			
1-90 days	360,170	352,972	432,348
91-180 days	22,548	24,120	18,466
181 days and longer.....	13,230	13,383	10,899
	395,948	390,475	461,713
LTNCD	26,650	35,330	35,330
Total	1,313,947	1,325,991	1,500,292

The Bank also maintains credit lines with domestic commercial banks and financial institutions in the interbank market primarily for treasury management purposes. Interbank borrowings are typically for short-term durations of between one day and a few weeks. The BSP is a lender of last resort to the Philippine banking industry. The Bank has not had to resort to this facility but has managed its liquidity through its participation in the interbank market in the Philippines.

The Bank is a member of the Philippine Deposit Insurance Corporation (the **PDIC**), which insures all deposits up to a maximum of ₱0.5 million per depositor. The PDIC is funded by semi-annual assessment fees at a prescribed percentage of the Bank's deposit liabilities less certain exclusions.

On 19 July 2018, the Bangko Sentral ng Pilipinas authorized the Bank to issue up to ₱25.0 billion LTNCDs in one or multiple tranches issued over a period of one year. The Bank issued the first tranche amounting to ₱8.68 billion on 4 October 2018 at a rate of 5.375% per annum, payable quarterly, with a tenor of five years and six months and maturing on 04 April 2024.

Borrowings (including subordinated notes)

The following table sets forth, for the periods indicated, information related to the Group's borrowings, which are comprised primarily of bills payable and securities sold under repurchase agreements (**SSURA**), bonds payable and subordinated debts.

	As at 31 December		
	2017	2018	2019
		(₱ millions, except %)	
Bills payable and SSURA	227,835	259,607	238,281
Bonds payable	2,910	30,743	80,486
Subordinated debts.....	26,580	26,618	7,660
Total	257,325	316,968	326,427
Average balance ⁽¹⁾	229,862	287,147	321,698
Interest incurred during the year	6,139	9,035	14,995
Average interest rate during the year ⁽²⁾	2.7%	3.1%	4.7%
Average interest rate at year end ⁽³⁾	2.4%	2.9%	4.6%

Notes:

- (1) Average is current balance plus previous year balance divided by two.
- (2) Represents the ratio of interest expense on borrowings to the average balances of borrowings.
- (3) Represents the average rate of borrowings outstanding as at year-end.

SELECTED STATISTICAL DATA

Bills Payable and SSURA

The following table sets forth, for the periods indicated, information related to the Group's bills payable and SSURA, which consists of borrowings from deposit substitutes, local and foreign banks (which are primarily short-term borrowings) and SSURA.

	As at 31 December		
	2017	2018	2019
	(₱ millions, except %)		
Total Bills Payable and SSURA	227,835	259,607	238,281
Average balance ⁽¹⁾	194,606	243,721	248,944
Interest incurred during the year	4,240	7,221	10,367
Average interest rate during the year ⁽²⁾	2.2%	3.0%	4.2%
Average interest rate at year end ⁽³⁾	1.9%	2.8%	4.4%

Notes:

- (1) Average is current balance plus previous year balance divided by two.
 (2) Represents the ratio of interest expense on borrowings to the average balances of borrowings.
 (3) Represents the average rate of borrowings outstanding as of period end.

Bonds Payable

The Group has issued scripless fixed rate corporation bonds to fund its growing operations. As at 31 December 2019, the Group had ₱80.5 billion in bonds outstanding, details of which are set forth in the table below.

Issue Date	Maturity Date	Interest Rate	Face Value	Carrying value as at	
				31 December 2019	31 December 2018
				(in ₱ millions)	
Bank					
November 9, 2018	November 9, 2020	7.15%	10,000	9,962	9,922
December 17, 2018	November 9, 2020	7.15%	18,000	17,952	17,904
April 11, 2019	April 11, 2022	6.30%	17,500	17,384	-
July 3, 2019	July 3, 2021	5.50%	11,250	11,178	-
October 24, 2019	April 24, 2023	4.50%	13,750	13,634	-
			70,500	70,110	27,826
PSBank					
July 24, 2019	July 24, 2021	5.60%	6,300	6,255	-
ORIX Metro					
November 15, 2019	November 15, 2021	4.55%	4,160	4,121	-
First Metro					
August 10, 2012	August 10, 2019	5.75%	2,920	-	2,917
			83,880	80,486	30,743

Subordinated Debts

The Group obtains funds from the issuance of unsecured non-convertible subordinated debt securities which qualify as Tier II Capital under BSP guidelines for assessing capital adequacy. As at 31 December 2019, the Group's outstanding subordinated debts were ₱7.7 billion. The following table sets forth information with respect to subordinated debts issued by the Group as at 31 December 2019.

SELECTED STATISTICAL DATA

Particulars	Issue Date	Maturity Date	Face Value	Carrying Value as at		Coupon Rate/Step-up
				31	31	
				December 2019	December 2018	
				(in ₱ millions)		
Bank-2024*.....	March 27, 2014	June 27, 2024	16,000	-	15,987	5.375% p.a. until June 27, 2019; resets to 5Y PDST-F + 1.51% unless earlier redeemed
Bank-2025*.....	August 8, 2014	August 8, 2025	6,500	6,494	6,484	5.25% p.a. until August 8, 2020; resets to 5Y PDST-R2 + 1.67% unless earlier redeemed
MCC-2023*	December 20, 2013	December 20, 2023	1,170	1,166	1,165	6.21% p.a. until maturity
PSBank-2024*	May 23, 2014	August 23, 2024	3,000	-	2,982	5.50% p.a. until August 23, 2019; 5Y PDST-F + 1.4438% unless earlier redeemed
Total.....			26,670	7,660	26,618	

Notes:

* Qualified capital under Basel III

On 27 March 2014, the Bank issued ₱16.0 billion of Notes with a coupon of 5.375% and on 8 August 2014, the Bank issued the second series of BASEL III – Compliant Tier 2 Notes amounting to ₱6.5 billion, with a coupon of 5.25%, under the BSP approval to issue up to U.S.\$500 million in either U.S.\$ and/or its Peso equivalent, completing the ₱22.5 billion Tier 2 Note Program. As approved by the BSP, on 27 June 2019, the Bank redeemed its ₱16.0 billion notes due 2024 ahead of their maturity.

Liquidity Management

The Bank manages its liquidity to meet financial liabilities arising from the withdrawal of deposits, repayments of deposits at maturity and working capital needs. Funds are required to create assets in the form of loans and extensions of other forms of credit, investments in securities, trade financing and capital investments. The Bank seeks to ensure sufficient liquidity through a combination of active management of liabilities, a liquid asset portfolio, the securing of ample money market lines and swap lines and the maintenance of repurchase facilities.

Liquidity risk is monitored and managed using Maximum Cumulative Outflows and funding diversification/concentration limits. A Contingency Funding Plan is likewise in place to ensure readiness for every liquidity crisis situation. The Bank's Asset and Liability Committee (**ALCO**) is directly responsible for liquidity risk exposures. ALCO regularly monitors the Bank's positions and sets the appropriate fund transfer prices to effectively manage movement of funds across business activities. The Bank does not anticipate any cash flow or liquidity problems within the next 12 months, and is not in default or breach of any note, loan, lease or other indebtedness or financing arrangement. There are no known trends, demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in any material increase or decrease in the Bank's liquidity.

As at 31 December 2019, the Group's liquid assets amounted to ₱895.9 billion, representing 36.6% of the Group's total assets. Liquid assets include cash and other cash items, due from the BSP and from other banks, interbank loans receivable and securities purchased under repurchase agreements (**SPURA**) and investment securities.

The following table sets out information with respect to the Group's liquidity position as of the dates indicated:

SELECTED STATISTICAL DATA

	As at 31 December		
	2017	2018	2019
	(₱ millions, except for %)		
Liquid assets	754,153	786,099	895,906
Cash and other cash items.....	27,631	33,091	32,956
Due from BSP and other banks	293,250	285,936	274,761
Interbank loans and SPURA	45,475	50,719	72,174
Investment Securities	387,797	416,353	516,015
Total Assets	2,080,292	2,243,693	2,450,813
Liquid assets to total assets	36.3%	35.0%	36.6%
Total deposits	1,527,962	1,556,753	1,714,144
Liquid assets to total deposits	49.4%	50.5%	52.3%
Net Loans ⁽¹⁾	1,246,520	1,370,592	1,460,624
Total Gross Loans	1,262,115	1,393,080	1,485,636
Less:			
Unearned discounts and capitalised interest	4,239	4,859	5,149
Allowance for credit losses	11,356	17,629	19,863
Total Deposits	1,527,962	1,556,753	1,714,144
Net loans to total deposits	81.6%	88.0%	85.2%

Notes:

(1) Receivables from customers net of allowance for credit losses and unearned discounts and capitalised interest.

As at 31 December 2019, the scheduled maturity of the Bank's total loan portfolio (gross of allowance for credit losses and unearned interest and discount) and liquid financial investments (gross of allowance for credit losses) were as follows:

	Loans	Liquid financial investments ⁽¹⁾
	(₱ millions)	
Due within one year	596,047	38,233
Over one year	575,239	416,637

Notes:

(1) Includes investment securities at FVTPL, FVOCI and at amortized cost.

The Bank measures its liquidity risk via the Maximum Cumulative Outflows or the Liquidity Gaps Report. Separate limits have been established for both the Peso book and the U.S. Dollar book. As at 31 December 2019, the Bank was in compliance with the established limits.

Cash Flow Mismatch Analysis

The Group manages its liquidity risk by analyzing net funding requirements under alternative scenarios, diversification of funding sources and contingency planning. Specifically for the Bank, it utilizes a diverse range of sources of funds, although short-term deposits made with its network of domestic branches comprise the majority of such funding. To ensure that funding requirements are met, the Bank manages its liquidity risk by holding what it believes to be a sufficient amount of liquid assets of appropriate quality. It also maintains a balanced loan portfolio that is re-priced on a regular basis. Deposits with banks are made on a short-term basis.

The table below sets forth the Group's structural liquidity gap position as at 31 December 2019 (the maturity profile of financial instruments and gross-settled derivatives based on contractual undiscounted cash flows). The analysis is based on the remaining period from the end of the reporting period to the contractual maturity date, or if earlier, the expected date the asset will be realized on the earliest period in which the Group can be required to pay its liabilities.

SELECTED STATISTICAL DATA

	Consolidated						Total
	On demand	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year	
(₱ millions)							
2019							
Financial Assets							
Cash and other cash items	32,956	—	—	—	—	—	32,956
Due from BSP	219,994	—	—	—	—	—	219,994
Due from other banks	51,867	26	2,724	164	4	—	54,785
Interbank loans receivable and SPURA	175	66,185	3,632	2,196	—	—	72,188
Investment securities at FVTPL	—	12,310	38,502	—	—	38	50,850
Derivative assets							
Trading:							
Receive	—	53,050	27,989	29,617	14,099	3,018	127,773
Pay	—	(53,625)	(28,447)	(30,201)	(14,307)	(3,151)	(129,731)
	—	(575)	(458)	(584)	(208)	(133)	(1,958)
Investment securities at FVOCI	—	546	2,799	5,049	2,940	230,995	242,329
Investment securities at amortized cost	—	15,370	150	312	9,766	317,901	343,499
Loans and receivables							
Receivables from customers	60,348	276,769	178,037	129,824	103,398	994,261	1,742,637
Unquoted debt securities	—	10	1	161	18	980	1,170
Accrued interest receivable	11,220	1,276	251	52	306	-	13,105
Accounts receivable	7,761	259	21	11	1,413	1	9,466
Sales contract receivable	9	—	19	13	26	86	153
Other receivables	15	316	—	—	—	—	331
Other assets							
Returned checks and other cash items	407	—	—	—	—	—	407
Miscellaneous	8	—	1	4	8	172	193
	384,760	372,492	225,679	137,202	117,671	1,544,301	2,782,105
Financial Liabilities							
Non-derivative liabilities							
Deposit liabilities							
Demand	411,873	—	—	—	—	—	411,873
Savings	665,634	—	—	—	—	—	665,634
Time	—	394,827	125,808	23,838	30,119	21,280	595,872
Long-term negotiable certificates of deposit (LTNCD)	—	34	104	8,375	590	40,253	49,356
	1,077,507	394,861	125,912	32,213	30,709	61,533	1,722,735
Bills payable and SSURA	—	91,394	50,379	22,665	26,319	51,687	242,444
Manager's checks and demand drafts outstanding	6,806	—	—	—	—	—	6,806
Accrued interest payable	766	1,295	1,199	171	339	146	3,916
Accrued other expenses	3,395	792	1	—	180	—	4,368
Bonds payable	—	—	442	1,098	30,283	56,468	88,291
Subordinated debts	—	—	54	104	6,623	1,394	8,175
Non-equity non-controlling interest	6,553	—	—	—	—	—	6,553
Other liabilities							
Bills purchased - contra	14,089	—	—	—	—	—	14,089
Accounts payable	5,089	9,964	—	2,384	—	—	17,437
Marginal deposits	6,138	—	236	—	—	—	6,374
Outstanding acceptances	—	488	378	324	398	23	1,611
Deposits on lease contracts	36	54	83	121	291	1,140	1,725

SELECTED STATISTICAL DATA

	Consolidated						Total
	On demand	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year	
	(P millions)						
Notes payable	–	–	–	1,881	1,028	–	2,909
Dividends payable	90	–	–	–	–	–	90
Lease liability	59	125	225	341	644	3,593	4,987
Miscellaneous	3	–	–	–	–	–	3
	1,120,531	498,973	178,909	61,302	96,814	175,984	2,132,513
Derivative liabilities*							
Trading:							
Pay	–	84,202	26,452	17,814	17,521	2,097	148,086
Receive	–	(83,588)	(26,100)	(17,699)	(17,462)	(1,930)	(146,779)
	–	614	352	115	59	167	1,307
Loan commitments and financial guarantees	218,613	6,182	16,531	12,967	12,457	7,738	274,488
	1,339,144	505,769	195,792	74,384	109,330	183,889	2,408,308

Notes:

- (1) Financial assets — analysis of debt securities into maturity groupings is based on the expected date on which these assets will be realised. For other financial assets, the analysis into maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date or if earlier the expected date the assets will be realised.
- (2) Financial liabilities — the maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date. When a counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the Group may be required to pay.

Securities Portfolio

Effective 1 January 2018, with the adoption of PFRS 9, the Group classified its securities based on the contractual cash flow characteristics of the financial assets and the business model for managing those financial assets. These factors determine whether the financial assets are measured at amortized cost or hold-to-collect (**HTC**), Fair Value through Other Comprehensive Income (**FVOCI**) with recycling to profit or loss for securities belonging to portfolios managed under a “hold-to-collect-and-sell” business model, or Fair Value Through the Statement of Profit or Loss (**FVTPL**). Subsequent to initial recognition, the Group may reclassify its financial assets only when there is a change in its business model for managing these financial assets.

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Group’s business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios. If cash flows after initial recognition are realized in a way that is different from the Group’s original expectations, the Group 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 a second step of its classification process, the Group assesses the contractual terms of financial assets to identify whether they pass the contractual cash flows test or solely payments of principal and interest test (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 (for example, if there are repayments of principal or amortization of the 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 than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are SPPI. In such cases, the financial asset is required to be measured at FVTPL.

Investment securities at FVOCI include debt and equity securities. After initial measurement, investment securities at FVOCI are subsequently measured at fair value. The unrealized gains and losses arising from the fair valuation of investment securities at FVOCI are excluded, net of tax as applicable, from the reported earnings and are included in the statement of comprehensive income as ‘Change in net unrealized loss on investment securities at FVOCI’. Debt securities at FVOCI are those that meet both of the following conditions: (i) the asset is held within a

SELECTED STATISTICAL DATA

business model whose objective is to hold the financial assets in order to both collect contractual cash flows and sell financial assets; and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the outstanding principal amount. The effective yield component of debt securities at FVOCI, as well as the impact of restatement on foreign currency-denominated debt securities at FVOCI, is reported in the statement of income. Interest earned on holding debt securities at debt securities at FVOCI are reported as 'Interest income' using the effective interest method. When the debt securities at FVOCI are disposed of, the cumulative gain or loss previously recognized in the statement of comprehensive income is recognized as 'Trading and securities gain (loss) - net' in the statement of income. The expected credit losses arising from impairment of such investments are recognized in other comprehensive income (OCI) with a corresponding charge to 'Provision for credit and impairment losses' in the statement of income.

Equity securities designated at FVOCI are those that the Group made an irrevocable election to present in OCI the subsequent changes in fair value. Dividends earned on holding equity securities at FVOCI are recognized in the statement of income as 'Dividends' when the right of the payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Gains and losses on disposal of these equity securities are never recycled to profit or loss, but the cumulative gain or loss previously recognized in the statement of comprehensive income is reclassified to 'Surplus' or any other appropriate equity account upon disposal. Equity securities at FVOCI are not subject to impairment assessment.

Financial assets at amortized cost are debt financial assets that meet both of the following conditions: (i) these are held within a business model whose objective is to hold the financial assets in order to collect contractual cash flows; and (ii) the contractual terms give rise on specified dates to cash flows that are SPPI on the outstanding principal amount. This accounting policy relates to the statement of financial position captions 'Due from BSP', 'Due from other banks', 'Interbank loans receivable and SPURA', 'Investment securities at amortized cost' and 'Loans and receivables'.

Prior to January 2018, the Group classifies its financial assets in the following categories: financial assets at FVTPL, AFS investments, held-to-maturity (HTM) investments, and loans and receivables, while financial liabilities are classified as 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 reporting date.

Detailed discussions on Financial Assets are disclosed in Notes 2 and 8 of the 2019 Audited Financial Statements.

In 2016, the Bank disposed a portion of its HTM investments and reclassified the remaining HTM investments to AFS investments in accordance with the existing tainting rule under PAS 39. Total trading gains on disposal of certain HTM investments including a portion of the reclassified portfolio amounted to U.S.\$86.7 million (₱4.1 billion). Further, the entire HTM investments portfolio of the subsidiaries was reclassified to AFS investments and carried at fair value. As at 31 December 2017, the market value of the remaining reclassified investments amounted to ₱167.7 billion and ₱133.1 billion for the Group and Bank, respectively, with net unrealized loss amounting to ₱11.3 billion and ₱9.9 billion, for the Group and the Bank, respectively.

As at 31 December 2019, the Group's investments comprised 21.1% of its total assets. The Group carries out its investment activities according to various investment and trading policies. These policies set forth delegation of powers, types of instruments, maximum limits on investments in different types of securities, position limits, stop loss limits, duration limits, and minimum acceptable credit spreads. The table below shows the balances of the Group's securities as of the dates indicated:

SELECTED STATISTICAL DATA

	As at 31 December					
	2017		2018		2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
	(₱ millions)					
Investment Securities at FVTPL						
.....	43,887	43,887	39,689	39,689	61,867	61,867
Investment Securities at FVOCI/AFS ⁽¹⁾						
.....	343,910	343,910	111,288	111,288	202,520	202,520
Investment securities at amortized cost						
(1)						
.....	—	—	265,376	228,940	251,628	237,169
Total	387,797	387,797	416,353	379,917	516,015	501,556

Notes:

(1) Net of allowances for impairment losses

The following table sets out an analysis of the Group's total investment portfolio (gross of allowances for impairment losses) by maturity as at 31 December 2019

	Due within one year	Due more than 1 to 5 years	Due more than 5 to 10 years	Due more than 10 years	Total
	(₱ millions)				
Investment Securities at FVTPL	61,867	—	—	—	61,867
Investment Securities at FVOCI	16,418	85,571	92,098	8,433	202,520
Investment securities at amortized cost.....	24,075	56,165	60,509	110,905	251,654
Total	102,360	141,736	152,607	119,338	516,041

Investment Securities at FVTPL

Financial assets at FVTPL are recorded at fair value. Changes in fair value relating to the held-for-trading positions are recognized in profit or loss under trading and securities gain - net. As at 31 December 2017, 2018 and 2019, the Group's financial assets at FVTPL amounted to ₱43.9 billion, ₱39.7 billion and ₱61.9 billion, respectively.

Investment Securities at FVOCI / AFS

The following table sets forth, as of the dates indicated, information related to the Group's FVOCI/AFS investments.

	As at 31 December					
	2017		2018		2019	
	Book/Market Value	Net Unrealised Gain (Loss)	Book/Market Value	Net Unrealised Gain (Loss)	Book/Market Value	Net Unrealised Gain (Loss)
	(₱ millions)					
Government	288,358	(15,996)	67,790	(2,246)	164,661	2,752
Private.....	53,753	(316)	42,369	(954)	36,199	191
Total debt securities.....	342,111	(16,312)	110,159	(3,200)	200,860	2,943
Equity securities.....	1,799	293	1,129	66	1,660	(368)
Total	343,910	(16,019)	111,288	(3,134)	202,520	2,575

SELECTED STATISTICAL DATA

Investment securities at amortized cost

The following table sets forth information related to the Group's investment securities at amortized cost as at 31 December 2019.

	Book Value	Fair Value
	(₱ millions)	
Government	247,751	233,320
Private	3,877	3,849
Total	251,628	237,169

Loan portfolio

As at 31 December 2019, the Group's total loan portfolio (receivables from customers) amounting to ₱1.5 trillion represents 60.6% of total assets. Of the Group's total outstanding loans, corporate loans represented 68.2%, commercial loans represented 8.5%, and consumer loans represented 23.3%.

The following table sets out, for the periods indicated, the allocation of the total loan portfolio (gross of allowance for credit losses and unearned interest and discount) held by the Group among its principal lending units:

	As at 31 December		
	2017	2018	2019
	(₱ millions)		
Corporate loans ⁽¹⁾	848,064	946,959	1,013,280
Commercial loans ⁽²⁾	107,954	116,754	125,790
Consumer loans	306,097	329,367	346,566
Total	1,262,115	1,393,080	1,485,636

Notes:

- (1) Loans granted to large Philippine corporations, generally with total assets of more than ₱100 million.
(2) Loans granted to micro industries and SMEs generally with total assets of ₱100 million or below.

The following table shows the breakdown of consumer loans of the Group as of the dates indicated:

	As at 31 December		
	2017	2018	2019
	(₱ millions)		
Mortgage	99,683	107,884	109,930
Auto	142,145	147,457	146,114
Credit Cards	60,774	70,487	86,785
Others	3,495	3,539	3,737
Total	306,097	329,367	346,566

SELECTED STATISTICAL DATA

The following table sets forth, for the periods indicated, an analysis of the Group's loan portfolio by economic activity, as defined and categorized by the BSP:

	As at 31 December					
	2017		2018		2019	
	Amount	%	Amount	%	Amount	%
	(₱ millions, except for %)					
Manufacturing.....	193,693	15.3	215,125	15.4	217,654	14.6
Real estate activities.....	204,870	16.2	209,610	15.1	231,358	15.6
Wholesale and retail trade, repair of motor vehicles and motorcycles	214,041	17.0	242,426	17.4	245,670	16.5
Activities of households as employers and undifferentiated goods and services producing activities for household use.....	233,184	18.5	153,597	11.0	164,684	11.1
Electricity, gas, steam and air conditioning supply, water supply, sewerage, waste management and remediation activities.....	87,674	7.0	98,857	7.1	99,422	6.7
Financial and insurance activities	87,879	7.0	106,338	7.6	149,670	10.1
Transportation and storage, information and communication	96,988	7.7	106,139	7.6	104,283	7.0
Construction.....	53,200	4.2	58,405	4.2	65,327	4.4
Accommodation and food service activities	28,399	2.2	32,005	2.3	35,105	2.4
Agricultural, forestry and fishing.....	30,122	2.4	34,714	2.5	41,437	2.8
Others	32,065	2.5	135,864	9.8	131,026	8.8
Total	1,262,115	100.0	1,393,080	100.0	1,485,636	100.0

Note: Based on 2009 Philippine Standard Industrial Classification (PSIC) per BSP Memorandum No. M-2014-009.

The Group monitors its exposure to specific sectors of the economy such as agriculture, micro and SMEs to comply with BSP regulations. The BSP regulations currently require all Philippine banks to set aside 25.0% of their loanable funds for loans to the agricultural sector (or invest in eligible securities as an alternative form of compliance). Likewise, banks are also required by the BSP to set aside at least 8.0% of their total loan portfolio for micro and small-sized enterprises and 2.0% for medium-sized enterprises.

Loan maturity profile

The following table sets out an analysis of the Group's total loan portfolio (gross of allowance for credit losses and unearned interest and discount) by maturity:

	As at 31 December					
	2017		2018		2019	
	Amount	%	Amount	%	Amount	%
	(₱ millions, except for %)					
Within one year ⁽¹⁾	577,561	45.8	633,469	45.5	697,171	46.9
More than one year	684,554	54.2	759,611	54.5	788,465	53.1
Total	1,262,115	100.0	1,393,080	100.0	1,485,636	100.0

Notes:

(1) Includes past due loans.

As at 31 December 2019, 46.9% of the Group's loan portfolio had a maturity of less than one year. The modest growth in the loan portfolio was the result of a selective acquisition of target credits that generated greater profits. The short-term profile of the loan portfolio is adequately matched by the Group's funding sources, primarily deposits, which have similarly short-term maturities.

SELECTED STATISTICAL DATA

Foreign currencies

The following table sets out an analysis of the Group's total loan portfolio by currency:

	As at 31 December					
	2017		2018		2019	
	Amount	%	Amount	%	Amount	%
			(₱ millions, except for %)			
Philippine Peso	1,116,763	88.5	1,224,804	87.9	1,263,254	85.0
Foreign Currency	145,352	11.5	168,276	12.1	222,382	15.0
Total	1,262,115	100.0	1,393,080	100.0	1,485,636	100.0

As at 31 December 2019, 85.0% of the Group's total loan portfolio was denominated in Pesos and 15.0% was denominated in foreign currency, a substantial proportion of which was in U.S. dollars.

As a matter of policy, the Group's lending in foreign currency is primarily to customers who have an identifiable source of foreign currency earnings from which to repay the loans, and to importers who have authorization from the BSP to purchase foreign currency to service their foreign currency related obligations. As such, foreign currency loan exposures accounted for only a small portion of the total loan portfolio over the past years.

Interest Rates

As at 31 December 2019, 82.5% of the Group's total loan portfolio was on a floating rate basis. The Group sets interest rates for Peso-denominated loans based on the Philippine Treasury Bill rate and for U.S. Dollar-denominated loans based on U.S.\$ LIBOR. The floating rate loans are re-priced for interest periods of typically 30 to 90 days.

The following table shows the total amount of the Group's loans that have fixed and floating interest rates:

	As at 31 December					
	2017		2018		2019	
	Amount	%	Amount	%	Amount	%
			(₱ millions, except for %)			
Fixed rate	212,709	16.9	233,904	16.8	260,392	17.5
Floating rate	1,049,406	83.1	1,159,176	83.2	1,225,244	82.5
Total	1,262,115	100.0	1,393,080	100.0	1,485,636	100.0

Size and concentration of loans

The Bank monitors its financial exposure to its customers in order to ensure that concentration risk is prudently managed. As at 31 December 2019, the Bank's single largest corporate borrower accounted for 2.6% of the Group's total outstanding loan portfolio while the Bank's ten largest borrowers in the aggregate accounted for ₱206.7 billion, or 13.9%, of the Group's outstanding loan portfolio. There are no NPLs in the Bank's top ten loan accounts.

The BSP generally prohibits any bank from maintaining a financial exposure to any single person or group of connected persons in excess of 25% of its unimpaired capital as defined by the BSP.

SELECTED STATISTICAL DATA

Security

The following table sets out a breakdown of the Group's total loan portfolio by security:

	As at 31 December					
	2017		2018		2019	
	Amount	%	Amount	%	Amount	%
	(P in millions, except for %)					
Other securities	242,383	19.2	286,705	20.6	294,368	19.8
Real estate.....	99,636	7.9	110,901	8.0	112,107	7.5
Chattel.....	150,451	11.9	157,259	11.3	159,754	10.8
Equity securities.....	18,146	1.4	18,525	1.3	27,705	1.9
Deposit hold-out	25,294	2.0	19,096	1.4	31,054	2.1
Others	8,696	0.7	18,420	1.3	27,366	1.8
	544,606	43.1	610,906	43.9	652,354	43.9
Unsecured.....	717,509	56.9	782,174	56.1	833,282	56.1
Total	1,262,115	100.0	1,393,080	100.0	1,485,636	100.0

Loan classification and loan loss provisioning

Current BSP regulations require Philippine banks to classify loans based on four different categories of risk assets according to their risk profile. All risk assets, in particular the Group's loan portfolio, are either classified or unclassified. Loans which do not have a greater than normal risk, and for which no loss on ultimate collection is anticipated, are unclassified. All other loan accounts, comprising those loan accounts which have a greater than normal risk, are classified as "especially mentioned," "substandard," "doubtful" or "loss" assets. In addition to specific allowance for credit losses based on the risk classification, banks are also required to provide general loan loss allowance based on BSP guidelines. The Group undertakes such classifications and levels of provisions in accordance with the BSP regulations for purposes of statutory reporting as a regulated bank, and these requirements may differ from the levels of provisions that the Group is required to maintain pursuant to PFRS for the purposes of preparing its financial statements. As prescribed by the BSP for regulatory reporting, the Group recognizes provision for credit losses based on the higher amount between the BSP classification and the result of impairment in accordance with PFRS 9 (2018) and PAS 39 (2017 and 2016).

The Group reviews its loan portfolio at least annually in accordance with prescribed policy guidelines and BSP categorization. "Especially mentioned" loans are those loans which have demonstrated minor deficiencies in credit quality but in respect of which repayments on the loans are up-to-date. "Substandard" loans are those which the Group believes represent a substantial and unreasonable degree of risk to the Group. "Especially mentioned" and "substandard" classifications may also apply to current loans in accordance with BSP regulations. "Doubtful" loans are those in respect of which the Group believes that collection in full, either according to their terms or through liquidation, is highly improbable and that substantial loss is probable. Loans which are considered impossible to collect or worthless are characterized as "loss" loans.

The table below is a summary of the risk classification of the Bank's aggregate loan portfolio as a percentage of total outstanding loans on a non-consolidated basis.

	As at 31 December					
	2017		2018		2019	
	Amount	%	Amount	%	Amount	%
	(P millions, except for %)					
Classified						
Especially mentioned	574	0.1	1,691	0.1	437	0.0
Substandard secured and unsecured	2,695	0.3	1,372	0.1	3,088	0.3
Doubtful	416	0.0	1,813	0.2	614	0.1
Loss	3,455	0.3	3,909	0.4	4,998	0.4

SELECTED STATISTICAL DATA

	As at 31 December					
	2017		2018		2019	
	Amount	%	Amount	%	Amount	%
Total classified	7,140	0.7	8,785	0.8	9,137	0.8
Unclassified	987,520	99.3	1,102,419	99.2	1,162,149	99.2
Total	994,660	100.0	1,111,204	100.0	1,171,286	100.0

Except for loans classified as substandard which are secured, where BSP guidelines allow the borrower's collateral position to be taken into account, the allowance for credit losses on other classified accounts (especially mentioned, substandard unsecured, doubtful or loss) is based on the total principal balance outstanding without taking account of the value of any realizable collateral. Loans classified as "loss" assets are generally written-off by the Bank in accordance with BSP guidelines. These guidelines allow banks, upon approval by their board of directors, to write off loans, other credit accommodations, advances and other assets, regardless of amount, against allowance for credit losses (valuation reserves) or current operations as soon as they are satisfied that such loans, other credit accommodations, advances and other assets are of no value. However, prior approval of the Monetary Board is required to write off loans and advances to directors, officers, stockholders and related interests (**DOSRI**).

The Bank's allowance for credit losses on receivables from customers was ₱11.4 billion, ₱17.6 billion, and ₱19.9 billion, as at 31 December 2017, 2018 and 2019, respectively. Such loan loss allowance as a percentage of the Group's NPL portfolio (NPL coverage ratio), was 89.3%, 104.5% and 103.0% as at 31 December 2017, 2018 and 2019, respectively.

Non-performing loans

The table below sets forth details of the Group's NPLs (as described below), non-accruing loans, investment properties, restructured loans and write-offs for loan losses as at 31 December 2017, 2018, and 2019:

	As at 31 December		
	2017	2018	2019
	(₱ millions, except for %)		
NPLs	12,716	16,866	19,277
Total loans (gross) ⁽⁵⁾	1,262,115	1,393,080	1,485,636
Total NPLs to total loans (gross) (NPL Ratio) ⁽⁵⁾	1.0%	1.2%	1.3%
Non-accruing loans	12,581	24,105	24,105
Non-accruing loans to total loans (gross) ⁽⁵⁾	1.0%	1.7%	1.6%
ROPA — gross	10,574	10,217	10,369
NPAs ⁽¹⁾	23,290	27,083	29,646
Gross assets ⁽²⁾	2,094,505	2,264,039	2,473,283
NPAs to gross assets	1.1%	1.2%	1.2%
Total allowance for credit and impairment losses ⁽³⁾	13,039	19,198	21,353
Allowance for credit losses — loans	11,356	17,629	19,863
Allowance for impairment losses — ROPA	1,683	1,569	1,490
Total NPLs	12,716	16,866	19,277
Allowance for credit losses – loans to total NPLs (NPL Coverage Ratio)....	89.3%	104.5%	103.0%
Total allowance for credit and impairment losses to NPAs	56.0%	70.9%	72.0%
Total restructured loans ⁽⁴⁾	3,277	2,110	2,435
Total gross loans	1,262,115	1,393,080	1,485,636
Restructured loans to total loans (gross) ⁽⁵⁾	0.3%	0.2%	0.2%
Accounts written off — loans	4,644	4,876	6,171
Accumulated depreciation and amortisation — ROPA	1,174	1,148	1,117

Notes:

(1) NPAs comprise of gross ROPA plus NPLs.

(2) Gross assets pertain to total assets per financial statements plus total allowance for credit and impairment losses and accumulated depreciation and amortisation — ROPA.

SELECTED STATISTICAL DATA

- (3) Total allowance for credit and impairment losses comprises of allowance for credit losses on loans and allowance for impairment losses on ROPA.
- (4) Group's restructured loans as at relevant date, net of loans repaid, written off or foreclosed. Total restructured loans include loans which are undergoing restructuring and still classified as NPLs.
- (5) Total loans (gross) comprise receivables from loans to customers, before deducting unearned discount/capitalised interest and allowance for credit losses. In contrast, loans and receivables as reported in the Group's financial statements, comprise receivables from loans to customers and other receivables, net of unearned discount/capitalised interest and allowance for credit losses.

Loans are classified as non-accruing (or past due) if (i) any repayment of principal at maturity or any scheduled payment of principal or interest due quarterly (or longer) is not made when due and (ii) in the case of any principal or interest due monthly, if the amount due is not paid and has remained outstanding for three months. In the case of (i), such loans are treated as non-performing if the payment is not made within an additional 30 days. In the case of (ii), such loans are treated as non-performing upon the occurrence of default in payment.

The Bank has improved its legacy credit issues over time. The Bank has reduced its NPLs from ₱32.9 billion in 2003 to ₱6.0 billion, ₱8.0 billion and ₱10.2 billion in 2017, 2018 and 2019, respectively, and improved its NPL coverage ratio from 52.0% in 2003 to 71.4%, 107.1%, and 103.1% in 2017, 2018 and 2019, respectively. The Bank's NPL coverage ratio is computed as allowance for credit loan losses of the Bank (₱4.3 billion, ₱8.6 billion and ₱10.5 billion in 2017, 2018 and 2019, respectively) divided by the total NPLs of the Bank (₱6.0 billion, ₱8.0 billion and ₱10.2 billion in 2017, 2018 and 2019, respectively). The Bank's NPL ratio was reduced from 14.7% in 2003 to 0.6%, 0.7%, and 0.9% for 2017, 2018 and 2019, respectively. The Bank's NPL ratio is computed as total NPLs of the Bank (₱6.0 billion, ₱8.0 billion and ₱10.2 billion in 2017, 2018 and 2019, respectively) divided by the Bank's total gross loans (₱994.4 billion, ₱1.11 trillion and ₱1.17 trillion in 2017, 2018 and 2019, respectively).

On the Group level, the Group's NPLs were ₱12.7 billion, ₱16.9 billion and ₱19.3 billion in 2017, 2018 and 2019, respectively, and its NPL coverage ratio was 89.3%, 104.5% and 103.0% in 2017, 2018 and 2019, respectively. The Group's NPL coverage ratio is computed as allowance for credit loan losses of the Group (₱11.4 billion, ₱17.6 billion, and ₱19.9 billion in 2017, 2018 and 2019, respectively) divided by the total NPLs of the Group (₱12.7 billion, ₱16.9 billion and ₱19.3 billion in 2017, 2018 and 2019, respectively). The Group's NPL ratio was 1.0%, 1.2% and 1.3% for 2017, 2018 and 2019, respectively.

In order to manage its loan portfolio and reduce its exposure to NPLs, the Group's practice is to restructure those classified loans which it considers suitable for restructuring. The Group restructures loans on a case-by-case basis. Restructuring methods used by the Group include extending the maturity of loans beyond their original maturity date and providing for rescheduled payments of principal consistent with the expected cash flows of the borrower in question. The Group will also consider, in certain circumstances, receiving partial repayments of principal in respect of restructured loans. The Group has also entered into debt-for-equity swap agreements with borrowers, although it is rarely adopted as a restructuring solution.

In accordance with BSP guidelines, in general, NPLs which are successfully restructured are generally considered current and no longer non-performing following three consecutive payments of the required amortization of principal and/or interest. For restructured loans with capitalized interest and which are not fully secured, six consecutive payments are required for the loan to be considered performing. As at 31 December 2017, 2018 and 2019, the Bank had a portfolio of ₱0.6 billion, ₱0.8 billion and ₱0.8 billion of restructured loans which were treated as performing, respectively, representing 19.5%, 36.1% and 38.4% of total restructured loans, respectively.

In accordance with BSP guidelines, loans and other assets in litigation are classified as NPAs. The Bank's NPAs principally comprise investment properties and NPLs. The Bank has established its Acquired Assets for sale Disposition Group (AAMDG) to actively manage and, where appropriate, sell its investment properties. The Group has sold ₱2.3 billion, ₱1.4 billion, and ₱1.6 billion of ROPAs in 2017, 2018 and 2019, respectively, resulting in a net gain from sale of ₱960.0 million, ₱883.3 million, and ₱605.4 million, respectively.

Sectoral analysis of NPLs

The following table sets forth, as at the dates indicated, the Bank's gross NPLs by the respective borrowers' industry or economic activity and as a percentage of the Bank's gross NPLs:

SELECTED STATISTICAL DATA

	As at 31 December					
	2017		2018		2019	
	Amount	%	Amount	%	Amount	%
	(₱ millions, except for %)					
Manufacturing.....	3,285	54.6	3,327	41.4	5,948	58.3
Real estate activities.....	537	8.9	493	6.1	475	4.6
Wholesale and retail trade, repair of motor vehicles and motorcycles.	1,188	19.7	1,696	21.1	2,077	20.3
Construction.....	50	0.8	1,501	18.7	733	7.2
Transportation and storage, information and communication.....	290	4.8	321	4.0	323	3.2
Accommodation and food service activities	47	0.8	33	0.4	14	0.1
Financial and insurance activities.	2	0.1	2	0.1	1	0.0
Agricultural, forestry and fishing.	155	2.6	203	2.5	202	2.0
Others	466	7.7	465	5.7	436	4.3
Total	6,020	100.0	8,041	100.0	10,209	100.0

Note: The classifications above are based on the 2009 PSIC.

Ten largest NPLs

As at 31 December 2017, 2018 and 2019, the Bank's ten largest NPLs accounted for 0.3%, 0.4% and 0.4%, respectively, of its total loans to customers and 56.9%, 54.2% and 54.3%, respectively, of its gross NPLs to customers. The Bank's exposure to its ten largest NPLs ranged from ₱0.1 billion to ₱1.2 billion as at 31 December 2017, ₱0.2 billion to ₱1.2 billion as at 31 December 2018, and ₱0.2 billion to ₱2.0 billion as at 31 December 2019, and amounted to ₱3.4 billion, ₱4.4 billion and ₱5.5 billion in the aggregate as at 31 December 2017, 2018 and 2019, respectively.

Foreclosure and disposal of assets

Loans that become past due for payment first enter a collection phase whereby the Bank reaches out to the customer in an effort to salvage the loan. When all collection efforts fail for those loans that are secured by collateral, the Bank's special asset management group lending unit recommends foreclosure (as the only remaining course of action) to the Non-Performing Assets Committee (NPAC) for approval. The account is deliberated on, previous efforts to collect are discussed, and the action is recommended to and justified before the NPAC. The NPAC approval and collateral documents are turned over to the in-house counsel of the Remedial & Litigation Division. After reviewing relevant documents, the account is endorsed to an accredited external counsel for the appropriate filing of foreclosure proceedings. External counsel is responsible for the consolidation of the title to the property in the name of the Bank and the writ of possession of the property. However, after the auction and issuance of the certificate of sale, the property is endorsed to the AAMDG as ROPA for sale.

The Bank disposes of its ROPA assets in three ways: (1) through the in-house sales team of AAMDG, (2) through the Bank's nationwide branch network and (3) through external real estate brokers. Sales volumes are generally split equally among the three options. Selling prices for properties are set using external appraisal reports by duly accredited BSP appraisers which, according to policy, must be no less than 12 months old as of the time of price-setting. External appraisal reports and selling prices are updated on an annual basis. On payment terms, nearly all of the ROPA are sold either on a cash basis or through real estate loans from the Bank or third-party banks. Sales are generally done on an as-is, where-is and no recourse basis.

SELECTED STATISTICAL DATA

Average Statements of Financial Position and Related Interest

The following tables show the Bank's average balances, interest earned/incurred and average interest rates for the three years ended 31 December 2017, 2018, and 2019. Average balances are generally based on a daily rate.

	For the years ended 31 December								
	2017			2018			2019		
	Average Daily Balance	Interest Income/Expense	Average Yield/Cost (%)	Average Daily Balance	Interest Income/Expense	Average Yield/Cost (%)	Average Daily Balance	Interest Income/Expense	Average Yield/Cost (%)
	(P millions, except for %)								
Due from BSP and other banks.....	234,368	69	0.03%	230,865	66	0.03%	222,165	239	0.11%
Interbank loans receivables and securities purchased under resale agreements.....	37,392	606	1.62%	22,658	441	1.95%	17,445	468	2.68%
Trading and investment securities	304,201	12,017	3.95%	319,130	12,598	3.95%	385,116	15,473	4.02%
Loans and receivables	877,874	35,072	4.00%	1,031,344	46,860	4.54%	1,092,633	59,603	5.45%
Total assets	1,453,835	47,764	3.29%	1,603,997	59,965	3.74%	1,717,359	75,783	4.41%
Deposit liabilities	1,243,346	8,777	0.71%	1,332,076	13,447	1.01%	1,357,606	17,293	1.27%
Subordinated debts, bills payable and SSURA and other borrowings	91,165	2,587	2.84%	114,030	4,196	3.68%	173,257	8,395	4.85%
Total liabilities	1,334,511	11,364	0.85%	1,446,106	17,643	1.22%	1,530,863	25,688	1.68%

Analysis of Changes in Interest Income and Interest Expense — Volume and Rate Analysis

The following tables provide an analysis of changes in the Bank's interest income, interest expense, and net interest income between changes in volume (average daily balances) and changes in rates for the year ended 31 December 2017 compared with the year ended 31 December 2018, and the year ended 31 December 2018 compared with the year ended 31 December 2019. Volume and rate variances have been calculated on the movement in average daily balances and the change in the interest rates on average interest earning assets and average interest bearing liabilities in proportion to absolute volume and rate change. The variance caused by the change in both volume and rate has been allocated in proportion to absolute volume and rate change.

	For the year ended 31 December 2017 compared with the year ended 31 December 2018			For the year ended 31 December 2018 compared with the year ended 31 December 2019		
	Increase (Decrease) due to change in			Increase (Decrease) due to change in		
	Net Change	Average Volume	Average Rate	Net Change	Average Volume	Average Rate
	(P million)					
Interest income on:						
Trading and Investment Securities	581	590	(9)	2,875	2,605	270
Loans and Receivables.....	11,788	6,131	5,657	12,743	2,785	9,958
Interbank Loans, Receivables and Securities Purchased Under Resale						
Agreements.....	(165)	(239)	74	27	(101)	129
Deposit with BSP and Other Banks	(3)	(1)	(2)	173	(3)	175
Interest expense on:						
Deposit Liabilities.....	4,670	626	4,044	3,846	258	3,588
Subordinated Debts, Bills Payable and SSURA and Other Borrowings.....	1,609	649	960	4,198	2,179	2,019
Net Interest Income.....	5,922	3,984	1,938	7,744	3,984	1,938

SELECTED STATISTICAL DATA

Yields, Spreads and Margins

The following table sets out, for the periods indicated, the yields, spreads and interest margins on the Group's interest-earning assets.

	Year ended 31 December		
	2017	2018	2019
(P in millions, except for %)			
Interest income on interest-earning assets.....	80,322	97,186	116,183
Interest expense on interest-bearing liabilities ⁽²⁾	18,916	28,364	39,186
Average interest-earning assets.....	1,635,545	1,800,123	2,011,127
Average interest-bearing liabilities	1,688,494	1,829,504	1,957,146
Average total assets	1,978,151	2,161,993	2,347,253
Average interest-earning assets as a percentage of average total assets	82.7%	83.3%	85.7%
Average interest-bearing liabilities as a percentage of average total assets	85.4%	84.6%	83.4%
Average interest-earning assets as a percentage of average interest-bearing liabilities	96.9%	98.4%	102.8%
Yield ⁽³⁾	4.9%	5.4%	5.8%
Cost of funds ⁽⁴⁾	1.1%	1.6%	2.0%
Spread	3.8%	3.8%	3.8%
Net interest margin ⁽⁵⁾	3.8%	3.8%	3.8%

Notes:

- (1) Average is current balance plus previous period balance divided by 2.
- (2) Interest-bearing liabilities includes deposit liabilities, bills payable and SSURA, bonds payable and subordinated debts.
- (3) Yield is interest income on interest-earning assets divided by average interest-earning assets.
- (4) Cost of funds is interest expense on interest-bearing liabilities divided by average interest-bearing liabilities.
- (5) Net interest margin is the difference between interest earned and interest expended divided by the average interest-earning assets.

Financial Ratios

The following table sets out certain key financial indicators of the Group, for the periods indicated.

	As at and for the years ended 31 December		
	2017	2018	2019
(P millions, except for %)			
Common Equity Tier 1 capital ratio ⁽¹⁾	11.8%	14.6%	16.2%
Capital conservation buffer ⁽¹⁾	5.8%	8.6%	10.2%
Tier 1 capital ratio ⁽¹⁾	11.8%	14.6%	16.2%
Total capital ratio ⁽¹⁾	14.4%	17.0%	17.5%
NPAs	23,290	27,083	29,646
Gross ROPA	10,574	10,217	10,369
NPLs	12,716	16,866	19,277
Gross Assets	2,094,505	2,264,039	2,473,283
Total Assets	2,080,292	2,243,693	2,450,813
Add:			
Allowance for credit losses – loans	11,356	17,629	19,863
Allowance for impairment losses – ROPA	1,683	1,569	1,490
Allowance for depreciation and amortisation – ROPA	1,174	1,148	1,117
NPA ratio ⁽²⁾	1.1%	1.2%	1.2%

SELECTED STATISTICAL DATA

Notes:

(1) Capital adequacy ratios as at 31 December 2017, 2018 and 2019 were computed based on Basel III standards.

(2) Ratio of non-performing assets (gross ROPA plus NPLs) to gross assets (total assets per audited financial statements plus allowance for credit and impairment losses on loans and ROPA and accumulated depreciation and amortisation – ROPA) (see details in section “Selected Statistical Data – Non-performing loans”).

Return on Equity and Assets

The following table presents selected financial ratios of the Group for the periods indicated.

	Year ended 31 December		
	2017	2018	2019
	(₪ in millions, except for %)		
Net income ⁽¹⁾	18,223	22,008	28,055
Average total assets	1,978,151	2,161,993	2,347,253
Average shareholders' equity ⁽¹⁾	198,979	242,458	296,257
Return on average assets	0.9%	1.0%	1.2%
Return on average shareholders' equity	9.2%	9.1%	9.5%
Average shareholders' equity as a percentage of average total assets	10.1%	11.2%	12.6%

Notes:

* Average is current balance plus previous year's balance divided by two.

(1) Attributable to the equity holders of the Bank.

MANAGEMENT

Board of Directors

The Board of Directors of the Bank (the **Bank's Board**, the **Board of Directors** or the **Board**, and a director thereof, a **Director**), is the body ultimately responsible for the management of the Bank. The Bank's Board is composed of 12 Directors, five of whom are independent Directors. The roles of the chairman and president are separate and clearly defined while the independent directors are a strong source of independent advice and judgment. They bring considerable knowledge and experience to the Bank's Board's deliberations. Directors are elected by the shareholders for a period of one year. Generally, there are no restrictions on re-election. However, beginning on 2 January 2012, the Philippine SEC set a limit on the term of independent directors serving in listed, public, and mutual fund companies. An independent director may only serve as such for a period of five consecutive years after which the Philippine SEC mandates a "cooling off" period of two years. After the cooling off period the independent director may serve as such for another five consecutive years but shall be barred perpetually from being elected as independent director in the same company if he has served as such for ten years. The chairman has a casting vote in resolutions of the Bank's Board which must be passed by majority vote. The senior executive officers carry out the day-to-day operations of the Bank under the direction of the Bank's Board.

The following table sets forth the persons who served as a Director of the Bank as at 31 December 2019:

Name	Age	Citizenship	Position
Arthur Ty	53	Filipino	Chairman of the Board
Francisco C. Sebastian	65	Filipino	Vice Chairman of the Board
Fabian S. Dee	57	Filipino	President/Director
Alfred V. Ty	52	Filipino	Director
Jesli A. Lapus	70	Filipino	Independent Director
Rex C. Drilon II*	73	Filipino	Independent Director
Francisco F. del Rosario, Jr.	72	Filipino	Independent Director
Edgar O. Chua	63	Filipino	Independent Director
Angelica H. Lavares	66	Filipino	Independent Director
Edmund A. Go	69	Filipino	Director
Vicente R. Cuna, Jr.	58	Filipino	Director
Solomon S. Cua	64	Filipino	Director

* During the Annual Stockholders' Meeting held on 28 May 2020, Mr. Philip G. Soliven was elected as independent director, replacing Mr. Rex C. Drilon II whose term as independent director ended on the same day.

Mr. Arthur Ty, Filipino, 53 years old, has been the Bank's Chairman since 2012. He was the Bank's President from 2006 to 2012. He has been the Chairman of GTCAP since May 2016 and Metropolitan Bank China (Ltd.) since 2010, Vice-Chairman of PSBank since 2001, First Metro Investment Corporation since 2012 and AXA Philippines since 2017. He earned his Bachelor of Science degree in Economics at the University of California, Los Angeles and obtained his Master's in Business Administration degree from Columbia University, New York.

Mr. Francisco C. Sebastian, Filipino, 65 years old, has been the Vice-Chairman of the Bank since 2006. He joined the Metrobank Group in 1997 as First Metro President until he was appointed Chairman in 2011. He was the Chairman of GTCAP 2014 to April 2016. He has been the Vice-Chairman of GTCAP since May 2016. He earned his AB degree in Economics, Magna Cum Laude, from the Ateneo de Manila University in 1975.

Mr. Fabian S. Dee, Filipino, 57 years old, became President of Metrobank in 2012. Before becoming President, he headed the National Branch Banking Sector (2006-2012), Account Management Group (2002-2006) and Marketing Center (2001-2002). He has been the Director of Bankers Association of the Philippines since 2014 and Trustee of Metrobank Foundation, Inc. (MBFI) since 2012. He was the Chairman and Director of Metrobank Card Corporation (MCC) from 2006 to January 2020; Chairman of Metro Remittance Singapore Pte. Ltd. since 2010 to 2019; Chairman of LGU Guarantee Corporation from 2017 to 2019; SMBC Metro Investment Corporation from 2014

to 2017. Director of Bancnet from 2015 to 2017. He holds a degree in Management Engineering from the Ateneo de Manila University.

Mr. Alfred V. Ty, Filipino, 52 years old, was first elected Director in September 2015. He is the Vice-Chairman of GTCAP since 2012 and Chairman of Toyota Motor Philippines Group of Companies and Federal Land Group of Companies. He has been the Vice Chairman of Metro Pacific Investment Corp. since March 2018. He graduated with a Bachelor of Science degree in Business Administration from the University of Southern California in 1989.

Mr. Jesli A. Lapus, Filipino, 70 years old, became an independent Director in 2010. He has been Chairman and independent director of STI Education Services Group, Inc. since 2013 and Chairman of LSERV (formerly LBP Service Corporation) since 2012 and Optimus Management Services Inc. since 2010. He has been independent director of STI Education Systems Holdings Inc. since 2013 and Philippine Life Financial Assurance Corp. since June 2012. He has been a member of the Board of Governors of Information and Communication Technology Academy, Inc. since November 2010. He is the Advisor to the Board since 2013 and Director from 1999 to 2006 of Radiowealth Finance Company. He was the Chairman of Manila Tytana Colleges from 2010 to 2013. He has been the Chairman – Center for Tourism of the Asian Institute of Management since 2012, Secretary of the Department of Trade and Industry in 2010, Secretary of the Department of Education from 2006 to 2010, Congressman, Third District of Tarlac, House of Representatives from 1998 to 2006 and President/CEO and Vice-Chairman of Land Bank of the Philippines from 1992 to 1998. He is a Certified Public Accountant and holds an Accountancy degree from the Philippine School of Business Administration and a Master's degree in Business Management from the Asian Institute of Management. He has a Doctorate in Public Administration (Honoris Causa) from the Polytechnic University of the Philippines. He also did post-graduate studies in Investment Appraisal and Management at Harvard University; Management of Transfer of Technology at INSEAD (France), Project Management at BITS (Sweden); and Personal Financing Planning at UCLA.

Mr. Rex C. Drilon II, Filipino, 73 years old, became an independent Director in 2012. He also served as independent director of First Metro from 2011 to 2014. He has been the Vice-Chairman of the Institute of Corporate Directors since 2013, and Center for Excellence in Governance since 2016. He has been a member of the Board of Trustees of Institute of Solidarity in Asia since 2013 and Center for School Governance since 2016. He has been the Chairman of Keyland Corporation since 2011 and YLD Holdings, Inc. since 2012. He was the President of the Institute of Corporate Directors from 2010 to 2012; Chief Operating Officer of Ortigas & Company, Ltd. Partnership from 2001 to 2010 and CEO of Ayala Land's publicly listed subsidiaries Cebu Holdings, Inc. (CHI) and Cebu Property Ventures Development Corp. (CPVDC) from 1998 to 2001. He has a Business Administration degree from the University of the East. He pursued further studies at the University of Asia and The Pacific.

Mr. Francisco F. Del Rosario, Jr., Filipino, 72 years old, was first elected independent Director in 2013. He has been a director of Omnipay, Inc. since 2014 and DMCI Homes, Inc. since 2011. He has been a Trustee of ABS-CBN Foundation since 2007, Senior Executive Director of PWC Isla Lipana and Chairman for Institute for Solidarity in Asia since 2017 and Trustee for Center for Family Ministries from 2009 to 2014. He was the President of Management Association of the Philippines from 2015 to 2016. He was the Vice Chairman/President and CEO of the Development Bank of the Philippines from 2010 to 2012. He obtained his BSC Accounting and BA Economics degrees from De La Salle University, and his MBM degree from the Asian Institute of Management.

Mr. Edgar O. Chua, Filipino, 63 years old, became an independent Director in 2017. He is currently the President and Chief Executive of Cavitex Holdings, Inc. He has been an Independent Director of PhilCement, Integrated Micro-Electronics, Inc. since 2014 and Energy Development Corporation since 2007. He is also the Chairman of Philippine Eagle Foundation since 2017, De La Salle University Board, De La Salle Science Foundation since 2017 and Makati Business Club since 2016. He is currently the Chairman for the College of Saint Benilde, University of La Salle Bacolod and CEO of De La Salle Philippines. He is the Trustee/Treasurer of Philippine Business for Education and Trustee for the De La Salle Araneta Salikneta since 2015, The English Speaking Union of the Philippines, Inc. since 2009, Gawad Kalinga Community Development Foundation Inc. since 2005 and Pilipinas Shell Foundation, Inc. since 2003. He was the Chairman of Pilipinas Shell Petroleum from September 2003 to May 2017 and the Country Chairman of Shell Companies in the Philippines from September 2003 to October 2016. He obtained his Bachelor of Science degree from De La Salle University in 1978.

Ms. Angelica H. Lavares, Filipino, 66 years old, is a Teaching Fellow at the Institute of Corporate Directors. She is an independent director of several companies, namely, Prulife UK and Metrobank Card Corporation (MCC)

MANAGEMENT

(April 2018 – January 2020) Her other affiliations include being Head of Strategic Support Group of Bank of Commerce from 2009 to 2015 and as consultant starting November 2015 up to present. Prior to joining Bank of Commerce, she served as Chief Legal Counsel (2003 to 2007), concurrent Chief Compliance Officer and Chief Legal Officer – Legal Services Department (2007 to 2009) and Assistant Corporate Secretary (2007-2009) of Metrobank. She was also Chief Legal Counsel and Head of Legal Services Division for United Coconut Planters Bank (UCPB) from 1999 to 2002 acting concurrently as its Head for Human Resource Division. Previous to that, she was Vice President for Sales Documentation and Head of Collection Department of Filinvest Land Inc., and Special Assistant to the Commissioner for the Bureau of Customs in 1987. She obtained her degree in AB Psychology, Cum Laude, from St. Theresa's College, QC in 1973 and a Bachelor of Laws, First Honorable Mention, from the University of the Philippines in 1981.

Mr. Edmund A. Go, Filipino, 69 years old, was first elected Director in 2007. He has been a director of Metropolitan Bank China (Ltd.) since 2010. He is a member of the Board of Advisors of PSBank since 2009. He has been a Director for Investments of Ateneo de Manila University since 2010 and Investment Consultant for St. Peter's Life Group of Companies since 2011. He was a director of FMIIC Hong Kong from 2001 to 2008. He served as Metrobank Treasurer from 2000 to 2007 and consultant of the Philippine Dealing and Exchange Corp. on Securities Training and Development from 2008 to 2010. Prior to 2000, he held various management positions at Citibank Manila, Hong Kong, Taiwan and New York in the areas of Treasury, Derivatives, Investment Banking and Private Banking. He is a Certified Public Accountant and holds a BS Commerce Degree in Accounting, Cum Laude, from the San Beda College and an MBA degree, with distinction, from the Asian Institute of Management.

Mr. Vicente R. Cuna, Jr., Filipino, 58 years old, has been a Director of Metrobank since 2014, and Senior Executive Vice President and Head of Enterprise Services Sector starting May 2018. He was seconded from Metrobank as President of PSBank from April 2013 to April 2018. He was a director of First Metro from 2011 to 2015. He was the former Head of the Bank's Institutional Banking Sector from 2012 to 2013 and Corporate Banking Group from 2006 to 2012. He is the Chairman of ORIX Auto Leasing Philippines Corporation since March 2016 and Vice Chairman of PSBank since 2018 A. He graduated from the De La Salle University with a degree in AB Economics and pursued further studies at the Ateneo Graduate School of Business.

Mr. Solomon S. Cua, Filipino, 64 years old, became a Director of Metrobank in April 2018. He is formerly an Undersecretary of the Department of Finance. He has been the Chairman of Philippine AXA Life, Inc. since 2010 and Charter Ping An Insurance Corporation. He has been the Vice Chairman/Director of Philippine Racing Club; Adviser of MBCL since 2018; Director of Global Treasure Holdings, Grand Titan Capital Holdings, Inc. since 2011, and Philippine Newton Global Solutions, Inc. He is President of SC & SSC Holdings, Inc. and has been the Director/Treasurer of Palm Integrated Commodities, Inc. since 2012. He obtained his Bachelor of Arts (Mathematical Sciences and Economics) degree from the University of Melbourne, Australia; Bachelor of Law degree from the University of Queensland, Australia and Masters of Laws degree from the London School of Economics & Political Science, England.

The following table shows the shareholdings of each current Director in the Bank as at 31 December 2019:

Name	No. of Shares Directly Held	% of Total Shares
Arthur Vy Ty	15,205,313	0.34%
Alfred Ty	17,087,722	0.38%
Francisco C. Sebastian.....	1,442,283	0.03%
Fabian S. Dee.....	734	0.00%
Edmund A. Go.....	7,482	0.00%
Jesli A. Lapus.....	28,419	0.00%
Edgar O. Chua	113	0.00%
Rex C. Drilon II.....	1,615	0.00%
Francisco F. del Rosario, Jr.....	146	0.00%
Vicente R. Cuna, Jr.	129	0.00%
Solomon S. Cua	113	0.00%
Angelica H. Lavares	113	0.00%

MANAGEMENT

Senior Management

The members of senior management, subject to control and supervision of the Board, collectively have direct charge of all business activities of the Bank. They are responsible for the implementation of the policies set by the Board of Directors. The following is a list of the Bank's executive officers as at 31 December 2019:

Name	Age	Citizenship	Position
Joshua E. Naing	59	Filipino	Senior Executive Vice President; Head of Financial and Control Sector
Fernand Antonio A. Tansingco.....	53	Filipino	Senior Executive Vice President; Head of Financial Markets Sector
Maritess B. Antonio.....	59	Filipino	Executive Vice President; Head of Risk Management Group
Mary Mylene A. Caparas	55	Filipino	Executive Vice President, Head of Institutional Banking Sector
Paul Robert Y. Murga	54	Filipino	Executive Vice President, Head of Operations Group
Corazon Ma. Therese B. Nepomuceno ...	58	Filipino	Executive Vice President, Head of Credit
Richard Benedict S. So	54	Filipino	Executive Vice President, Head, Retail Banking Sector
Aniceto M. Sobrepeña	66	Filipino	Executive Vice President, President, Metrobank Foundation
Vivian L. Tiu	59	Filipino	Executive Vice President, Head of Human Resources Group

Involvement in Legal Proceedings

The Bank is not aware of any of the following events having occurred during the past five years up to the date of this Offering Circular that are material to an evaluation of the ability or integrity of any director, nominee for election as director, Senior Management, underwriter or controlling person of the Bank:

1. any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;
2. any conviction by final judgment, including the nature of the offence, in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;
3. being subject to any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities;
4. being found by a domestic or foreign court of competent jurisdiction (in a civil action), the Philippine SEC or comparable foreign body, or a domestic or foreign exchange or other organized trading market or self-regulatory organisation, to have violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended or vacated; and
5. a securities or commodities law or regulation, and the judgment has not been reversed, suspended or vacated.

Corporate Governance

As part of its increasing focus on corporate governance, the Bank established a number of Board committees.

Anti-Money Laundering Committee

The Anti-Money Laundering Committee is tasked to assist the Board in fulfilling its oversight responsibility over the Bank's AML Compliance Management to make sure that the Bank complies with the provisions of the Anti-Money Laundering Act (AMLA), as amended, its revised implementing rules and regulations, and BSP regulations.

Audit Committee

The Audit Committee (AC) assists the Board in fulfilling its statutory and fiduciary responsibilities, enhancing shareholder value, and protecting shareholder's interest through (a) effective oversight of internal and external audit functions, (b) transparency and proper reporting, (c) compliance with laws, rules and regulations; and code of conduct, and (d) adequate and effective internal controls.

Corporate Governance and Compensation Committee

The Corporate Governance and Compensation Committee assists the Board in fulfilling its statutory and fiduciary responsibilities, enhancing shareholder value, and protecting shareholders' interest through (a) effective oversight on corporate governance practices, (b) ensuring the effectiveness and observance by the Board of corporate governance principles and guidelines, (c) providing oversight in the implementation of the Bank's Compliance System; (d) making recommendations to the Board regarding the continuing education of directors, assignment to board committees, succession plan for the senior officers, and the remuneration policy linked to the corporate and individual performance.

Executive Committee

The Executive Committee is primarily responsible for the review and approval of credit proposals and credit policies within its authority and limits, as well as provide recommendations or conditions to lending. The Committee may also act on other matters as delegated by the Stockholders, and the Board of Directors within its competence and in accordance with the By-Laws of the Bank.

Information Technology Steering Committee

The Information Technology Steering Committee ensures that IT strategies are consistent with the overall business objectives. As an extension of the Board, it supervises the IT Risk Management Program of the Bank and the development of policies, controls and specific accountabilities consistent with the Bank's IT Risk Management Framework. It also regularly provides adequate information to the Board regarding overall IT performance, status of major projects or other significant issues related to IT risks.

Nominations Committee

The Nominations Committee, jointly with the Corporate Governance and Compensation Committee, reviews and evaluates the qualifications of all persons nominated to the Board. Moreover, it also reviews the qualifications of those nominated to other positions requiring approval by the Board.

MANAGEMENT

Overseas Banking Committee

The Overseas Banking Committee assists the Board in its oversight functions over the operations and financial performance of the overseas branches and subsidiaries, their compliance with the rules and regulations of their 20 respective host countries and their adherence to the Parent Bank's business and corporate governance policies as prescribed by the BSP and SEC.

Related Party Transactions Committee

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

Risk Oversight Committee

The Risk Oversight Committee, as an extension of the Board, is responsible for the development and oversight of the risk management program of the Bank and its Trust Banking Group.

Trust Committee

The Trust Committee is responsible for the oversight of all Trust activities and shall act within the sphere of authority as provided by the pertinent rules and regulations in the exercise of fiduciary powers under the Manual or Regulations for Banks and BSP Circular 766 - Guidelines in Strengthening Corporate Governance and Risk Management Practices on Trust, Other Fiduciary Business, and Investment Management Activities.

FAMILY RELATIONSHIPS

Metrobank Chairman Arthur Ty and Director Alfred V. Ty are brothers.

THE PHILIPPINE BANKING INDUSTRY

Introduction

The banking industry in the Philippines is composed of universal banks, commercial banks, rural banks, thrift banks (including savings and mortgage banks, private development banks and stock savings and loan associations), cooperative banks and Islamic banks.

According to BSP's report on the Physical Network of the Philippine Banking System, as at 29 February 2020, the commercial banking sector, comprising universal and commercial banks, consisted of 46 banks, of which 21 were universal banks and 25 were commercial banks. Of the 21 universal banks, 12 were private domestic banks, three were government banks and six were branches of foreign banks. Of the 25 commercial banks, five were private domestic banks, two were subsidiaries of foreign banks and 18 were branches of foreign banks.

Commercial banks are organised primarily to accept drafts and to issue letters of credit, discount and negotiate promissory notes, drafts, bills of exchange and other evidences of indebtedness, accept and create demand deposits, receive other types of deposits and deposit substitutes, buy and sell foreign exchange and gold and silver bullion, and lend money on a secured or unsecured basis. Universal banks are banks that have authority, in addition to commercial banking powers, to exercise the powers of investment houses, to invest in the equity of business not related to banking, and to own up to 100% of the equity in a thrift bank, a rural bank, or a financial allied or non-allied enterprise. A publicly-listed universal or commercial bank may own up to 100% of the voting stock of only one other universal or commercial bank.

Thrift banks primarily accumulate the savings of depositors and invest them, together with capital loans secured by bonds, mortgages in real estate and insured improvements thereon, chattel mortgage, bonds and other forms of security or in loans for personal and household finance, secured or unsecured, or in financing for home building and home development; in readily marketable debt securities; in commercial papers and accounts receivables, drafts, bills of exchange, acceptances or notes arising out of commercial transactions. Thrift banks also provide short-term working capital and medium- and long-term financing for businesses engaged in agriculture, services, industry, and housing as well as other financial and allied services for its chosen market and constituencies, especially for SMEs and individuals. As at 29 February 2020, there were 50 thrift banks (including microfinance-oriented banks), based on BSP's report on the Physical Network of the Philippine Banking System.

Rural banks are organised primarily to make credit available and readily accessible in the rural areas on reasonable terms. Loans and advances extended by rural banks are primarily for the purpose of meeting the normal credit needs of farmers and fishermen, as well as the normal credit needs of cooperatives and merchants. As at 29 February 2020, there were 448 rural and cooperative banks, based on BSP's report on the Physical Network of the Philippine Banking System.

Specialised government banks are organised to serve a particular purpose. The existing specialised banks are the Development Bank of the Philippines (**DBP**), Land Bank of the Philippines (**LBP**), and Al-Amanah Islamic Investment Bank of the Philippines (**AAIIB**). DBP was organised primarily to provide banking services catering to the medium- and long-term needs of agricultural and industrial enterprises, particularly in rural areas and preferably for small- and medium-sized enterprises. LBP primarily provides financial support in all phases of the Philippines' agrarian reform program. In addition to their special functions, DBP and LBP are allowed to operate as universal banks. AAIIB was organised to promote and accelerate the socio-economic development of the Autonomous Region of Muslim Mindanao through banking, financing and investment operations and to establish and participate in agricultural, commercial and industrial ventures based on Islamic banking principles and rulings.

During the past decade, the Philippine banking industry has been marked by two major trends — the liberalisation of the industry, and mergers and consolidation.

Foreign bank entry was liberalised in 1994, enabling foreign banks to invest in up to 60% of the voting stock of an existing bank or a new banking subsidiary, or to establish branches with full banking authority. This led to the establishment of 10 new foreign bank branches in 1995. Republic Act No. 8791 or the General Banking Law of 2000 (the **General Banking Law**) further liberalised the industry by providing that the Monetary Board may authorise foreign banks to acquire up to 100% of the voting stock of one domestic bank. Under the General Banking Law, any foreign bank, which prior to the effectiveness of the said law availed itself of the privilege to acquire up to 60% of the voting stock of a domestic bank, may further acquire voting shares of such bank to the extent necessary for it to own 100% of the voting stock thereof. As at 29 February 2020, there were 18 foreign banks with branches and two foreign banks with subsidiaries in the Philippines, based on BSP's report on the Physical Network of the Philippine Banking System.

THE PHILIPPINE BANKING INDUSTRY

Under RA 10641 and BSP Circular No. 858, Series of 2014 dated 21 November 2014 which amended the relevant provisions of the MORB implementing RA 10641, established, reputable and financially sound foreign banks may be authorised by the Monetary Board to operate in the Philippine banking system through any one of the following modes of entry: (a) by acquiring, purchasing or owning up to 100% of the voting stock of an existing domestic bank (including banks under receivership or liquidation, provided no final court liquidation order has been issued); (b) by investing in up to 100% of the voting stock of a new banking subsidiary incorporated under the laws of the Philippines; or (c) by establishing branches and sub-branches with full banking authority. The foreign bank applicant must also be widely owned and publicly-listed in its country of origin, unless the foreign bank applicant is owned and controlled by the government of its country of origin. Such established subsidiaries and branches of foreign banks shall be allowed to perform the same functions and enjoy the same privileges of, and be subject to the same limitations imposed upon, a Philippine bank of the same category. Privileges shall include the eligibility to operate under a universal banking authority subject to compliance with existing rules and regulations. Notwithstanding the entry of foreign banks, the BSP is mandated to adopt necessary measures to ensure that at all times the control of 60% of the resources or assets of the entire banking system is held by domestic banks, which are majority-owned by Filipinos.

The liberalization of foreign ownership regulations in banks has allowed the emergence of foreign and local banks with foreign ownership in the market. This has led to Sumitomo Mitsui Banking Corporation, Cathay United Bank, Industrial Bank of Korea, Shinhan Bank, Yuanta Commercial Bank, United Overseas Bank, Hua Nan Commercial Bank, Bank of Taiwan, and Land Bank of Taiwan being granted new licenses, and also equity investments by Bank of Tokyo-Mitsubishi UFJ into Security Bank, Cathay Life into Rizal Commercial Banking Corporation and Woori Bank into Wealth Development Bank. As at 29 February 2020, there were 20 offshore lenders operating in the Philippines, with 18 of them operating as foreign bank branches while two are foreign bank subsidiaries.

The BSP has also been encouraging mergers and consolidations in the banking industry, seeing this as a means to create stronger and more globally competitive banking institutions. To encourage this trend, the BSP offered various incentives to merging or consolidating banks. On 11 October 2012, BSP Circular No. 771 was issued in order to grant incentives for investors who purchase a controlling stake in a bank. Accordingly, the coverage of relief incentives for mergers and consolidations now includes the purchase and acquisition of a majority of all of the outstanding shares of stock of a bank. Based on BSP data, since the new package of incentives took effect in September 1998, there have been at least 102 mergers, acquisitions, and consolidations of banks. However, while recent mergers increased market concentrations, BSP studies showed that they were not enough to pose a threat to the overall competition levels since market share remained relatively well dispersed among the remaining players.

Pursuant to the liberalisation, and to the mergers and consolidation trend, the BSP issued BSP Circular No. 902, Series of 2016 dated 15 February 2016 to implement the phased lifting of the moratorium on the grant of new banking license or establishment of new domestic banks. As provided in the Circular, the suspension of the grant of new banking licenses or the establishment of new banks under the Manual is lifted under a two-phased approach. Under Phase 1 of the liberalisation, the grant of new universal/commercial banking license shall be allowed in connection with the upgrading of an existing domestic thrift bank. Under Phase 2, the moratorium on the establishment of new domestic banks shall be fully lifted and locational restrictions shall be fully liberalised starting 1 January 2018.

The following table sets out a comparison, based on publicly available data, of the five largest Philippine private domestic commercial banks in terms of assets, as of 31 December 2019:

Name	Market Capitalization ¹	Total Equity ²	Loans and Receivables - net ²		Customer deposits ²	No. of Branches ³
			Total Assets ²			
(in ₱ millions, except number of branches)						
BDO Unibank, Inc...	692,257	371,729	3,145,158	2,204,522	2,484,958	1,436
Metropolitan Bank & Trust Co	298,179	310,100	2,471,446	1,524,120	1,715,129	957
Bank of the Philippine Islands	396,172	268,704	2,188,626	1,489,870	1,697,300	1,170
Philippine National Bank	52,563	147,100	1,131,467	657,626	825,292	715
China Banking Corporation	67,416	92,793	962,236	584,189	776,405	631

Notes:

- (1) Market Capitalization as of 27 December 2019.
- (2) Financial data taken from each bank's published statements of condition as at 31 December 2019.
- (3) Number of branches was provided by each of the respective banks as at 31 December 2019.

THE PHILIPPINE BANKING INDUSTRY

According to a quarterly Senior Bank Loan Officers' Survey conducted by BSP, local banks implemented stricter credit standards on commercial real estate loans in the first quarter of 2019. The net tightening of overall credit standards for commercial real estate loans was attributed by the banks to stricter oversight of banks' real estate exposure along with banks' reduced tolerance for risk. In particular, banks reported wider loan margins, reduced credit line sizes, stricter collateral requirements and loan covenants, shortened loan maturities, and increased use of interest rate floors.

The BSP issued Circular No. 839 Series of 2014 dated 27 June 2014 which adopts a prudential real estate stress test (**REST**) limit for U/KBs, TBs on a solo and consolidated basis on their aggregate real estate exposures. The REST limit combines macro prudential overlay of a severe stress test scenario, the principle of loss absorbency through minimum capital ratio thresholds and heightened supervisory response.

The prudential REST limits which shall be complied with at all times by universal and commercial banks are 6% of CET1 capital ratio and 10% of risk-based capital adequacy ratio, on a solo and consolidated basis, under the prescribed write-off rate. For thrift banks, the prudential REST limits which shall be complied with at all times are 6% of CET1 capital, for thrift banks that are subsidiaries of universal and commercial banks, 6% of Tier 1 capital, for stand-alone thrift banks, and 10% of risk-based capital adequacy ratio for all thrift banks.

On 20 October 2014, the BSP issued Circular No. 854, Series of 2014, which increased the minimum capital requirement for all bank categories: universal, commercial, thrift, rural, and cooperative banks to strengthen the banking system. Below are the amended minimum capital requirements for banks

Bank Category/Network Size	Existing Minimum Capitalisation (₱)	Reviewed Minimum Capitalisation (₱)
Universal Banks	4.95 billion**	
Head Office only		3.00 billion
Up to 10 branches *		6.00 billion
11 to 100 branches*		15.00 billion
More than 100 branches*		20.00 billion
Commercial Banks	2.40 billion**	
Head Office only		2.00 billion
Up to 10 branches*		4.00 billion
11 to 100 branches*		10.00 billion
More than 100 branches*		15.00 billion
Thrift Banks		
Head Office in:		
Metro Manila	1.00 billion**	
Cebu and Davao cities	500 million**	
Other Areas	250 million**	
Head Office in the National Capital Region (NCR)		
Head Office only		500 million
Up to 10 branches*		750 million
11 to 50 branches*		1.00 billion
More than 50 branches*		2.00 billion
Head Office in All Other Areas Outside NCR		
Head Office only		200 million
Up to 10 branches*		300 million
11 to 50 branches*		400 million
More than 50 branches*		800 million
Rural and Cooperative Banks		
Head Office in:		
Metro Manila	100 million**	
Cebu and Davao cities	50 million**	

THE PHILIPPINE BANKING INDUSTRY

Bank Category/Network Size	Existing Minimum Capitalisation (₱)	Reviewed Minimum Capitalisation (₱)
Other cities	25 million**	
1st to 4th class municipalities	10 million**	
5th to 6th class municipalities	5 million**	
Head Office in NCR		
Head Office only		50 million
Up to 10 branches*		75 million
11 to 50 branches*		100 million
More than 50 branches*		200 million
Head Office in All Other Areas Outside NCR (All Cities up to 3rd Class Municipalities)		20 million
Head Office only		30 million
Up to 10 branches*		40 million
11 to 50 branches*		80 million
More than 50 branches*		
Head Office in All Other Areas Outside NCR (4th to 6th Class Municipalities)		10 million
Head Office only		15 million
Up to 10 branches*		20 million
11 to 50 branches*		40 million
More than 50 branches*		

* Inclusive of Head Office

** With no distinction for network size

The amendment became effective in November 2014.

Restrictions on Branch Opening

Opening of branches by Philippine banks within or outside the Philippines requires BSP's prior approval, subject to certain conditions such as meeting the capital requirements set by the BSP. Upon BSP's approval, these branches may be used by the banks as outlets for the presentation and/or sale of financial products of their allied undertakings or investment house units. For more information, see *"Banking Supervision and Regulation – Regulation Relating to Capital Structure"* and *"Banking Supervision and Regulation – Regulations with Respect to Branches."*

Competition

The Bank faces competition from both domestic and foreign banks, in part, as a result of the liberalization of the banking industry by the Government. Since 1994, a number of foreign banks, which have greater financial resources than the Bank, have been granted licenses to operate in the Philippines. Such foreign banks have generally focused their operations on the larger corporations and selected consumer finance products, such as credit cards. The foreign banks have not only increased competition in the corporate market, but have as a result caused more domestic banks to focus on the commercial middle-market, placing pressure on margins in both markets. On 21 January 2016, the Monetary Board approved the phased lifting of the moratorium on the grant of new banking license or establishment of new domestic banks. The moratorium on the establishment of new domestic banks and locational restrictions was lifted effective 1 January 2018.

Since September 1998, the BSP has been encouraging consolidation among banks in order to strengthen the Philippine banking system. Mergers and consolidation result in greater competition, as a smaller group of "top tier" banks compete for business.

THE PHILIPPINE BANKING INDUSTRY

As at 31 December 2019, the ten largest commercial banks (including unlisted banks such as LBP and DBP) account for approximately 84% of total assets and 84% of total deposits of the Philippine banking system based on published statements of condition.

Certain factors arising from the 1997 Asian crisis and the 2008 global financial crisis also resulted in greater competition and exert downward pressure on margins. Banks instituted more restrictive lending policies as they focused on asset quality and reduction of their NPLs, which resulted in increasing liquidity. As Philippine economic growth further accelerates and banks apply such liquidity in the lending market, greater competition for corporate, commercial and consumer loans is expected. As at 31 December 2019, the ten largest commercial banks (including unlisted banks such as LBP and DBP) account for approximately 84.8% of the net customer loan portfolio of the Philippine banking system, based on published statements of condition.

The Philippine Competition Act was signed into law in 2015 and establishes competition related rules and procedures in the Philippines in relation to merges and acquisitions. See “*Banking Supervision and Regulation – Philippine Competition Act.*”

Banks also compete with traditional and digital enabled remittance businesses and face competition from the emergence of FinTech, including businesses such as an all-digital bank set up by CIMB and ING Direct, mobile payment tools or e-wallet applications such as GCash and PayMaya, and the growing popularity of peer-to-peer lending through digital platforms. As banks venture into micro-finance and other consumer financing products, they may also face competition from other consumer-focused players, including informal lenders.

Certain Government Policies and Regulations in relation to the Philippine Banking System

The Philippine banking industry is highly regulated by the BSP and operates within a framework that includes requirements on capital adequacy, corporate governance, management, anti-money laundering and provisioning for NPLs. The BSP can alter any of these requirements and can introduce new regulations to control any particular line of business. Please see “*Banking Supervision and Regulation*” for a more detailed discussion.

BANKING REGULATION AND SUPERVISION

The following description is a summary of certain sector specific laws and regulations in the Philippines, which are applicable to the Bank. The information detailed in this chapter has been obtained from publications available in the public domain. The regulations set out below may not be exhaustive, and are only intended to provide general information to the investors and are neither designed nor intended to substitute for professional legal advice or a detailed review of the relevant laws and regulations.

Introduction

R.A. No. 7653 (the New Central Bank Act of 1993) (New Central Bank Act) and R.A. No. 8791 (the General Banking Law of 2000) (General Banking Law) and RA No. 11211 (An Act Amending the New Central Bank Act) vest the BSP, which exercises its powers through the Monetary Board, with the authority to regulate and supervise financial intermediaries in the Philippines. Financial intermediaries include banks or banking institutions such as universal banks, commercial banks, thrift banks (composed of savings and mortgage banks, stock savings and loan associations, and private development banks), rural banks, co-operative banks as well as branches and agencies of foreign banks in the Philippines. Entities performing quasi-banking functions, trust companies, building and loan associations, non-stock savings and loan associations and other non-deposit accepting entities, while not considered banking institutions, are also subject to regulation by the Monetary Board.

The supervisory power of the BSP under the New Central Bank Act extends to the subsidiaries and affiliates of banks and quasi-banking institutions engaged in allied activities. A subsidiary is defined as a corporation with more than 50% of its voting stock owned by a bank or quasi-bank. An affiliate is defined as a corporation whose voting stock, to the extent of 50% or less is owned by a bank or quasi-bank or which is related or linked to such institution or intermediary through common stockholders or such other factors as determined by the Monetary Board. In this regard, the Manual defines an affiliate as an entity linked directly or indirectly to a bank by means of: (a) ownership, control (as defined under the relevant portion of the Manual), or power to vote, of at least twenty percent (20%) of the outstanding voting stock of the entity, or vice-versa; (b) interlocking directorship or officership, where the concerned director or officer owns, controls (as defined under the relevant portion of the Manual), or has the power to vote of at least twenty percent (20%) of the outstanding voting stock of the entity; (c) common stockholders owning at least ten percent (10%) of the outstanding voting stock of the bank and at least twenty percent (20%) of the outstanding voting stock of the entity; (d) management contract or any arrangement granting power to the bank to direct or cause the direction of management and policies of the entity; and (e) permanent proxy or voting trusts in favor of the bank constituting at least twenty percent (20%) of the outstanding voting stock of the entity, or vice-versa.

In the exercise of its power of supervision under the General Banking Law, the BSP may issue rules of conduct or standards of operation for uniform application, conduct examination to determine compliance with laws and regulations, oversee compliance with such rules and regulations and inquire into the solvency and liquidity of the covered entities. Section 7 of the General Banking Law provides that the BSP in examining a bank shall have the authority to examine an enterprise which is owned or majority-owned or controlled by a bank. Section 28 of the New Central Bank Act provides that there shall be an interval of at least twelve (12) months between regular examinations. A vote of at least five members of the Monetary Board may authorise a special examination.

As a general rule, no restraining order or injunction may be issued by a court to enjoin the BSP from exercising its powers to examine any institution subject to its supervision. The BSP may compel any officer, owner, agent, manager or officer-in-charge of an institution subject to its supervision or examination to present books, documents, papers or records necessary in its judgment to ascertain the facts relative to the true condition of the institution as well as the books and records of persons and entities relative to or in connection with the operations, activities or transactions of the institution under examination, to the extent permitted by law. The refusal of any officer, owner, agent, manager, director or officer-in-charge of an institution subject to the supervision or examination of the BSP to make a report or permit an examination is criminally punishable under Section 34 of the New Central Bank Act. In addition to the general laws such as the General Banking Law and Republic Act No. 9160 or the Anti-Money Laundering Act (the AMLA), as amended, among others, banks must likewise comply with letters, circulars and memoranda issued by the BSP some of which are contained in the BSP's Manual of Regulations of Banks (the MORB).

The MORB is the principal source of BSP rules and regulations to be complied with and observed by banks in the Philippines. The MORB contains regulations that include those relating to the organisation, management and

BANKING REGULATION AND SUPERVISION

administration, deposit and borrowing operations, loans, investments and special financing program, and trust and other fiduciary functions of the relevant bank. Supplementing the MORB are rules and regulations promulgated in various circulars, memoranda, circular letters and other directives issued by the Monetary Board of the BSP.

The MORB and other regulations are principally implemented by the Financial Supervision Sector of the BSP (FSS). The FSS is responsible for ensuring the observance of applicable laws and rules and regulations by banking institutions operating in the Philippines (including Government credit institutions, their subsidiaries and affiliates, non-bank financial intermediaries, and subsidiaries and affiliates of non-bank financial institutions performing quasi-banking functions, non-bank financial intermediaries performing trust and other fiduciary activities under the General Banking Law, non-stock and savings loans associations under R.A. No. 3779 or the Savings and Loan Association Act, and pawnshops under P.D. No. 114 or the Pawnshop Regulation Act).

Permitted Activities

A universal bank, such as the Bank, in addition to the general powers incidental to corporations, has the authority to exercise (i) the powers of a regular commercial bank, (ii) the powers of an investment house and (iii) the power to invest in non-allied enterprises. In addition, a universal bank may own up to 100% of the equity in a thrift bank, a rural bank or a financial allied enterprise. A publicly listed universal or commercial bank may own up to 100% of the voting stock of only one other universal or commercial bank. A universal bank may also own up to 100% of the equity in a non-financial allied enterprise.

In addition to those functions specifically authorised by the General Banking Law and the Manual, banking institutions in general (other than building and loan associations) are allowed to (i) receive in custody funds, documents and valuable objects, (ii) rent out safety deposit boxes, (iii) act as financial agents and buy and sell, by order of and for the account of their customers, shares, evidences of indebtedness and all types of securities, (iv) make collections and payments for the account of others and perform such other services for their customers as are not incompatible with banking business and (v) upon prior approval of the Monetary Board, act as managing agent, adviser, consultant or administrator of investment management/advisory/consultancy accounts. Financial intermediaries are also allowed to a certain extent to invest in allied (both financial and non-financial) or non-allied undertakings (applicable only to universal banks), or both.

Financial allied undertakings include leasing companies, banks, investment houses, financing companies, credit card companies, and financial institutions catering to small- and medium-scale industries, including venture capital companies, companies engaged in stock brokerage/securities dealership and companies engaged in foreign exchange dealership/brokerage.

The total equity investments of a universal bank in all enterprises, whether allied or non-allied, are not permitted to exceed 50.0% of its net worth. Its equity investment in any one enterprise, whether allied or non-allied, is not permitted to exceed 25.0% of the net worth of the bank. Net worth is defined as the total unimpaired paid-in capital including paid-in surplus, retained earnings and undivided profit, net of valuation reserves and other adjustments as may be required by the BSP.

Regulation relating to capital structure

Pursuant to the General Banking Law, no entity may operate as a bank without the permit of the BSP through the Monetary Board. The SEC will not register the incorporation documents of any bank or any amendments thereto without a Certificate of Authority issued by the Monetary Board.

A bank can only issue par value stocks and it must comply with the minimum capital requirements prescribed by the Monetary Board. A bank cannot purchase or acquire its own capital stock or accept the same as security for a loan, except when authorised by the Monetary Board. Any stock so purchased or acquired must be sold within six months from the time of its purchase or acquisition.

On 20 October 2014, the Monetary Board decided to increase the minimum capital requirement for all bank categories including universal, commercial, thrift, rural and cooperative banks. This is in line with the BSP's efforts of further strengthening the banking system. Under this regulation, the minimum capital for universal and commercial banks will be tiered based on network size as indicated by the number of branches. In accordance with BSP Circular No. 854, universal banks are required to have capital accounts of at least ₱3 billion for head office only, ₱6 billion for

BANKING REGULATION AND SUPERVISION

head office with up to 10 branches (inclusive of head office), ₱15 billion for head office with 11 to 100 branches (inclusive of head office), and ₱20 billion for head office with more than 100 branches (inclusive of head office). Commercial banks are required to have capital accounts of at least ₱2 billion for head office only, ₱4 billion for head office with up to 10 branches (inclusive of head office), ₱10 billion for head office with 11 to 100 branches (inclusive of head office), and ₱15 billion for head office with more than 100 branches (inclusive of head office). Thrift banks with head office in Metro Manila are required to have capital accounts of at least ₱500 million for head office only, ₱750 million for head office with up to 10 branches (inclusive of head office), ₱1 billion for head office with 11 to 50 branches (inclusive of head office), and ₱2 billion for head office with more than 50 branches (inclusive of head office). Banks that existed prior to 19 November 2014, which will not immediately meet the new minimum capital requirement, may avail themselves of a five-year transition period in order to fully comply with the minimum capitalisation requirements. The same period, reckoned from the same date, is also given to banks granted with special banking authorities/licenses which require compliance with minimum capital requirements. Such banks will be required to submit an acceptable capital build-up program. Banks that fail to comply with the minimum capital requirements or fail to propose an acceptable capital build-up program face curtailment of future expansion plans. These minimum levels of capitalisation may be changed by the Monetary Board from time-to-time.

For purposes of these requirements, the BSP issued BSP Circular No. 1027 (on 20 December 2018), which states that the term capital shall be synonymous to unimpaired capital and surplus, combined capital accounts and net worth and shall refer to the total of the unimpaired paid-in capital, surplus and undivided profits, less:

- Treasury Stock;
- Unbooked allowance for probable losses (including allowance for credit losses and impairment losses) and other capital adjustments as may be required by the BSP;
- Total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI granted by the bank;
- Total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries;
- Total outstanding unsecured loans, other credit accommodations and guarantees granted to related parties as defined under Subsection X141.1 of the MORB, that are not at arm's length terms as determined by the appropriate supervising department of the BSP;
- Deferred tax assets that rely on future profitability of the bank to be realised net of any (a) allowance for impairment and (b) associated deferred tax liability, if the conditions cited in PAS 12 on income taxes are met; *provided*, that if the resulting figure is a net deferred tax liability, such excess cannot be added to net worth;
- Reciprocal investment in equity of other banks or enterprises, whether foreign or domestic, if the other bank or enterprise has a reciprocal equity investment in the investing bank, the deduction shall be the (a) investment of the bank or (b) the reciprocal investment of the other bank or enterprises, whichever is lower, and
- In the case of rural/cooperative banks, the government counterpart equity, except those arising from conversion of arrearages under the BSP rehabilitation program.

According to BSP Circular No. 1027 dated 28 December 2018, deposits for stock subscription recognised as equity pursuant to Section X128 of the Manual shall be added to capital.

On 15 July 2014, R.A. No. 10641 further liberalised the industry by providing that the Monetary Board may authorise foreign banks to acquire up to 100% (previously 60%) of the voting stock of one domestic bank. Under RA 10641, established, reputable and financially sound foreign banks may be authorised by the Monetary Board to operate in the Philippine banking system through any one of the following modes of entry: (a) by acquiring, purchasing or owning up to 100% of the voting stock of an existing bank; (b) by investing in up to 100% of the voting stock of a new banking subsidiary incorporated under the laws of the Philippines; or (c) by establishing branches with full banking authority. The foreign bank applicant must be established, reputable and financially sound. Additionally, such foreign bank must be widely owned and publicly-listed in its country of origin, unless the foreign bank applicant is owned and controlled by the government of its country of origin. A foreign bank branch authorised to do banking business

BANKING REGULATION AND SUPERVISION

in the Philippines under RA 10641 may open up to five sub-branches as may be approved by the Monetary Board. Locally incorporated subsidiaries of foreign banks authorised to do banking business in the Philippines under RA 10641 shall have the same branching privileges as domestic banks of the same category. Privileges shall include the eligibility to operate under a universal banking authority subject to compliance with existing rules and regulations. Notwithstanding the entry of foreign banks, the BSP is mandated to adopt necessary measures to ensure that at all times the control of 60% of the resources or assets of the entire banking system is held by domestic banks, which are majority-owned by Filipinos.

Under RA 10641, the Monetary Board was authorised to issue such rules and regulations as may be needed to implement the provisions of RA 10641. On 6 November 2014, the Monetary Board issued Resolution No. 1794 providing for the implementing rules and regulations of RA 10641 and on 21 November 2014, the BSP issued BSP Circular No. 858, amending the relevant provisions of the MORB, accordingly. On 15 February 2016, BSP issued BSP Circular No. 902, Series of 2016 to implement the phased lifting of the moratorium on the grant of new banking license or establishment of new domestic banks pursuant to its policy to promote a competitive banking environment.

The individuals related to each other within the fourth degree of consanguinity or affinity, whether legitimate, illegitimate or common-law, shall be considered family groups or related interests and must be fully disclosed in all transactions by such an individual with the bank. Moreover, two or more corporations owned or controlled by the same family group or same group of persons shall be considered related interests, which must be fully disclosed in all transactions with the bank.

A bank cannot declare dividends greater than its accumulated net profits on hand deducting therefrom its losses and bad debts. A bank cannot also declare dividends, unless at the time of declaration, it has complied with the following:

- Clearing account with BSP is not overdrawn;
- Liquidity floor requirement for government funds;
- Minimum capitalisation requirement and risk-based capital ratios as provided under applicable and existing capital adequacy framework;
- the CCB requirement as defined in Appendix 59, Part III of the MORB for universal and commercial banks and their subsidiary banks and quasi-banks;
- Higher loss absorbency requirement, phased-in starting 1 January 2017 with full implementation by 1 January 2019, in accordance with the D-SIB Framework as provided under Section 128 of the MORB for universal and commercial banks, and their subsidiary banks and quasi-banks; or
- Has not committed any unsafe or unsound banking practice as defined under existing regulations and/or major acts or omissions as may be determined by BSP to be grounds for suspension of dividend distribution, unless this has been addressed by the bank as confirmed by the Monetary Board or the Deputy Governor of the appropriate section, as may be applicable, upon recommendation of the appropriate supervising department of the, BSP.

Banks are required to ensure compliance with the minimum capital requirements and risk-based capital ratios even after the dividend distribution.

Regulations with respect to branches

Section 20 of the General Banking Law provides that universal and commercial banks may open branches within or outside the Philippines upon prior approval of the BSP. The same provision of law allows banks, with prior approval from the Monetary Board, to use any or all of their branches as outlets for the presentation and/or sale of financial products of their allied undertakings or investment house units. In line with this, BSP Circular No. 854 Series of 2014 provides various minimum capitalisation requirements for branches of banks, depending on the number of branches (e.g., ranging from a minimum of ₱6 billion for up to 10 branches of universal banks to a maximum of ₱20 billion for more than 100 branches of universal banks). BSP Circular No. 847, Series of 2014 requires a ₱20,000,000.00 special licensing fee for the relocation of head offices, branches/other banking offices (**OBOs**) and approved but unopened branches/ OBOs of universal and commercial banks to the restricted areas of Makati, Mandaluyong,

BANKING REGULATION AND SUPERVISION

Manila, Paranaque, Pasay, Pasig, Quezon City and San Juan. BSP Circular No. 624, Series of 2008 likewise provides the pre-qualification requirements for the grant of authority to establish a branch as well as the period within which a branch must be opened after obtaining the necessary approval.

Subject to compliance with the requirements provided in BSP Circular No. 624, issued on 13 October 2008, which provides for BSP's branching policy and guidelines, the Bank may apply to the BSP for the establishment of branches outside its principal or head office. Generally, only universal/commercial and thrift banks may establish branches on a nationwide basis. Pursuant to BSP Circular No. 759, issued on 30 May 2012, which liberalised the policy on the establishment of branches by removing the limit set on the number of branches allowed to be applied for by a bank, once approved, a branch should be opened within three years from the date of approval. Pursuant to BSP Circular No. 505, issued on 22 December 2005, banks are allowed to establish branches in the Philippines, except in the cities of Makati, Mandaluyong, Manila, Paranaque, Pasay, Pasig and Quezon and the municipality of San Juan, Metro Manila. However, this branching restriction was liberalised pursuant to BSP Circular No. 728, issued on 23 June 2011. Phase 1 of the liberalisation allowed private domestically incorporated universal and commercial banks and thrift banks with limited branch networks in the eight cities or "restricted areas" in Metro Manila until 30 June 2014 to apply for and establish branches in said restricted areas. In Phase 2, branching in the "restricted" areas was opened to all banks except rural banks and cooperative banks. However, branches of microfinance-oriented banks and microfinance-oriented branches of regular banks' branches that will cater primarily to the credit needs of Barangay Micro Business Enterprises duly registered under the Barangay micro business enterprises Act of 2002 (Republic Act No. 9178) may be established anywhere upon the fulfillment of certain conditions. BSP Circular No. 759 further liberalised its policy on the establishment of branches by removing the limit set on the number of branches allowed to be applied for by a bank.

In BSP Circular No. 987, Series of 2017, the BSP approved the guidelines on the establishment of branch-lite units amending relevant provisions of the Manual. A branch-lite unit refers to any permanent office or place of business of a bank, other than its head office or a branch which performs limited banking activities and records its transactions in the books of the head office or the branch to which it is annexed.

Regulations with respect to management of banks

The board of directors of a bank must have at least five and a maximum of 15 members. According to Republic Act No. 11232 or the Revised Corporation Code (the Revised Corporation Code), the board of banks and quasi-banks must have independent directors comprising at least 20% of such board. The Revised Corporation Code also requires a compliance officer. Material contracts of a corporation vested with public interest with (1) one or more of its directors, trustees, officers or their spouses and relatives within the fourth civil degree of consanguinity or affinity must also be approved by at least 2/3 of the members of the board, with at least majority of the independent directors approving the same, in addition to common requirements for similar contracts for other companies pursuant to Section 31 of the Revised Corporation Code. Under the Manual, at least one-third but not less than two members of the board of directors of universal and commercial banks shall be independent directors. Further, SEC Memorandum Circular No. 24, Series of 2019, on the Code of Corporate Governance for Publicly-Listed Companies requires the board of directors of publicly-listed companies, such as the Bank, to have a Board composed of a majority of non-executive directors and at least two independent directors, or such number as to constitute at least one-third of the members of the Board, whichever is higher. In case of merged or consolidated banks, the number of directors shall not exceed 21. An independent director is a person who independent of management and the controlling shareholder and is free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director.

Foreigners are allowed to have board seats to the extent of the foreign equity in the bank.

The Monetary Board shall issue regulations that provide for the qualifications and disqualifications to become a director or officer of a bank. After due notice to the board of directors of a bank, the Monetary Board may disqualify, suspend or remove any bank director or officer who commits or omits act which renders him or her unfit for the position.

Monetary Board may regulate the payment by the bank of compensation, allowances, bonus, fees, stock options and fringe benefits to the bank officers and directors only in exceptional cases such as when a bank is under conservatorship, or is found by the Monetary Board to be conducting business in an unsafe or unsound manner or when the Monetary Board deems it to be in unsatisfactory condition.

Except in cases allowed under the Rural Bank Act, no appointive or elective public official, whether full time or part time, may serve as officer of any private bank, except if the service is incidental to financial assistance provided by government or government owned and controlled corporation or when allowed by law.

On 22 August 2017, the BSP issued BSP Circular No. 971, prescribing the Guidelines on Risk Governance for *Bangko Sentral* Supervised Financial Institutions (BSFIs), and requiring the appointment of a Chief Risk Officer (**CRO**) in universal and commercial banks to head the risk management function. In addition to overseeing the risk management function, the CRO shall also support the board of directors in the development of the risk appetite of the BSFI and for translating the risk appetite into a risk limits structure. The appointment, dismissal and other changes to the CRO requires the prior approval of the board of directors.

On the same date, the BSP also issued BSP Circular No. 972, prescribing the Enhanced Guidelines in Strengthening Compliance Frameworks for BSFIs, and requiring the appointment of a Chief Compliance Officer (**CCO**). The CCO is tasked to oversee the identification and management of the BSFI's compliance risk and shall supervise the compliance function staff. Additionally, the board of directors should ensure that a compliance program is defined for the BSFI and that compliance issues are resolved expeditiously. For this purpose, a board-level committee, chaired by a non-executive director, shall oversee the compliance program.

On 4 January 2018, BSP Circular No. 989 was issued providing the Guidelines on the Conduct of Stress Testing Exercises. Stress testing is a tool to evaluate the potential effects of specified changes in risk factors on a bank's financial position under a severe but plausible scenario to assist the board and management in decision making. The Board of Directors must consider the results in capital and liquidity planning and setting risk appetite, among others. Banks have a period of two years from effectivity date to gradually change their stress testing practices until it is in compliance with the circular's requirements.

Regulations with respect to bank operations

A universal bank, such as the Bank, may open branches or offices within or outside the Philippine subject to the prior approval by the BSP. A bank and its branches and offices shall be treated as one unit. A bank, with prior approval of BSP, may likewise use any of its branches as outlets for presentation and/sale of financial products of its allied undertakings or investment house units.

The Monetary Board shall prescribe the minimum ratio which the net worth of a bank must bear to its total risk assets which may include contingent accounts. In connection thereto, the Monetary Board may require that the ratio be determined on the basis of the net worth and risk assets of a bank, its subsidiaries, financial or otherwise and prescribe the composition and the manner of determining the net worth and total risk assets of bank and their subsidiaries. To ensure compliance with the set minimum ratio, the Monetary Board may limit or prohibit the distribution of net profits by such bank and require that such net profit be used to increase the capital accounts of the bank until the minimum requirement has been met. It may also restrict or prohibit acquisition of major assets and the making of new investments by the bank.

A universal bank has the authority to i) perform activities allowed for commercial banks; ii) exercise powers of an investment house; and iii) invest in non-allied enterprise.

Capital adequacy requirements

The Philippines adopted capital requirements based on the Basel Capital Accord in July 2001.

On 1 July 2007, the BSP issued BSP Circular No. 538, which is the implementing guideline of the revised International Convergence of Capital Measurement and Capital Standards known as Basel II.

In December 2010, a new update to the Basel Accords, known as Basel III, was issued by the BCBS containing new standards that modify the structure of regulatory capital. The Basel III regulations include tighter definitions of Tier 1 capital and Tier 2 capital, the introduction of a leverage ratio, changes in the risk weighting of counterparty credit risk, a framework for counter-cyclical capital buffers, and short and medium-term quantitative liquidity ratios. To align with the international standards, the BSP adopted part of the Basel Committee's eligibility criteria to determine

BANKING REGULATION AND SUPERVISION

eligibility of capital instruments to be issued by Philippine banks and quasi-banks as Hybrid Tier 1 capital and Tier 2 with the issuance of BSP Circular No. 709 effective January 1, 2011, as amended by BSP Circular No. 716.

In January 2012, the BSP announced that the country's universal and commercial banks, including their subsidiary banks and quasi-banks, will be required to adopt in full the capital adequacy standards under Basel III with effect from 1 January 2014. It aims to replace Basel II, to further strengthen the local bank's loss absorption capacity and encourage banks to rely more on core capital instruments like CET 1 and Tier 1 issues.

This thus allowed local banks one full year for a parallel run of the old and new guidelines prior to the effectiveness of the new standards in 2014, marking an accelerated implementation compared to the Basel Committee's staggered timeline that stretches from January 2013 to January 2017. On 15 January 2013, the BSP issued the implementing guidelines for the adoption on 1 January 2014 of the revised capital standards under the Basel III accord for universal and commercial banks.

The guidelines set new regulatory ratios for banks to meet specific minimum thresholds for CET1 capital and Tier 1 capital in addition to the capital adequacy ratio. The BSP maintained the minimum capital adequacy ratio at 10.0% and set a minimum CET1 ratio of 6.0% and a minimum Tier 1 capital ratio of 7.5%. The new guidelines also introduced a CCB of 2.5% which shall be made up of CET1 capital.

In addition, banks which issued capital instruments from 2011 will be allowed to count these instruments as Basel III-eligible until end-2015. However, capital instruments that are not eligible in any of the three components of capital were derecognized from the determination of the regulatory capital on 1 January 2014.

On 29 October 2014, the Monetary Board approved the guidelines for the implementation of higher capital requirements on D-SIBs by the BSP under Basel III. Banks deemed as D-SIBs by the BSP are required to maintain capital surcharges to enhance their loss absorbency and thus mitigate any adverse side effects both to the banking system and to the economy should any of the D-SIBs fail. The assessment started in 2014 with the BSP informing banks confidentially of their D-SIB status in 2015. To determine the banks' systemic importance, the BSP will assess and assign weights using the indicator-based measurement approach based on the following: size, interconnectedness, substitutability, and complexity. Depending on how they score against these indicators and the buckets to which the scores correspond, the D-SIBs will have varying levels of additional loss absorbency requirements ranging from 1.0% to 2.5%. Aside from the added capital pressure, D-SIBs may be put at an undue disadvantage compared to G-SIBs (or Global Systemically Important Banks) given that this framework was patterned for regional/global banks and thus may not be appropriate for local banks. The phased-in compliance started on 1 January 2017 and have become fully effective on 1 January 2019.

On 12 February 2016, the Monetary Board approved the guidelines on the submission of a recovery plan by D-SIBs which shall form part of the D-SIBs' ICAAP submitted to the BSP every 31st of March of each year. The recovery plan identifies the course of action that a D-SIB should undertake to restore its viability in cases of significant deterioration of its financial condition in different scenarios. At the latest, the recovery plan shall be activated when the D-SIB breaches the total required CET1 capital, the higher loss absorbency (**HLA**) capital requirement and/or the minimum liquidity ratios as may be prescribed by the BSP. As a preemptive measure, the recovery plan should use early warning indicators with specific levels (i.e., quantitative indicators supplemented by qualitative indicators) that will activate the recovery plan even before the above-said breaches happen. This preparatory mechanism, including the operational procedures, monitoring, escalation and approval process should be clearly defined in the recovery plan. The ICAAP document which includes the first recovery plan was submitted on 30 June 2016 and will be re submitted on the 31st of March of each year.

In addition, Basel III capital rules for banks include setting up a CCyB wherein banks may be required by the relevant regulator to build up the required level of capital during boom times and draw down on the buffer in the event of an adverse turn in the cycle or during periods of stress, thus helping to absorb losses. The CCyB will require banks to hold additional common equity or other fully loss absorbing capital in amounts ranging from 0% to 2.5% of the risk-weighted assets. On 6 December 2018, the BSP issued the guidelines on CCyB. BSP Circular No. 1024 imposes a CCB of 2.5% and a CCyB of 0% subject to upwards adjustment to a rate determined by the Monetary Board when systemic conditions warrant but not to exceed 2.5%. Any increase in the CCyB rate shall be effective 12 months after its announcement, while decreases shall be effective immediately. The circular further provides that the HLA requirement shall be on top of the combined requirement for CCB and CCyB. Under the Bank for International Settlements (**BIS**), the CCyB became fully effective on 1 January 2019.

BANKING REGULATION AND SUPERVISION

In May 2015, the BSP approved the guidelines for the implementation of Basel III leverage ratio (computed as banks' Tier 1 capital divided by its total on-book and off-book exposure). On 9 June 2015, the BSP issued BSP Circular No. 881 on the implementing guidelines and accordingly, amending the relevant provisions of the guidelines. Under the guidelines, universal and commercial banks are required to maintain a minimum leverage ratio of 5%, which is more stringent than the 3% minimum leverage ratio under Basel III by 1 January 2017 (which compliance period was extended to 1 January 2018 based on BSP Circular No. 943 issued in 2017). The guidelines also provide for a monitoring period up to the end of 2016 during which banks are required to submit periodic reports; however, sanctions will not be imposed on banks whose leverage ratios fall below the required 5% minimum during the period.

However, sanctions were not imposed on banks whose leverage ratios fell below the required 5% minimum during the period. The leverage ratio serves as a backstop measure to the risk-based capital requirements. While this has no material impact given that Philippine banks' ratios are above the required minimum, the leverage ratio along with other pending components of Basel III point to an increasing regulatory burden on banks. On 26 January 2017, the BSP issued BSP Circular No. 943 which approved the one-year extension of the Basel III Leverage Ratio monitoring period from 31 December 2016 to 31 December 2017, and set new deadlines for the submission of the reporting and disclosure requirements. During the monitoring period, the BSP will continue to assess the calibration and treatment of the components of the leverage ratio. The leverage ratio serves as a backstop measure to the risk-based capital requirements. While this has no material impact given that Philippine banks' ratios are above the required minimum, the leverage ratio along with other pending components of Basel III point to increasing regulatory burden on banks. On 22 January 2018, the BSP issued BSP Circular No. 990 which approved the extension of the Basel III Leverage Ratio monitoring period from 31 December 2017 to 30 June 2018, and set new deadlines for the submission of the reporting and disclosure requirements. The monitoring of the leverage ratio shall be implemented as a Pillar 1 minimum requirement effective on 1 July 2018.

Reserve requirements

Under the New Central Bank Act, the BSP requires banks to maintain cash reserves and liquid assets in proportion to deposits in prescribed ratios. If a bank fails to meet this reserve during a particular week on an average basis, it must pay a penalty to BSP on the amount of any deficiency.

Under BSP Circular 732 issued on 3 August 2011, as further amended by BSP Circular 753 issued on 29 March 2012, BSP Circular 830 issued on 3 April 2014, BSP Circular 832 issued on 27 May 2014, BSP Circular 997 issued on 15 February 2018, BSP Circular 1004 issued on 24 May 2018, BSP Circular 1041 issued on 29 May 2019, BSP Circular 1054 issued 11 October 2019 and BSP Circular 1063 issued on 3 December 2019, universal and commercial banks are required to maintain regular reserves of: (a) 14% against demand deposits, savings deposit, time deposit and deposit substitutes, Peso deposits lodged under due to foreign banks, Peso deposits lodged under due to head office/branches/agencies abroad (Philippine branch of a foreign bank); (b) 14% against negotiable order of withdrawal accounts; (c) 0% against deposit substitutes evidenced by repurchase agreements; (d) 4% against long-term negotiable certificates of time deposits; and (e) 3% against bonds.

Under BSP Circular No. 1082 (2020), universal and commercial banks are required to maintain regular reserves of: 12% against demand deposits, savings deposit, time deposit and deposit substitutes, Peso deposits lodged under due to foreign banks, Peso deposits lodged under due to head office/branches/agencies abroad (Philippine branch of a foreign bank); and (b) 12% against negotiable order of withdrawal accounts effective 3 April 2020.

Liquidity Requirements

Local banks face new liquidity requirements, namely, the LCR and the NSFR, under Basel III. The LCR requires banks to hold sufficient level of HQLAs to enable them to withstand a 30 day-liquidity stress scenario. Meanwhile, the NSFR requires that banks' assets and activities are structurally funded with long-term and more stable funding sources. While both ratios are intended to strengthen banks' ability to absorb shocks and minimize negative spillovers to the real economy, compliance with these ratios may also further increase competition among banks for deposits as well as HQLAs.

In March 2016, the Monetary Board approved the LCR framework with an observation period from 1 July 2016 until the end of 2017, during which banks are required to commence reporting their LCR to the BSP. Starting 1 January 2018, the LCR threshold that banks will be required to meet will be 90%, which has increased to 100% commencing on 1 January 2019. On 8 February 2018, the BSP issued BSP Circular No. 996 which amended the LCR framework

and extended its coverage to subsidiaries of universal and commercial banks and quasi-banks on both solo (head office and branches/other offices) and consolidated (parent bank and subsidiary financial allied undertakings) bases.

On 15 March 2019, BSP issued BSP Circular No. 1035 which introduced certain amendments to the Basel III LCR Framework and Minimum Liquidity Ratio Framework, including the (i) extension of the observation period of the minimum Basel III LCR requirement to 31 December 2019 for subsidiary banks and quasi-banks of universal and commercial banks, (ii) adoption of the 70% LCR floor for subsidiary banks and quasi-banks during the observation period, and (iii) amendment of the formula for minimum liquidity ratio. The subsidiary banks and quasi-banks of universal and commercial banks are required to comply with the minimum LCR of 100% starting 1 January 2020.

On 6 June 2018, the BSP issued BSP Circular No. 1007 which sets out the guidelines on the adoption of the Basel III Framework on Liquidity Standards – NSFR. The guidelines require that covered entities maintain an NSFR of at least 100% at all times. The framework applies to all universal and commercial banks, their subsidiary banks, and quasi-banks. The Circular provides for an observation period until 31 December 2019, during which NSFR Reports must be submitted and should a covered entity be unable to meet the minimum NSFR for a period of two consecutive weeks, it must immediately adopt a board-approved stable funding build-up plan. On 15 March 2019, the Monetary Board approved the extension of the observation period for the NSFR of the subsidiary banks and quasi banks of universal and commercial banks until 31 December 2019, moving the effectivity dates of said ratios to 1 January 2010. During the extended observation period, subsidiary banks and quasi-banks of universal and commercial banks are required to comply with a 70% LCR and NSFR, which shall increase to 100% on 1 January 2020. The Monetary Board also approved enhancements to the LRC and minimum liquidity ratio guidelines, including netting of cash inflows and outflows to and from the same derivative counterparty for the LCR framework, and counting interbank placements as eligible liquid assets and adjusting qualifying liabilities through conversion factors to retail current and regular savings deposits worth ₱500,000 and below and certain liability accounts. The internationally agreed start date for the phase-in of liquidity requirements is 1 January 2015.

Credit risk management

In October 2014, the BSP issued BSP Circular No. 855 which provides for new guidelines on sound credit risk management practices. BSP Circular No. 855 mandates banks to establish appropriate credit risk strategy and policies, processes and procedures including cash flow-based credit evaluation process, tighter provisioning guidelines. These are seen to increase costs as banks may have to upgrade their risk management systems and provisioning requirements.

Additionally, BSP Circular No. 855 sets the collateral value (CV) for a loan backed up by real estate to only 60% of its appraised value. Banks will still be allowed to lend more than 60% of the CV; however, the portion above 60% will be considered unsecured, thus requiring banks to set up loan loss provisions accordingly. The CV ruling should not be mistaken for the loanable value, which is the loan amount extended by banks to its borrowers. The current industry practice is a LTV ratio of 70%-80%, which some banks may continue to grant provided that they have strict and consistent lending standards, adequate capital buffer and provisions. This new ruling, along with other BSP regulations intended to avert a property bubble, could result in an overall slowdown in lending to the real estate sector as banks adjust to these rulings.

To better monitor the banking industry's exposure to the property sector, the BSP in September 2012 approved the guidelines that effectively widened the scope of banks' real estate exposures to include mortgages and loans extended to the following: individuals to finance the acquisition/construction of residential real estate for own occupancy as well as land developers and construction companies for the development of socialised and low-cost housing. Securities investments issued for purposes of financing real estate activities are also included under the new guidelines. Banks were required to submit the expanded report starting end-December 2012.

Further on 27 June 2014, the BSP issued BSP Circular No. 839 requiring banks to undergo real estate stress tests while setting prudential limits for banks' real estate exposures to ensure that they have adequate capital to absorb potential losses to the property sector. Universal and commercial banks as well as thrift banks must meet a capital adequacy ratio of 10% of qualifying capital after adjusting for the stress test results. Further, universal and commercial banks and their thrift bank subsidiaries are required to maintain a level of CET1 capital that is at least 6% of qualifying capital after factoring in the stress scenario. In addition, banks are mandated to submit quarterly report of their real estate exposures, in line with the new real estate stress test capital requirements.

BANKING REGULATION AND SUPERVISION

On 10 October 2017, the BSP issued BSP Circular No. 976 which approved amendments to the expanded report on the real estate exposure of banks, and required the submission of a report on project finance exposures to enable the BSP to gather more granular information regarding these exposures. It also clarified the definition of loans to finance infrastructure projects for public use that are currently exempt from the 20% limit on real estate loans.

On 23 November 2017, the BSP issued BSP Circular No. 983 that prescribes the reduction in the reserve requirement rate on repurchase transactions, as well as sets forth the features of the repurchase program that shall be eligible for the zero reserve rate requirement. Deposit substitutes evidenced by repurchase agreements covering government securities that are transacted in an organised market under the Government Securities Repo Program shall be subject to the reserve requirement of 0% beginning the first week of December 2017.

Limitations on operations

The Single Borrower's Limit

Except as prescribed by Monetary Board for reasons of national interest, the total amount of loan, credit accommodations and guarantees (determined on the total credit commitment) that may be extended by a bank to any person or entity shall at no time exceed 20.0% of the net worth of the bank (or 30.0% of the net worth of the bank in the event that certain types and levels of security are provided). This ceiling may be adjusted by the Monetary Board from time to time. As of 31 December 2011, the ceiling applicable to the Bank was 25.0% (or 35.0% of the net worth of the bank in the event that certain types and levels of security are provided). The ceiling may be increased by the following percentages: (a) an additional 10% of the net worth of the bank as long as the additional liabilities are secured by shipping documents, trust or warehouse receipts or other similar documents which cover marketable, non-perishable goods which must be fully covered by insurance, (b) an additional 25% of the net worth of the bank provided that: (i) the additional loans, credit accommodations and guarantees are used to finance the infrastructure and/or development projects under the Public- Private Partnership Program of the government duly certified by the Secretary of Socio-Economic Planning; (ii) these additional liabilities should not exceed 25% of the net worth of the bank; and (iii) the additional 25% shall only be allowed for a period of six years from 6 December 2010; and (c) an additional 15% of the net worth of the bank provided that the additional loans, credit accommodations and guarantees are used to finance oil importation of oil companies which are not subsidiaries or affiliates of the lending bank which is also engaged in energy and power generation. To encourage BSFIs to engage in agricultural chain financing, the total amount of loans, credit accommodations and guarantees may also be increased by an additional 25.0% granted to entities, which act as value chain aggregators of the lending banks' clients, and/or economically-linked entities that are also actors/players in the value chain, which shall only be for a period of three years from 14 March 2016, subject to review after said period.

The limitations shall not apply to (a) loans and other credit accommodations secured by obligations of the BSP or of the Government; (b) loans and other credit accommodations fully guaranteed by the Government as to the payment of principal and interest; (c) loans and other credit accommodations secured by U.S. Treasury Notes and other securities issued by central governments and central banks of foreign countries with the highest credit quality given by any two internationally accepted rating agencies; (d) loans and other credit accommodations to the extent covered by the hold-out on or assignment of, deposits maintained in the lending bank and held in the Philippines; (e) loans, credit accommodations and acceptances under letters of credit to the extent covered by margin deposits; and (f) other loans or credit accommodations which the Monetary Board may from time to time specify as non-risk items. On 5 July 2017, the BSP issued BSP Circular No. 965, approving the guidelines on the exclusion from the SBL of banks and quasi-banks' short-term exposures to clearing and settlement banks arising from payment transactions.

On 30 April 2018, the BSP issued BSP Circular No. 1001 which provided for a separate individual limit of 25.0% of the net worth of the lending bank for the loans, credit accommodations and guarantees granted by a bank to an entity for the purpose of project finance. The applicability of the separate individual limit shall be subject to the following conditions: (a) the unsecured portion shall not exceed 12.5% of the net worth of the lending bank when the project is already operational; (b) such project finance loans are for the purpose of undertaking initiatives that are in line with the priority programs and projects of the government; (c) the lending bank shall ensure that the standard prudential controls in project finance loans designed to safeguard creditors' interests are in place, which may include pledge of a borrower's shares, assignment of the borrower's assets, assignment of all revenues and cash waterfall accounts, and assignment of project document; (d) the lending bank shall consider its total project finance exposures in complying with the guidelines in managing large exposures and credit risk concentrations; (e) the subsidiary or affiliate is not a related interest of any of the director, officer, and/or stockholder of the lending bank; and (f) the total outstanding

BANKING REGULATION AND SUPERVISION

loans, other credit accommodations and guarantees to all subsidiaries and affiliates shall be subject to the aggregate limits for related party transactions.

On 10 February 2020, the BSP issued Circular No. 1073 which extended the transitory period on single borrower's limit of foreign bank branches. Existing foreign branches shall be given until 31 December 2020 to use twice the level of capital as net worth, as reference point for purposes of determining the appropriate SBL.

Limitation on DOSRI Transactions

No director or officer of any bank shall directly or indirectly, for himself or as the representative or agent of others, borrow from such bank nor shall he become a guarantor, endorser or surety for loans from such bank to others, or in the manner be an obligor or incur any contractual liability to the bank except with the written approval of the majority of all the directors of the bank, excluding the director concerned.

After due notice to the board of directors of the bank, the office of any officer or director who violates the DOSRI limitation may be declared vacant and such erring officer or director shall be subject to the penal provisions of the New Central Bank Act. The DOSRI account shall be limited to an amount equivalent to their respective unencumbered deposits and book value of their paid-in capital contribution in the bank. The limitation excludes loans, credit accommodations and guarantees secured by assets which the Monetary Board considers as non-risk.

On 2 June 2016, the Monetary Board approved the revisions to prudential policy on loans, other credit accommodations, and guarantees granted to DOSRIs. The Monetary Board approved the exclusion of loans, other credit accommodation and guarantees granted by a bank to its DOSRI for the purpose of project finance from the 30% unsecured individual ceiling during the project gestation phase, provided, that the bank shall ensure that standard prudential controls in project finance loans designed to safeguard creditors' interests are in place, which may include pledge of the borrower's shares, assignment of the borrower's assets, assignment of all revenues and cash waterfall accounts, and assignment of project documents.

On 23 June 2016, the BSP issued BSP Circular No. 914, Series of 2016 amending the prudential policy on loans, other credit accommodations, and guarantees granted to DOSRI, subsidiaries and affiliates. BSP Circular No. 914 has raised the ceilings on the exposures of subsidiaries and affiliates of banks to priority programs particularly infrastructure projects under the Philippine Development Plan / Public Investment Program (PDP/PIP) needed to support economic growth. The exposures to subsidiaries and affiliates in PDP/PIP projects will now be subject to higher individual and unsecured limits of 25% instead of 10% and 12.5% instead of 5% of the net worth of the lending bank, respectively, subject to conditions. Further, the circular also provides for a refined definition of "related interest" and "affiliates" to maintain the prudential requirements and preempt potential abuse in a borrowing transaction between the related entities. The circular also amends the capital treatment of exposures to affiliates by weighing the risk of both the secured and unsecured loans granted to the latter.

Limitations on Loans and Credit Accommodations

As a general rule, loan and other credit accommodation against real estate shall not exceed 60% of the appraised value of the real estate security plus 60% of the appraised value of the insured improvements, and such loans may be made to the owner of the real estate or to his assignees, except for the following which shall be allowed a maximum value of 70% of the appraised value of the insured improvements: (a) residential loans not exceeding ₱3.5 million to finance the acquisition or improvement of residential units; and (b) housing loans extended by or guaranteed under the Government's "National Shelter Programme", such as the Expanded Housing Loans Programme of the Home Development Mutual Fund and the mortgage and guaranty and credit insurance program of the Home Insurance and Guaranty Corporation. Prior to lending on an unsecured basis, a bank must investigate the borrower's financial position and ability to service the debt and must obtain certain documentation from the borrower, such as financial statements and tax returns. Any unsecured lending should be only for a time period essential for completion of the operations to be financed. Likewise, loans against chattels and intangible properties shall not exceed 75% of the appraised value of the security and such loans may be made to the title-holder of the unencumbered chattels and intangible properties or his assignee.

On 4 February 2008, the BSP issued Circular No. 600 removing interbank loans from the total loan base to be used in computing the aggregate limit on real estate loans and amending the inclusions and exclusions to be observed in the computation.

On 10 October 2017, the BSP issued Circular No. 976 which approved amendments to the expanded report on the real estate exposure of banks and required the submission of a report on project finance exposures to enable the BSP to gather more granular information regarding these exposures. It also clarified the definition of loans to finance infrastructure projects for public use that are currently exempt from the 20% limit on real estate loans.

On 27 October 2017, the BSP issued BSP Circular No. 978 which provided for exclusion of the portion of loans and other credit accommodation covered by guarantees of international/regional institutions/multilateral financial institutions where the Philippine Government is a member/shareholder, from the ceilings on total outstanding loans, other credit accommodations and guarantees granted to banks' subsidiaries and affiliates. BSP Circular No. 978 excluded the following in determining compliance with the ceilings provided under BSP Circular No. 914: (1) Loans, other credit accommodations and guarantees secured by assets considered as non-risk under existing BSP regulations; (2) IBCLs; and (3) The portion of loans and other credit accommodations covered by guarantees of international/regional institutions/multilateral financial institutions where the Government is a member/shareholder, such as the International Finance Corporation and the Asian Development Bank.

Banking Regulation and Supervision

Limitation on Investments

The total investment of a universal bank in equities of allied and non-allied enterprises shall not exceed 50% of its net worth. Moreover, the equity investment in any one enterprise whether allied or non-allied, shall not exceed 25% of the net worth of the universal bank. Net worth for this purpose is defined as the total unimpaired paid-in capital including paid-in surplus, retained earnings and undivided profit, net of valuation reserves and other adjustments as may be required by BSP. The Monetary Board must approve such acquisition of equities. Further, the BSP may impose conditions on the any approval of a major investment and has the authority to seek corrective action.

A universal bank can own up to 100% of the equity in a thrift bank, a rural bank or a financial or non-financial allied enterprise. A publicly listed universal bank, such as the Bank, may own up to 100% of the voting stock of only one other universal or commercial bank. However, with respect to non-allied enterprise, the equity investment in such enterprise by a universal bank shall not exceed 35% of the total equity in the enterprise nor shall it exceed 35% of the voting stock in that enterprise.

A bank's total investment in real estate and improvements including bank equipment shall not exceed 50% of the combined capital accounts. Further, the bank's investment in another corporation engaged primarily in real estate shall be considered as part of the bank's total investment in real estate, unless otherwise provided by the Monetary Board.

The limitation stated above shall not apply with respect to real estate acquired by way of satisfaction of claims. However, all these properties must be disposed by the bank within a period of five years or as may be prescribed by the Monetary Board.

Prohibition to act as Insurer

A bank is prohibited from directly engaging in insurance business as the insurer.

Permitted Services

In addition to the operations incidental to its banking functions, a bank may perform the following services:

- Receive in custody funds, documents and valuable objects;
- Act as financial agent and buy and sell, by order of and for the account of their customers, shares evidences of indebtedness and all types of securities;
- Make collections and payments for the account of others and perform such other services for their customers as are not incompatible with banking business;

BANKING REGULATION AND SUPERVISION

- Upon prior approval of the Monetary Board, act as the managing agent, adviser, consultant or administrator of investment management/advisory/consultancy accounts; and
- Rent out safety deposit boxes.

BSP Circular No. 1003, issued on 16 May 2018, outlined the Guidelines on the Establishment and Operations of Bank and Non-Bank Credit Card Issuers to implement Republic Act No. 10870, also known as the Philippine Credit Card Industry Regulations Law.

The Framework for Basic Deposit Accounts, found in BSP Circular No. 992 dated 1 February 2018, was issued, with a view towards promoting account ownership among the unbanked by imposing no minimum maintaining balance and an opening amount of not more than ₱100.00. It also supports the National Retail Payments System, which aims to promote resort to digital payments in the country. On 5 October 2018, BSP issued Memorandum No. M2018-27, prescribing the guidelines on the electronic submission of the updated reports arising from Circular No. 992.

Anti-Money Laundering Act of 2001

The AMLA, as amended, requires covered institutions such as banks including its subsidiaries and affiliates, to provide for customer identification, record keeping and reporting of covered and suspicious transactions.

On 15 February 2013, Republic Act No. 10365, which took effect on 7 March 2013, expanded the Anti-Money Laundering Act covered institutions and crimes. Additions to the enumeration of covered persons include jewelry selling agents for transactions in excess of ₱1 million; company service providers, or those who form companies for third parties, hold positions as directors or corporate secretaries for third parties, provide business addresses or engage in correspondence or act as nominee shareholder for others. Likewise, the following persons were added to the list: persons (a) who manage their client's money, security or other assets, or (b) who manage bank or securities accounts, or (c) who organise funds for the creation, operation or management of companies, or (d) who create, operate or manage entities or relationships, or (e) buy and sell business entities. The 2016 Revised Implementing Rules and Regulations of the AMLA was approved by the AMLC on 21 December 2016. On 15 March 2017, the BSP issued BSP Circular No. 950 to amend the Manual in order to effectively implement the provisions of the AMLA, as amended, and the revised implementing rules and regulations of the AMLA, as amended. In July 2017, RA No. 10927 further expanded the coverage of AMLA to include casinos for a single casino cash transaction involving an amount in excess of ₱5 million or its equivalent in any other currency.

Covered transactions are single transactions in cash or other equivalent monetary instrument involving a total amount in excess of ₱500,000.00 within one Banking Day, and for covered persons under Section 3(a)(8), a single casino transaction involving an amount in excess of ₱5 million or its equivalent in any other currency.

Suspicious transactions are transactions with covered institutions such as a bank, regardless of the amount involved, where any of the following circumstances exists:

- There is no underlying legal or trade obligation, purpose or economic justification;
- The customer or client is not properly identified;
- The amount involved is not commensurate with the business or financial capacity of the client;
- The transaction is structured to avoid being the subject of reporting requirements under the AMLA;
- There is a deviation from the client's profile or past transaction;
- The transaction is related to an unlawful activity or offence under the AMLA;
- Similar or analogous transactions to the above.

Failure by any responsible official or employee of a bank to maintain and safely store all records of all transactions of the bank, including closed accounts, for five years from date of transaction/closure of account shall be subject to a penalty of six months to one year imprisonment and/or fine of ₱500,000.00

Malicious reporting of completely unwarranted or false information relative to money laundering transaction against any person is punishable by six months to four years imprisonment and a fine of not less than ₱100,000.00 and not more than ₱500,000.00.

In compliance with the law, banks, their officers and employees are prohibited from communicating directly or indirectly to any person or entity, the media, the fact that a covered or suspicious transaction has been reported or is about to be reported, the contents of the report, or any information relating to such report. Neither may such report be published or aired in any manner or form by the mass media, electronic mail, or other similar devices. A violation of this rule is deemed a criminal act.

Money laundering is committed by any person who, knowing that any monetary instrument or property represents, involves, or relates to the proceeds of any unlawful activity:

- a. transacts said monetary instrument or property;
 - b. converts, transfers, disposes of, moves, acquires, possesses or uses said monetary instrument or property;
 - c. conceals or disguises the true nature, source, location, disposition, movement or ownership of or rights with respect to said monetary instrument or property;
 - d. attempts or conspires to commit money laundering offenses referred to in paragraphs (a), (b) or (c);
 - e. aids, abets, assists in or counsels the commission of the money laundering offenses referred to in paragraphs (a), (b) or (c) above; and
 - f. performs or fails to perform any act as a result of which the person facilitates the offense of money laundering referred to in paragraphs (a), (b) or (c) above; and
- (a) knowingly fails to disclose and file with AMLC any monetary instrument or property required to be disclosed and filed.

Under AMLA, banks, as covered persons, are required to report to the AMLC all covered transactions and suspicious transactions within a period of five working days from occurrence thereof, unless the AMLC prescribes a different period not exceeding 15 working days. The Court of Appeals of the Philippines (Court of Appeals), upon verified ex-parte application by the AMLC and after determination that probable cause exists that any monetary instrument or property is in any way related to an unlawful activity as defined in the AMLA, has the authority to issue a freeze order which shall be effective immediately, and which shall not exceed six months depending upon the circumstances of the case. However, if no case is filed against a person whose account has been frozen within the period determined by the Court of Appeals (but not exceeding six months), the freeze order shall be deemed automatically lifted, provided, that a freeze order is without prejudice to an asset preservation order which the relevant trial court may issue upon the same assets. Further, a freeze order or asset preservation order shall be limited only to the amount of cash or monetary instrument or value of property which the court finds probable cause to consider such property as proceeds of the predicate crime.

BSP Circular No. 495 issued on 20 September 2005, as amended by BSP Circular No. 527 issued on 28 April 2006, required all universal and commercial banks to adopt an electronic money laundering transaction monitoring system by 14 October 2007. The said system should, at the minimum, be able to detect and raise to the bank's attention, transactions and/or accounts that qualify either as "covered transactions" or "suspicious transactions" as defined under AMLA.

BSP Memorandum No. M2012-017 issued on 4 April 2012, as affirmed by BSP Circular No. 950 issued on 15 March 2017 likewise requires all covered banking institutions to comply with the anti-money laundering risk rating system (ARRS), a supervisory system that aims to ensure that mechanisms to prevent money laundering and terrorist funding are in place and effectively implemented in banking institutions. Under the ARRS, each institution is rated based on the following factors: (a) efficient board of directors and senior management oversight; (b) sound anti-money laundering policies and procedures embodied in a money laundering and terrorist financing prevention program duly approved by the board of directors; (c) robust internal controls and audit; and (d) effective implementation. BSP

BANKING REGULATION AND SUPERVISION

Circular No. 950, further provides for specific requirements on having a risk-based approach to customer identification by covered institutions, an ongoing monitoring of customers, accounts, and transactions, and a policy of non-discrimination against certain types of customers.

Institutions that are subject to AMLA are also required to establish and record the identities of their clients based on official documents. In addition, all records of transactions are required to be maintained and stored for a minimum of five years from the date of a transaction, unless a case has been filed involving the account, then the records must be retained and safely kept beyond the five year period until it is officially confirmed by the AMCL Secretariat that the case has been resolved, decided or terminated with finality. Records of closed accounts must also be kept for five years after their closure.

On 20 April 2018, the AMLC issued AMLC Letter No. AMLET-18-03, providing for Operational Guidelines in the Conduct of the 2018 Third Round Mutual Evaluation of the Philippines (Guidelines). The Guidelines aim to (a) create an inter-agency Mutual Evaluation Working Group and sub-working groups; (b) enumerate the functions and obligations of the member-agencies with respect to the Mutual Evaluation process; (c) outline the Mutual Evaluation process and provide guidance as to the different components of the process; (d) provide timelines for the Mutual Evaluation process and Mutual Evaluation-related activities; (e) enumerate effects of a “non-compliant” or “poor” Mutual Evaluation; and (f) lay down the framework towards the adoption of a national anti-money laundering/counter-financing of terrorism (AML/CFT) Strategy. The Guidelines are addressed to all participating government agencies and other entities.

The Mutual Evaluation is a government-wide concern as what will be assessed is the compliance of the Philippines with the Financial Action Task Force Forty Recommendations and the effectiveness of its AML/CFT regime. The entire Mutual Evaluation process spans two (2) years, and will require the support and active participation of various government agencies, including supervisory authorities, law enforcement agencies, and public and private stakeholders. The Philippines will be evaluated by a pool of experts from Financial Intelligence Units from other member-jurisdictions of the Asia-Pacific Group on Money Laundering (APG), pursuant to the APG’s membership rules.

On 22 November 2018, the AMLC approved the 2018 Implementing Rules and Regulations of the AMLA prescribing, among others, the guidelines on identifying and recording beneficial ownership. In relation thereto, on 14 January 2019, BSP issued Circular Letter No. CL-2019-002, addressed to all BSFIs of the guidelines issued by the AMLC on digitisation of customer records and identification of beneficial owners.

Moreover, the Implementing Rules and Regulations of the Anti-Money Laundering Act of 2001 requires compliance officers which will oversee the Anti-Money Laundering Program. This is also reflected in the amendments to the Revised Corporation Code mandating banks to elect a compliance officer.

Revised Corporation Code

The Revised Corporation Code was signed into law on 20 February 2019 and became effective on 8 March 2019. Among the salient features of the Revised Corporation Code are:

- Corporations are granted perpetual existence, unless the articles of incorporation provide otherwise. Perpetual existence shall also benefit corporations whose certificates of incorporation were issued before the effectivity of the Code, unless a corporation, upon a vote of majority of the stockholders of the outstanding capital stock notifies the Securities and Exchange Commission (Commission) that it elects to retain its specific corporate term under its current Articles of Incorporation.
- A corporation vested with public interest must submit to its shareholders and to the Commission an annual report of the total compensation of each of its directors or trustees, and a director or trustee appraisal or performance report and the standards or criteria used to assess each director, or trustee.
- Banks, quasi-banks, pawnshops, non-stock savings and loan associations (NSSLAs), and corporations engaged in money service business, preneed trust and insurance companies, and other financial required, must have at least twenty percent (20%) independent directors in the Board, in accordance with the Securities and Regulation Code. This requirement also applies to other corporations engaged in businesses imbued with public interest, as may be determined by the Commission.

- The Code allows the creation of a “One Person Corporation”. However, it expressly prohibits banks and quasi-banks, preneed, trust, insurance, public and publicly-listed companies, among others, from being incorporated as such. This restriction also applies with respect incorporations as Close Corporation.
- Material contracts between the Corporation and its own directors, trustees, officers, or their spouses and relatives within the fourth civil degree of consanguinity or affinity must be approved by at least two-thirds (2/3) of the entire membership of the Board, with at least a majority of the independent directors voting to approve the same.
- The right of stockholders to vote in the election of directors or trustees, or in shareholders meetings, may now be done through remote communication or in absentia if authorized by the corporate by-laws. However, as to corporations vested with public interest, these votes are deemed available, even if not expressly stated in the corporate by-laws. The shareholders who participate through remote communication or in absentia are deemed present for purposes of quorum. When attendance, participation and voting are allowed by remote communication or in absentia, the notice of meetings to the stockholders must state the requirements and procedures to be followed when a stockholder or member elects either option.
- As to amendments made to the by-laws of any bank, banking institution, building and loan association, trust company, insurance company, public utility, and other corporations governed by special laws, the Code requires that a prior certificate of the appropriate government agency to the effect that such bylaws or amendments are in accordance with law, must be submitted.
- A favorable recommendation by the appropriate government agency is likewise required for banks or banking institutions, building and loan associations, trust companies, insurance companies, public utilities, and other corporations governed by special laws, before the Commission approves any merger or consolidation; or any voluntary dissolution.
- In case of transfer of shares of listed companies, the Commission may require that these corporations whose securities are traded in trading markets and which can reasonably demonstrate their capability to do so, to issue their securities or shares of stock in uncertificated or scripless form in accordance with the Rules of the Commission.

The Revised Corporation Code refers to the Philippine Competition Act in case of covered transactions under said law involving the sale, lease, exchange, mortgage, pledge, or disposition of properties or assets; increase or decrease in the capital stock, incurring creating or increasing bonded indebtedness; or mergers or consolidations covered by the Philippine Competition Act thresholds.

The Philippine Competition Act

RA No. 10667, or the Philippine Competition Act (PCA) was signed into law on 21 July 2015 and took effect on 8 August 2015. This is the first anti-trust statute in the Philippines and it provides the competition framework in the Philippines. The PCA was enacted to enhance economic efficiency and promote free and fair competition in trade, industry and all commercial economic activities. To implement its objectives, the PCA provides for the creation of a Philippine Competition Commission (the PCC), an independent quasi-judicial agency with five commissioners. Among its powers are to: conduct investigations, issue subpoenas, conduct administrative proceedings, and impose administrative fines and penalties. To conduct a search and seizure, however, the PCC must still apply for a warrant with the relevant court.

The PCA prohibits and imposes sanctions on: (a) anti-competitive agreements between or among competitors, (b) mergers and acquisitions which have the object or effect of substantially preventing, restricting or lessening competition, and (c) practices which are regarded as abuse of dominant position, by engaging in conduct that would substantially prevent, restrict or lessen competition, such as selling goods or services below cost to drive out competition, imposing barriers to entry or prevent competitors from growing, and setting prices or terms that discriminate unreasonably between customers or sellers or the same goods, subject to certain exceptions.

On 3 June 2016, the PCC issued the implementing rules and regulations of the PCA (IRR). Under the IRR, as a general rule, parties to a merger or acquisition are required to provide notification when: (a) the aggregate annual gross revenues in, into or from the Philippines, or value of the assets in the Philippines of the ultimate parent entity

BANKING REGULATION AND SUPERVISION

of the acquiring or the acquired entities exceed ₱1 billion; and (b) the value of the transaction exceeds ₱1 billion, as determined in the IRR; while parties to a joint venture transaction shall be subject to the notification requirement if either (a) the aggregate value of the assets that will be combined in the Philippines or contributed into the proposed joint venture exceeds ₱1 billion, or (b) the gross revenues generated in the Philippines by assets to be combined in the Philippines or contributed into the proposed joint venture exceed ₱1 billion.

On 10 March 2018, the PCC issued Memorandum Circular No. 1-001 (MC No. 18-001) to amend Section 3, Rule 4 of the IRR to increase the initial thresholds. Under MC No. 18-001, parties to a merger or acquisition are required to provide notification when: (a) the aggregate annual gross revenues in, into or from the Philippines, or value of the assets in the Philippines of the ultimate parent entity of at least one of the acquiring or acquired entities, including that of all entities that the ultimate parent entity controls, directly or indirectly, exceed ₱5 billion; and (b) the value of the transaction exceeds ₱2 billion, as determined in the IRR; while parties to a joint venture transaction shall be subject to the notification requirement if either (a) the aggregate value of the assets will be combined in the Philippines or contributed into the proposed joint venture exceeds ₱2 billion; or (b) the gross revenues generated in the Philippines by assets to be combined in the Philippines or contributed into the proposed joint venture exceed ₱2 billion. As provided in MC No. 18-001, the thresholds shall be automatically adjusted commencing on 1 March 2019 and on March 1st of every succeeding year, using as index the Philippine Statistics Authority's official estimate of the nominal gross domestic product growth of the previous calendar year rounded up to the nearest hundred million. The revised thresholds, however, shall not apply to mergers or acquisitions pending review by the PCC; notifiable transactions consummated before the effectivity of the memorandum circular; and transactions already subject of a decision by the PCC.

On 11 February 2020, the PCC issued PCC Commission Resolution No. 02-2020 which further adjusted the merger notification thresholds. Effective 21 March 2020, parties to a merger or acquisition shall be required to provide notification when: (a) the size of party exceeds ₱ 6 billion and (b) the size of transaction, as determined under Rule 4, Section 3(b) of the IRR, exceeds ₱ 2.4 billion.

PCC Advisory 2019-001 further adjusted the thresholds such that effective 1 March 2019, parties to a merger or acquisition are required to provide notification when: (a) the aggregate annual gross revenues in, into or from the Philippines, or value of the assets in the Philippines of the ultimate parent entity of at least one of the acquiring or acquired entities, including that of all entities that the ultimate parent entity controls, directly or indirectly, exceed ₱5.6 billion; and (b) the value of the transaction exceeds ₱2.2 billion, as determined in the IRR; while parties to a joint venture transaction shall be subject to the notification requirement if either (a) the aggregate value of the assets will be combined in the Philippines or contributed into the proposed joint venture exceeds ₱2.2 billion; or (b) the gross revenues generated in the Philippines by assets to be combined in the Philippines or contributed into the proposed joint venture exceed ₱2.2 billion.

Violations of the PCA and the IRR have severe consequences. Under the PCA and the IRR, a transaction that meets the thresholds and does not comply with the notification requirements and waiting periods shall be considered void and will subject the parties to an administrative fine of one percent (1%) to five percent (5%) of the value of the transaction. Criminal penalties for entities that enter into anti-competitive agreements, as defined, include: (a) a fine of not less than ₱50 million but not more than ₱250 million; and (b) imprisonment for two to seven years for directors and management personnel who knowingly and willfully participate in such criminal offenses. Administrative fines of ₱100 million to ₱250 million may be imposed on entities found violating prohibitions against anti-competitive agreements and abuse of dominant position. Treble damages may be imposed by the PCC or the courts, as the case may be, where the violation involves the trade or movement of basic necessities and prime commodities.

On 15 September 2017, the PCC published the 2017 Rules of Procedure (Rules of Procedure) which apply to investigations, hearings, and proceedings of the PCC, except to matters involving mergers and acquisitions unless otherwise provided. It prescribes procedures for fact-finding or preliminary inquiry and full administrative investigations by the PCC. The Rules of Procedure also include non-adversarial remedies such as the issuance of binding rulings, show cause orders, and consent orders.

On 23 November 2017, the PCC published the 2017 Rules on Merger Procedures (the Merger Rules) which provides the procedure for the review or investigation of mergers and acquisition pursuant to the IRR. The Merger Rules provides, among others, that parties to a merger that meets the thresholds in Section 3 of Rule 4 of the IRR are required to notify the PCC within thirty (30) days from the signing of definitive agreements relating to the notifiable merger.

BANKING REGULATION AND SUPERVISION

On 28 May 2019, the PCC approved the Expedited Merger Rules which apply when: (1) there are no actual or potential horizontal or vertical (including complementary) relationship in the Philippines between the acquiring entity and the acquired entity and the entities it controls; (2) the merger is a global transaction where the acquiring and acquired entities identified in the definitive agreement are foreign entities (**foreign parents**), and their subsidiaries in the Philippines act merely as manufacturers or assemblers of products with at least 95% of such products exported to the foreign parents, subsidiaries, affiliates or third parties located outside the Philippines; Provided, That the remaining 5% product sales in a market in the Philippines is minimal in relation to the entirety of such Philippine product market; (3) the candidate relevant geographic market of the merger is global and the acquiring and acquired entities have negligible or limited presence in the Philippines; and (4) joint ventures, whether incorporated or not, formed purely for the construction and development of a residential and/or commercial real estate development project.

Electronic Banking Operations

The BSP has prescribed prudential guidelines in the conduct of electronic banking, which refers to systems that enable bank customers to avail themselves of a bank's products and services through a personal computer (using direct modem dial-in, internet access, or both) or a telephone. Applicant banks must prove that they have in place a risk management process that is adequate to assess, control, and monitor any risks arising from the proposed electronic banking activities.

Under BSP Circular No. 542, dated 1 September 2006, the BSP released the new guidelines on the protection of electronic banking customers. These guidelines set specific requirements in the following areas: (a) oversight by a bank's board of directors, and other concerned officers over its electronic banking activities; (b) the development of a risk management policy and internal controls over its electronic banking activities; (c) the implementation of a consumer awareness program for the customers of banks; (d) development of policy on disclosures and transparencies, and the availability of electronic banking service; and (e) the development of complaint resolution procedure for unauthorised transactions in electronic banking. Private domestic banks with a BSP-approved electronic banking facility may accept payment of fees and other charges of a similar nature for the account of the departments, bureaus, offices and agencies of the government as well as all government-owned and controlled corporations. The funds accepted shall be treated as deposit liabilities subject to existing regulations on government deposits and shall not exceed the minimum working balance of such government entities.

BSP Circular No. 808, dated 22 August 2013, required BSP-supervised institutions to migrate their entire payment network to the more secure Europay, MasterCard and Visa (EMV) chip-enabled cards. In 2014, BSP Circular No. 859 set out the EMV Implementation Guidelines which shall govern the implementation for debit cards in any card-accepting devices/terminals. The deadline set for compliance with the migration to the EMV was initially set for 1 January 2017. However, pursuant to BSP Memorandum No. M-2017-019 issued on 9 June 2017, BSFIs are required to fully comply with the EMV requirement by 30 June 2018. Failure to do so is considered a serious offense and will subject these institutions to monetary sanctions provided under relevant provision of the Manual.

On 22 February 2019, the BSP issued BSP Circular No. 1033 introducing certain amendments to the regulations on electronic banking services and other electronic operations, particularly electronic payment and financial services (EPFS). EPFS are products and services that enable customers to receive payments or initiate financial transactions and other related services through an electronic device. BSP Circular No. 1033 requires the prior approval of the BSP to offer EPFS and certain reportorial requirements must be submitted to the BSP.

Data Privacy Act

RA No. 10173, otherwise known as the Data Privacy Act of 2012 (Data Privacy Act), was signed into law on 15 August 2012, to govern the processing of all types of personal information (i.e., personal, sensitive, and privileged information) in the hands of the government or private natural or juridical person through the use of Information and Communications System (ICT), which refers to a system for generating, sending, receiving, storing or otherwise processing electronic data messages or electronic documents and includes the computer system or other similar device by or which data is recorded, transmitted or stored and any procedure related to the recording, transmission or storage of electronic data, electronic message, or electronic document. While the law expressly provides that it does not apply to certain types of information, including those necessary for banks and other financial institutions under the jurisdiction of BSP to comply with the AMLA and other applicable laws, the said law applies to all other personal information obtained by banks for other purposes. It mandated the creation of a National Privacy Commission, which

BANKING REGULATION AND SUPERVISION

shall administer and implement the provisions of the Data Privacy Act and ensure compliance of the Philippines with international standards set for data protection. The Philippines recognises the need to protect the fundamental human right of privacy and of communication, while ensuring free flow of information to promote innovation and growth. It also identifies the vital role of information and communications technology in nation building and its inherent obligation to ensure that personal information in ICT in the government and in the private sector are secured and protected.

The Data Privacy Act seeks to protect the confidentiality of “personal information”, which is defined as “any information, whether recorded in material form or not, from which the identity of an individual is apparent or can be reasonably and directly ascertained by the entity holding the information, or when put together with other information would directly and certainly identify an individual.” The law provides for certain rights of a data subject or an individual whose personal information is being processed. The law imposes certain obligations on “personal information controllers” and “personal information processors”. It also provides for penal and monetary sanctions for violations of its provisions.

Related Party Transactions

BSP Circular No. 895, dated 14 December 2015, announced the approval of guidelines strengthening oversight and control standards for managing related party transactions of banks and their non-bank financial subsidiaries and affiliates. The guidelines highlight that while transactions between and among the entities within the same group create financial, commercial, and economic benefits, higher standards should be applied to protect the interests of all stakeholders. It is emphasized that related party transactions are generally allowed for as long as these are done on an arm’s length basis referring to the process involved in handling the transaction as well as the economic terms of the transaction.

Under the guidelines, the board, as an oversight body, shall have overall responsibility in ensuring that transactions with related parties are handled in a sound and prudent manner, with integrity and in compliance with applicable laws and regulations. The board is expected to approve an overarching policy on the handling of related party transactions that should cover the scope of its related party transactions policy, guidelines in ensuring arm’s length terms, management of conflicts of interest, materiality thresholds and limits, whistle blowing mechanisms, and restitution of losses and other remedies for irregular related party transactions. Further, banks that are part of conglomerates are required to create a related party transactions committee responsible for the continuing identification and review of existing relations between and among businesses and counterparties, and for ensuring that related party transactions are processed in the regular course of business, and are priced fairly. The guidelines now explicitly require that the annual reports adequately disclose relevant information on the governance of related party transactions and specific details of exposures to related parties.

BSP Circular No. 969, dated 22 August 2017, further codified the BSP’s thrust to strengthen oversight over related party transactions by enhancing corporate governance guidelines which includes improvement of the duties and responsibilities of the related party transactions committee of BSP supervised financial institutions.

On 25 April 2019, the Philippine SEC issued Memorandum Circular No. 10, series of 2019 (Rules on Material Related Party Transactions for Publicly Listed Companies), mandating additional disclosure/reportorial requirements for material related party transactions (MRPTs) amounting to 10% or higher of a publicly listed company’s total assets. The circular requires all publicly listed companies to submit to the Philippine SEC a policy on MRPTs. Advisement Reports on MRPTs shall also be filed with the SEC in accordance with the circular within three calendar days after the execution of a covered transaction. Finally, a summary of MRPTs entered into by the company during the reporting year shall be disclosed in the company’s Integrated Annual Corporate Governance Report (I-ACGR) submitted annually every May 30.

Recent Regulations

On 20 January 2017, BSP issued Circular No. 940, Series of 2017 which provides for guidelines on deposit and cash servicing outside of bank premises. The circular prohibits the outsourcing of inherent bank functions such as: (a) taking of deposits from the public; (b) granting of loans and extension of other credit exposures; (c) managing of risk exposures; and (d) general management. Subject to approval by the Deputy Governor and SES, a bank may solicit and accept deposits outside of its premises through its employees. This includes deposit pick-up/delivery services with the use of vehicles accompanied by an authorized bank teller or of an authorized mobile bank teller or solicitor

BANKING REGULATION AND SUPERVISION

provided the bank has no major supervisory concerns on its safety and that it shall observe prudent security measures and shall obtain appropriate insurance coverage. Furthermore, a bank may accredit third party service provider/s, which may be authorized by customers to pick-up cash/checks for deposit and/or deliver proceeds from cash withdrawal and/or cash exchange provided the bank shall exercise due diligence to assure that prudent security measures are observed by the service provider and that customer risk of loss shall be covered by insurance. The board of directors shall adopt clearly-defined written policies, procedures and controls for cash/check pick-up/cash delivery services, including, but not limited to, the criteria for determining to whom the service will be made available, and the terms and conditions for such services.

On 20 January 2017, BSP issued Circular No. 941, Series of 2017 which amended the regulations on past due and non-performing loans. Under this Circular, a cure period on a credit product-specific basis not exceeding thirty (30) days may be given by banks to allow their obligors or borrowers to catch up on their late payment without being considered past due: Provided, any cure period policy shall be based on verifiable collection experience and reasonable judgment that support tolerance of occasional payment delays: Provided further, That the observance of a cure period policy shall not preclude the timely adverse classification of an account that has developed material credit weakness/es, and that the bank shall regularly review the reasonableness of its cure period policy.

On 26 January 2017, the BSP issued BSP Circular No. 943, Series of 2017, which provided for the Extension of Basel III Leverage Ratio Monitoring Period from 31 December 2016 to 31 December 2017.

On 6 February 2017, the BSP issued BSP Circular No. 944, Series of 2017, which provided for the Guidelines for Virtual Currency (VC) Exchanges. The said circular provides that the BSP shall regulate VCs when used for delivery of financial services, particularly, for payments and remittances, which have material impact on anti-money laundering (AML) and combating the financing of terrorism (CFT), consumer protection and financial stability. It requires a VC exchange to obtain a Certificate of Registration (COR) to operate as a remittance and transfer company and adhere to established registration procedures. Depending on the complexity of VC operations and business models adopted, a VC exchange shall put in place adequate risk management and security control mechanisms to address, manage and mitigate technology risks associated with VCs. Moreover, all VC exchanges shall maintain an internal control system commensurate to the nature, size and complexity of their respective businesses. A VC exchange is also required to comply with the established notification and reporting requirements.

On 17 February 2017, BSP issued BSP Circular No. 946, Series of 2017 which provided the Amendments to Liquidity Floor and Foreign Currency Deposit Unit (FCDU) Regulations. The said Circular provides that authorized private banks and government depository banks other than the BSP shall, inclusive of the required reserves against deposits and/or deposit substitutes, maintain a 50% liquidity floor with respect to deposits of, borrowings from, and all other liabilities to, the Government and government entities until 31 December 2017, in the form of transferable government securities. Effective 1 January 2018, liquidity floor reserve requirement shall be as follows:

	Required liquidity floor
UBs/ KBs	0% Government deposits and government deposit substitutes shall continue to be subject to the reserve requirements provided under Section X253.
TBs/ RBs and Coop Banks	50% Inclusive of the required reserves against deposits and/or deposit substitutes.

Taxation for Banks

Banks are subject to regular corporate income tax, based on their taxable income at a tax rate of 30%

Taxable net income refers to items of income specified under Section 32 (A) of the Tax Code (the National Internal Revenue Code of 1997, as amended by Republic Act No. 10963), less the items of allowable deductions under Section 34 of the Tax Code or those allowed under special laws.

A minimum corporate income tax equivalent to 2% of the gross income of a bank is payable beginning on the fourth year of operations of the bank only if the minimum corporate income tax is greater than the regular corporate income tax. Any excess minimum corporate income tax paid over the regular corporate income tax can be carried forward as tax credit for the three immediately succeeding years. For purposes of minimum corporate income tax, the bank's gross income means: (a) gross receipts less sales returns, allowances, discounts and cost of services, including interest expense; and (b) income derived from other businesses except income exempt from income tax and income subject to final tax.

Net operating loss carry-over (NOLCO) can be claimed as deduction against taxable income within three years after NOLCO is incurred.

An improperly accumulated earning tax equivalent to 10% of improperly accumulated taxable income of a corporation is not applicable to banks.

Since banks are in the regular business of lending, interest income derived by banks from lending activities which is generally considered passive income by non-banks, is considered ordinary income of banks subject to 30% corporate income tax. Banks may also claim interest expense as tax deduction if such expense complies with the requirements laid down in Revenue Regulations No. 13-00. The amount of interest expense which banks may claim as tax deduction shall be reduced by an amount equal to 33% of the banks' interest income that is subject to final tax.

The Tax Code does not allow banks to deduct interest expense or bad debts arising from transactions with the following:

- An individual who directly or indirectly owns more than 50% in value of the outstanding capital stock of the bank;
- A corporation, more than 50% in value of the outstanding capital stock of which is owned directly or indirectly, by or for the same individual in sub-paragraph (a), either as a personal holding company or a foreign personal holding company.

Pursuant to Revenue Regulations No. 05-99 (as amended by Revenue Regulations No. 25-02), in order for banks to claim bad debts as tax deductions, they must secure a certification from the BSP that the accounts are worthless and can be written off, subject to the final determination by the BIR that bad debts being claimed by the banks are worthless and uncollectible. However, on 29 October 2014, the BSP issued Circular No. 855 which provides that notice of write-off of problem credits shall be submitted in the prescribed form to the BSP through the appropriate Central Point of Contact within thirty (30) business after every write-off with a sworn statement signed by the President of the financial institution or officer of equivalent rank that write-off did not include transactions with DOSRI and was undertaken in accordance with board-approved internal credit policy. Based on the said circular, a notice to the BSP would suffice, and that BSP approval with respect to a write-off of a bad debt not related to a DOSRI transaction, is no longer required.

The banks' passive income such as interest income earned from bank deposits is subject to final withholding tax.

Banks are subject to percentage tax or GRT, which is a tax levied on the gross receipts of banks and non-bank financial intermediaries. On 13 June 2016, the BIR issued Revenue Memorandum Circular No. 62-2016 (RMC 62-2016) seeking to clarify the tax treatment of GRT, which is passed on by banks through contractual stipulations to their clients. RMC 62-2016 provides that if under a contract the GRT is passed on to the client, such passed-on GRT should be treated as gross income characterised as other fees and charges and should itself be subject to 7% GRT.

ROPA of banks are considered as ordinary assets. The income derived from their sale is subject to the regular corporate income tax. Moreover, the transaction is subject to a 6% creditable withholding tax based on the highest among the zonal value, value in the tax declaration or selling price, which shall be withheld by the buyer and can be used as a credit against the bank's taxable income in the year that the gain is realised.

The Tax Code provides for a final tax at fixed rates for the amount of interest, yield or benefit derived from deposit substitutes which shall be withheld and remitted by the payor of the said interest, yield or benefit. This rule does not apply to gains derived from trading, retirement or redemption of the debt instrument which is subject to regular income tax rates, except those instruments with maturity of more than five years as these are exempt from income tax.

To be considered as a deposit substitute, the debt instrument must have been issued or endorsed to 20 or more individuals at any one time at the time of the original issuance in the primary market or at the issuance of each tranche in the case of instruments sold or issued in tranches.

BANKING REGULATION AND SUPERVISION

IBCLs with a maturity period of not more than five days and used to cover deficiency in reserves against deposit liabilities are not considered deposit substitutes. The interbank call loans are not subject to documentary stamp tax except if they have a maturity of more than seven days.

FCDU transactions with non-residents of the Philippines, offshore banking units (OBUs), FCDUs of local banks and branches of foreign banks (i.e., offshore income) are tax-exempt, while interest income from foreign currency loans granted by FCDUs of depository banks to residents other than OBUs or other depository banks under the expanded system is subject to 10% final tax. All other income of FCDUs is taxable at regular corporate income tax of 30%.

On 19 December 2017, the President of the Philippines signed into law the TRAIN Law which took effect on 1 January 2018. The TRAIN Law amends certain provisions of the Tax Code and is the first package of the Comprehensive Tax Reform Program (CTRP) of the Duterte administration.

On 14 February 2019, the President signed into law the Tax Amnesty Act of 2019 or Republic Act No. 11213 (Tax Amnesty Law), which was intended to complement the provisions of the TRAIN Law. However, following the President's veto of the provisions granting general tax amnesty for all unpaid national internal revenue taxes for taxable year 2017 and prior years, the current Tax Amnesty Law only grants estate tax amnesty for estates of decedents who died on or before 31 December 2017 and whose estate taxes have remained unpaid or have accrued as of 31 December 2017 and tax amnesty on delinquencies covering all national internal revenue taxes for taxable year 2017 and prior years.

Meanwhile, the second package of the tax reform package, also known as CITIRA, was passed by the Philippine House of Representatives on 13 September 2019, and has been approved by the Ways and Means Committee of the Philippine Senate on 19 February 2020. On March 9 2020, the bill has also been certified as urgent by Philippine President Rodrigo Duterte. CITIRA proposes to lower corporate income tax and rationalize fiscal incentives. If CITIRA is approved in its current form, the corporate income tax rate for domestic corporation, resident foreign corporations, and non-resident foreign corporations shall be reduced by 1% point every year beginning 1 January 2020 until 1 January 2029; the income tax rate of resident foreign corporations on interest income derived from a depository bank under the expanded foreign currency deposit system will be increased from 7.5% to 15%; the 10% special income tax rates of offshore banking units will be repealed; and the tax provisions granting incentives to banks and financial institutions will be repealed effective two years from the implementation of the CITIRA. *See also "Investment Considerations—Risks Relating to the Bank's Business—Changes to regulations and guidelines issued by regulatory authorities in the Philippines, including the BSP, the Bureau of Internal Revenue (the BIR) and international bodies, including the Financial Action Task Force (the FATF) may have an adverse impact on the Bank."*

The other tax reform packages that the government hopes to implement include tax amnesty (estate, general), as well as "sin" (e.g., alcohol, gaming), property, passive income and financial intermediaries, and luxury taxes. The fourth package under the CTRP relating to passive income and financial intermediaries proposes to impose (i) a single final withholding tax rate of 15% on interest income regardless of currency, maturity, issuer and other differentiating factors, (ii) a single rate of 15% on interest income, dividends and capital gains, (iii) a single gross receipt tax of 5% on banks, quasi-banks, and certain non-bank financial intermediaries across all types of income (lending and non-lending), except dividends, equity shares and net income of subsidiaries, (iv) uniform taxation of 2% of premium for pre-need, pension, life and HMO insurance, (v) removal of IPO tax, and (vi) gradually reduce the stock transaction tax until it reaches zero by 2026 and removal of the transaction tax on listed and traded debt instruments by 2026, and exemption of non-monetary documents from DST.

Other Regulations

Set out below are other regulations applicable to banks operating in the Philippines:

- *Implementation of Basel III Framework on Liquidity Standards.* On 10 March 2016, the BSP issued BSP Circular No. 905 which provided guidelines for the implementation of Basel III framework on Liquidity Standards as it relates to LCR and Disclosure Standards. The Monetary Board approved the LCR framework with an observation period from 1 July 2016 until the end of 2017, during which banks are required to commence reporting their LCR to the BSP. Beginning on 1 January 2018, the LCR threshold that banks will be required to meet will be 90.0%, which was increased to 100.0% commencing on 1 January 2019. On 3 November 2017, the BSP issued BSP Circular No. 981 which amended the guidelines on liquidity risk management. The banks have until 1 September 2018 to develop or make appropriate changes to their policies and procedures, provided that banks complete a gap analysis of the requirements in BSP Circular No. 981 vis-à-vis their existing risk management systems by 31 March 2018, the result of such gap analysis shall be documented and made available

for review of the BSP. On 8 February 2018, the BSP issued BSP Circular No. 996 which amended the LCR framework and extended its coverage to subsidiaries of universal and commercial banks and quasi banks on both solo (head office and branches/other offices) and consolidated (parent bank and subsidiary financial allied undertakings) bases. On 15 March 2019, BSP issued Circular No. 1035 to introduce certain amendments to the Basel III LCR Framework and Minimum Liquidity Ratio Framework. Circular No. 1035: (i) extended the observation period of the minimum Basel III LCR requirement to 31 December 2019 for subsidiary banks and quasi-banks of universal and commercial banks, (ii) adopted the 70% LCR floor for subsidiary banks and quasi-banks during the observation period, and (iii) amended the formula for minimum liquidity ratio.

- *Implementation of Basel III Framework for Dealing with D-SIBs.* On 29 October 2014, the BSP issued BSP Circular No. 856 which provided the guidelines for implementing the Framework for dealing with D-SIBs under Basel III. Banks deemed as D-SIBs by the BSP will be imposed with capital surcharge to enhance their loss absorbency and thus mitigate any adverse side effects both to the banking system and to the economy should any of the D-SIBs fail. To determine the banks' systemic importance, the BSP will assess and assign weights using the indicator-based measurement approach based on the following: size, interconnectedness, substitutability, and complexity. Depending on how they score against these indicators and the buckets to which the scores correspond, the D-SIBs will have varying levels of additional loss absorbency requirements ranging from 1% to 2.5%. Aside from the added capital pressure, D SIBs may be put at an undue disadvantage compared to G-SIBs given that this framework was patterned for regional/global banks and which may not thus be appropriate for local banks. The phased-in compliance started on 1 January 2017 and will become fully effective on 1 January 2019. On 12 February 2016, the Monetary Board approved the guidelines on the submission of a recovery plan by DSIBs which shall form part of the DSIBs' ICAAP submitted to the BSP every 31 March of each year. The recovery plan identifies the course of action that a DSIB should undertake to restore its viability in cases of significant deterioration of its financial condition in different scenarios. At the latest, the recovery plan shall be activated when the DSIB breaches the total required CET1 capital, the HLA capital requirement and/or the minimum liquidity ratios as may be prescribed by the BSP. As a preemptive measure, the recovery plan should use early warning indicators with specific levels (i.e., quantitative indicators supplemented by qualitative indicators) that will activate the recovery plan even before the above-said breaches happen. This preparatory mechanism, including the operational procedures, monitoring, escalation and approval process should be clearly defined in the recovery plan. The ICAAP document, which includes the first recovery plan, was submitted on 30 June 2016 and will be re-submitted on the 31st of March of each year.
- *Regulations Governing the Derivatives Activities of Banks.* In line with the policy of the BSP to support the development of the Philippine financial market by providing banks and their clients with expanded opportunities for financial risk management and investment diversification through the prudent use of derivatives, BSP Circular No. 594 was issued by the BSP in January 2008 amending the existing regulations governing the derivatives activities of banks and trust entities. Furthermore, BSP Circular No. 688 issued by the BSP in May 2010 prescribes guidelines on the determination of the credit risk weighted assets for banks that will engage in derivatives activities as end-users for hedging purposes and/or under limited-use authority. The BSP also issued BSP Circular No. 891 on 9 November 2015 amending the sales and marketing guidelines for derivatives under the Manual. Banks must ensure that the financial products (e.g., debt and equity securities, hybrid securities, derivatives, securitisation structures and similar products with substantial investment characteristics) it recommends to a client are appropriate for that client through a client suitability process which involves obtaining client information, classifying a client according to financial sophistication and risk tolerance, and conducting a suitability review. Any informational or promotional presentation must be undertaken only by personnel who are knowledgeable on the products involved and are qualified based on qualification standards established by the bank. Any disclosures regarding its products and services must meet the bank's standards to ensure that its clients understand the nature of the financial transaction. The BSP may bring about timely corrective actions and impose sanctions on the bank and responsible persons, which may include warning, reprimand, suspension, removal, and disqualification of concerned directors, officers, and employees. In February 2017, BSP issued Memorandum No. M-2017-004 advising all banks and quasi-banks that cross-border derivative transactions involving non-centrally cleared derivatives shall be subject to margin requirements pursuant to the policy framework adopted by the BCBS and the International Organisation of Securities Commissions. The framework requires all covered entities that engage in non-centrally cleared derivatives to exchange initial and variation margins. Assets collected as collateral for margin purposes should be highly liquid and should, after the application of an appropriate haircut, be able to hold their value in time of stress. Variation margin requirements were phased in from 1 September 2016 to 1 March 2017 while initial margin requirements are being phased in from 1 September 2016 to 1 September 2020. As an initial step, banks and quasi-banks should make a determination of the

transactions that will be subject to margin requirements implemented in other jurisdictions and assess whether they will be able to comply with the margin requirements implemented in other jurisdictions and assess whether they will be able to comply with the pertinent legal and operational arrangements.

- *Amendments to unit investment trust fund (UITF) Regulations.* In September 2004, the BSP issued BSP Circular No. 447 (as amended by BSP Circular No. 675 (2009), BSP Circular No. 676 (2009), Memorandum No. M-2010-033 (2010), BSP Circular No. 767 (2012), BSP Circular No. 852 (2014), BSP Circular No. 876 (2015) and BSP Circular No. 907 (2016)) which provided guidelines for the launching and offering of new products to be known as UITFs, and was intended to completely phase out common trust funds or convert them into UITFs within two years from the date of the circular. UITFs are open-ended pooled trust funds denominated in any acceptable currency that are to be operated and administered by trust entities. Eligible assets of UITFs include bank deposits, securities issued by or guaranteed by the Government or the BSP, tradable securities issued by the government of a foreign country, exchange listed securities, marketable instruments that are traded in an organised exchange, loans traded in an organised market, loans arising from repo agreements which are transacted through an exchange recognised by the Philippine SEC and such other tradable investments outlets/categories as the BSP may allow. These assets are subject to mark-to-market valuation on a daily basis. The stated objective of the BSP is to align the operation of pooled funds with international best practices and enhance the credibility of pooled funds to investors. In January 2008, the BSP issued BSP Circular No. 593 to improve risk disclosure on investing in UITFs, by requiring banks to conduct a client suitability assessment to profile the risk-return orientation and suitability of the client to the specific type of UITF that he wants to participate in, and to update the client's profile at least every three years. In December 2009, the BSP issued BSP Circular No. 676 allowing cross-currency investment for Peso trust, other fiduciary and investment management accounts, including Peso UITFs. In September 2012, the BSP issued BSP Circular No. 767 to include investments by UITFs in units/shares in collective investment schemes as an allowable investment and recognizing UITF structures such as feeder funds and fund-of-funds. On 21 October 2014, the BSP issued BSP Circular No. 852, amending the UITF Regulations. Through this circular, the BSP strengthened the disclosure requirements for UITFs by prescribing the use of the Key Information and Investment Disclosure Statement and online posting of UITF information via a website. On 10 March 2016, the BSP issued BSP Circular No. 907 to amend certain exposure limits, and allowable investment and valuation on UITFs invested in feeder fund and fund-of-funds. UITF investments shall only be limited to bank deposits and collective investment schemes (e.g., target fund, exchange-traded funds), subject to such target fund not being structured or similarly structured as a feeder fund or a fund-of-funds. On 14 March 2018, BSP issued BSP Circular No. 999 which further amended the allowable investment and valuation of UITFs invested in feeder fund or fund-of-funds. Under the circular, offshore/global funds which use financial derivatives for efficient portfolio management (EPM) may be allowed as target fund, provided that financial derivatives are not extensively or primarily used as an investment strategy of the target fund and that the risk level of the target fund remain consistent with the objective and risk profile of the investor fund. Alternatively, the target fund shall comply with the relevant regulatory requirements of its home jurisdiction as regards the use of financial derivatives for EPM.
- *Limit on Real Estate Loans of Universal Banks.* In February 2008, the BSP issued BSP Circular No. 600 removing interbank loans from the total loan base to be used in computing the aggregate limit on real estate loans, and amending the inclusions and exclusions to be observed in the computation. On 10 October 2017, the BSP issued BSP Circular No. 976 which approved amendments to the expanded report on the real estate exposure of banks, and required the submission of a report on project finance exposures to enable the BSP to gather more granular information regarding these exposures. It also clarified the definition of loans to finance infrastructure projects for public use that are currently exempt from the 20.0% limit on real estate loans.
- *Exemption of Paired ROP Warrants from Capital Charge for Market Risk.* In connection with the Government's Paired Warrants Program, the BSP issued BSP Circular No. 605 in March 2008 exempting warrants paired with ROP Global Bonds from capital charge for market risk to the extent of a bank's holdings of bonds paired with warrants equivalent to not more than 50.0% of total qualifying capital.
- *Guidelines on Securities Borrowing and Lending Transactions.* Guidelines by the PSE on SBL govern SBL transactions between local/foreign borrowers and local/foreign lenders. BSP Circular No. 611, Series of 2008, provides guidelines on SBL transactions in the PSE involving borrowings by foreign entities of PSE-listed shares from local investors/lenders. In May 2008, the BSP Monetary Board authorised the issuance of BSP Registration Documents to cover the PSE-listed shares of stock borrowed by foreign entities from local investors and lenders. This will allow foreign borrowers to purchase foreign exchange from the banking system for remittance abroad

using the Peso sales proceeds of the borrowed shares including the related income from the SBL transaction, such as rebates or shares in the income earned on the reinvestment of the cash collateral, interest and dividends earned on the Peso denominated government securities and PSE-listed shares used as collateral.

- *Reclassification of Financial Assets between Categories.* The BSP issued BSP Circular No. 628 dated 31 October 2008, amending BSP Circular No. 626 dated 23 October 2008 and the Resolution of the Monetary Board No. 1423 dated 30 October 2008, which approved the guidelines governing the reclassification of financial assets between categories. Financial Institutions shall be allowed to reclassify all or a portion of their financial assets from “held for trading” or “available for sale” categories to the “available for sale” or “held to maturity” or “unquoted debt securities classified as loans” categories effective 1 July 2008. Any reclassification made in periods beginning on or after 15 November 2008 shall take effect from the date when the reclassification is made.
- *Rules and Regulations on the Mandatory Allocation for Agriculture and Agrarian Reform Credit.* In July 2011, the BSP issued BSP Circular No. 736 as a component of the Implementing Rules and Regulations of the Republic Act No. 10000 or the Agri-Agra Reform Credit Act. Aside from retaining the mandatory credit allocation, it also rationalises the modes of compliance. In addition to direct compliance through loans to qualified borrowers, a list of alternative compliance mechanisms is also provided. On 20 July 2018, the BSP issued BSP Circular No. 1009, Series of 2018 further amending the Rules and Regulations on the Mandatory Credit Allocation for Agriculture and Agrarian Reform Credit.
- *Valuations of Government Securities Held by Banks.* In October 2013, the BSP amended the rules on valuations of government securities held by banks to reflect actual market rates, with the guideline applying to both benchmark and non-benchmark securities. Under BSP Circular No. 813, the weighted average of done or executed deals shall be used as the basis for valuation. In the absence of weighted average done deals for benchmark bonds, the simple average bids shall be used. In the absence of both weighted done deals and simple average bids for non-benchmark securities, interpolated yields derived from reference rates in accordance with BSP-approved guidelines shall be used.
- *Segregation of Customer Funds and Securities Received by Banks.* On 14 August 2015, the BSP issued BSP Circular No. 885 requiring the segregation of customer funds and securities received by banks in the performance of their securities brokering functions. Banks are required to institute adequate risk management systems and controls to ensure protection of customer funds and securities, proper segregation of functions, and prevention of conflict of interest situations that may arise in the conduct of securities brokering activities within the bank. Banks must also make and keep current books and records relating to customer funds and securities and submit monthly reportorial requirements.
- *Creation of Personal Management Trust.* On 18 August 2016, the BSP issued BSP Circular No. 920 allowing for the creation of the personal management trust (PMT), which is a living trust arrangement that seeks to meet the estate planning and asset management needs of individuals. The trustor may or may not nominate a third-party beneficiary. It is supposed to serve as a more flexible tool in the management of an individual’s financial affairs. Upon the effectivity of the circular, all living trust accounts (LTAs) were discontinued and all those that remained valid were automatically considered as PMT.
- *Clearing of Checks via Electronic Presentment.* On 7 September 2016, the BSP issued BSP Circular No. 924, amending the Manual in view of the clearing of checks via electronic presentment, which shall be implemented by the Philippine Clearing House Corporation (PCHC). On 20 January 2017, the BSP began the electronic clearing of checks. Under this new system, only digital images of the checks and their electronic payment information shall be required to be transmitted to the paying bank. The clearing time was reduced to just one banking day, as against three banking days previously, since no physical delivery of checks will be needed.
- *Effective Reporting System Generation and Timely Submission of Reports.* On 26 June 2017, the BSP amended the Manual through BSP Circular No. 963, Series of 2017, which issuance instituted governance processes in accordance with the BSP’s expectation that banks establish an effective reporting system generation and timely submission of reports. Said reports must comply with the standards prescribed by the BSP, and the banks that fail to do so (i.e., files an erroneous report, delayed report, or did not submit at all) are meted with certain sanctions that can be aggravated by habitual violations. It further provided that banks had until 31 December 2017 to make the necessary preparations to their systems and processes in order to comply with the new provision. Its full implementation started on 1 January 2018.

- *Additional Requirements for the Issuance of Bonds and Commercial Papers.* On 9 August 2018, the BSP issued additional requirements for the issuance by banks of bonds and commercial papers. Circular No. 1010 provides that a bank may issue bonds and/or commercial papers without prior BSP approval, provided that the following conditions are met:
 - (1) The bank must have a CAMELS composite rating of at least “3” and a “Management” rating of not lower than “3”.
 - (2) The bank has no major supervisory concerns in governance, risk management systems, and internal controls and compliance system;
 - (3) The bank/QB has complied with directives and/or is not subject of specific directives and/or enforcement actions by the BSP; and
 - (4) The bonds issued are enrolled and/or traded in a market which is organised in accordance with the SEC rules and regulations.

Further, the issuing bank, including its subsidiaries, affiliates, and the wholly or majority-owned or -controlled entities of such subsidiaries and affiliates, except for its trust departments or related trust entities, is prohibited from holding or acting as a market maker of the bank’s listed/traded bonds or commercial papers. Likewise, the registry bank, including the underwriter/arranger of the issuance, shall be a third party with no subsidiary/affiliate relationship with the issuing bank and which is not related to the issuing bank in any manner that would undermine its independence.

- *Guidelines on the Adoption of PFRS 9.* On 14 August 2018, the BSP issued Circular No. 1011 which provides guidelines on the adoption of PFRS 9. The Circular provides that where there are differences between the BSP regulation and PFRS 9, as when more than one option is allowed, or certain limits are prescribed, then the option or limit prescribed by the BSP should be adopted. The circular further provides that with respect to the preparation of prudential reports, banks should adopt in all respect the PFRS, except in the following cases:

- (1) in preparing consolidated financial statements, only investments in financial allied subsidiaries except insurance subsidiaries shall be consolidated with the financial statements of the parent bank on a line-by-line basis, while insurance and non-financial allied subsidiaries shall be accounted for using the equity method. Investments in financial/non-financial allied/non-allied associates and joint ventures shall be accounted for using the equity method in accordance with the provisions of PAS 28.

In preparing solo/separate financial statements, investments in financial/nonfinancial allied/non-allied subsidiaries/associates, including insurance subsidiaries/associates, shall be accounted for using the equity method as described in PAS 28.

- (2) banks shall recognise adequate and timely allowance for credit losses at all times. In this respect, banks shall adopt the principles provided under the enhanced standards on credit risk management in measuring credit losses in the BSP Manual.
- *Marking to market of financial instruments.* BSP Circular No. 1021 dated 15 November 2018 provides that financial instruments that are required to be classified and measured at fair value, within the scope of PFRS 9 shall be marked-to-market in accordance with the provisions of PFRS 13 on Fair Value Measurement and the related rules and regulations issued by the Securities and Exchange Commission.
 - *Adoption of National Retail Payment System (NRPS) Framework.* On 6 November 2017, in line with BSP’s adoption of the NRPS framework consistent with its regulations on risk management, the BSP issued Circular No. 980, which requires BSFIs to ensure that the retail payment systems they participate in demonstrate sound risk management and effective and efficient interoperability. The NRPS framework covers all retail payment-related activities, mechanisms, institutions and users. Under this framework, sound governance shall be performed by a payment system management body (PSMB), which is duly recognised and overseen by BSP. In the absence of a PSMB, the functions of providing sound governance to the retail payment system participated in by BSFIs shall be discharged by BSP.
 - *Guidelines on Liquidity Risk Management.* On 3 November 2017, the BSP issued Circular No. 981, amending the guidelines on liquidity risk management and the related amendments to the Manual. Among the highlights of the said changes were the additional guidelines relative to Foreign Currency Management, Intraday Liquidity Management, Intragroup Liquidity Management, Collateral Management, Liquidity Stress Testing, Contingency Funding Plans, Factors to Consider in Developing a Funding Strategy, and Factors to Consider in Developing

BANKING REGULATION AND SUPERVISION

Cash Flow Projections. Banks shall have until 1 September 2018 to develop or make appropriate changes to their policies and procedures, provided that they complete a gap analysis of the requirements of the said BSP Circular vis-a-vis their existing risk management systems by 31 March 2018.

- *Enhanced Guidelines in Information Security Management.* On 9 November 2017, BSP issued Circular No. 982, providing enhanced guidelines on information security risk management of BSFIs in view of the rapidly evolving technology and cyber-threat landscape in which they operate. The amendments highlight the role of the BSFIs' board and senior management in spearheading sound information security governance and strong security culture within their respective networks. Likewise, BSFIs are mandated to manage information security risks and exposures within acceptable levels through a dynamic interplay of people, policies, processes, and technologies following a continuing cycle (i.e. identify, prevent, detect, respond, recover and test phases). The new guidelines also recognise that BSFIs are at varying levels of cyber-maturity and cyber-risk exposures which may render certain requirements restrictive and costly vis-à-vis expected benefits. Thus, the IT profile classification has been expanded from two to three, namely: "Complex," "Moderate" and "Simple" to provide greater flexibility in complying with the requirements.
- *Guidelines on the Conduct of Stress Testing Exercises.* On 4 January 2018, BSP issued Circular No. 989, which defined minimum prudential requirements on stress testing and supplement the relevant provisions on stress testing provided under the risk management guidelines that were earlier issued by BSP. It provides that a board of directors should consider the results of stress testing exercises in capital and liquidity planning, in setting risk appetite, and in planning for business continuity management, and, in the case of DSIBs, in developing recovery plans. These expectations are consistent with the earlier issued guidelines on corporate governance under Circular No. 969.
- *Basic Deposit Accounts.* BSP Circular No. 992, issued on 1 February 2018, requires banks to establish a basic deposit account which refers to interest or non-interest-bearing account designed to promote financial inclusion. The basic deposit account shall have an opening amount of not more than ₱100.00 and no minimum maintaining balance but with a maximum balance of not more than ₱50,000.00. If the depositor exceeds the ₱50,000.00 maximum balance, the bank shall convert the basic deposit account to a regular deposit account. The basic deposit account shall have no dormancy charges and has no reserve requirement. On 1 March 2018, the BSP issued Circular No. 998, clarifying the guidelines on the basic security deposit requirements. The circular provides that, as security for the faithful performance of its trust and other fiduciary duties, the basic security deposit shall be at least one percent (1%) of the book value of the total trust, other fiduciary and investment management assets, and at no time shall be less than ₱500,000.00; further, as security for the faithful performance of its investment management activities, the basic security deposit shall be at least one percent of the book value of the total investment management assets, and at no time less than ₱500,000.00. The Circular also prescribes the methodology in determining compliance with the basic security deposit for the faithful performance of trust and other fiduciary business and investment management activities, and amends the compliance period to require banks, that are authorised to engage in trust and other fiduciary business and investment management activities, to comply with the basic security deposit requirement on a quarterly basis, as well as, at the time of withdrawal, replacement or redemption of the government securities deposited with the BSP within the quarter period. On 15 February 2019, the BSP issued Circular No. 1032 amending the guidelines on the basic security deposit requirement. The circular provided that the trustee or fiduciary/investment manager shall ensure compliance with the required basic security deposit. Any deficiency must be corrected through the immediate posting of additional securities. Trustees or fiduciary/investment managers shall submit quarterly reports on compliance with the basic security deposit requirement and report on the basic security deposit transactions.
- *Electronic Banking Services and Other Electronic Operations.* On 22 February 2019, the BSP issued BSP Circular No. 1033, which classifies electronic payments and financial services (EPFS) into basic and advanced and establishes guidelines for the licensing of EPFS. Further, BSFIs that are licensed to offer funds transfer services shall make these interoperable by participating in automated clearing houses.
- *Reserves against trust and other fiduciary accounts (TOFA).* BSP Circular No. 1025 dated 13 December 2018 provides that in addition to the basic security deposit, banks authorised to engage in trust and other fiduciary business shall maintain reserves on TOFA -others, except accounts held under (1) administratorship; (2) trust under indenture; (3) custodianship and safekeeping; (4) depository and reorganisation; (5) employee benefit plans under trust; (6) escrow; (7) personal trust (testamentary trust); (8) executorship; (9) guardianship; (10) life insurance trust; (11) pre-need plans (institutional/individual); (12) Personal Equity And Retirement Account

BANKING REGULATION AND SUPERVISION

(PERA); (13) legislated and quasi-judicial trust; and (14) specialised institutional accounts under trust.

- *Currency Rate Risk Protection program (CRPP Facility) and the Implementing Guidelines.* On 24 September 2018, and 5 October 2018, the BSP issued Circular No. 1014 and 1015, respectively, revising the guidelines on the CRPP Facility. The CRPP Facility is a non-deliverable USD/PHP forward contract between BSP and a universal/commercial bank in response to the request of bank clients desiring to hedge their eligible foreign currency obligations. Transactions under the CRPP facility are considered part of banks' Generally Authorised Derivatives Activities. Under the CRPP Facility, only the net difference between the contracted forward rate and the prevailing spot rate shall be settled in pesos at maturity of the contract. Should the eligible obligation be denominated in a foreign currency other than the USD, the CRPP contract shall be denominated in USD equivalent using the exchange rate indicated in the BSP Reference Exchange Rate Bulletin on deal date. The BSP shall have supervisory enforcement actions or right to deploy its range of supervisory tools to promote adherence to the requirements set forth in the guidelines. Any violation of the guidelines, including willful delay in the submission, non-submission and/or willful making of a false or misleading statement in the notarised certification required to be submitted therein to the BSP Sections shall constitute grounds for the imposition on the bank of penalties.
- *Adoption of Policy Framework on the Grant of Regulatory Relief to Banks/Quasi Banks Affected by Calamities.* On 10 October 2018, the BSP issued Circular No. 1017, which provides the policy framework on the grant of regulatory relief measures to banks/quasi-banks affected by calamities. Under the framework, banks/quasi-banks may avail of the regulatory relief packages, including the provision of financial assistance to officers who are affected by the calamity even in the absence of BSP approved purposes, for a period of one (1) year from the date of declaration of state of calamity.
- *Technology and Cyber-Risk Reporting and Notification Requirements.* On 31 October 2018, the BSP issued Circular No. 1019, which amended provisions relating to the technology and cyber-risk reporting and notification requirements for BSFIs. The amendments were made to enable the BSP to have ready access to accurate, timely, and actionable information regarding BSFI's technology risk profiles as well as the evolving cyber-threat environment for a more responsive, proactive and effective banking supervision.
- *Amendments to the FX Manual.* On 5 February 2019, the BSP issued Circular No. 1030, which amended provisions of the Manual of Regulations on Foreign Exchange Transactions in furtherance of the BSP's aim of liberalizing the regulations applicable to (among others) inward investments. The issuance expanded the scope of the categories of inward foreign investments such that the presence of control and significant degree of influence between the investor and the investee firm is considered for certain types of investments to be categorized as direct investment or portfolio investment. It also established a grace period to register existing investments that are unregistered as of the effectivity date of the issuance.
- *Revised Framework on the Selection of External Auditors.* On 20 May 2019, the BSP issued Circular No. 1040, which revised the framework on selection of external auditors for BSP Supervised Financial Institutions in accordance with the cooperative arrangement among the BSP, SEC, Insurance Commission and the PDIC.
- *Rules and Regulations on the Registration of Operators of Payment Systems.* On 9 September 2019, Circular No. 1049 was issued approving the rules and regulation on the registration of operators of payment systems to implement Republic Act No. 11127 or the National Payment Systems Act. These rules and regulations form part of the newly-created Manual of Regulations for Payment Systems.
- *Guidelines on Voluntary Surrender of a Banking License.* On 18 September 2019, Circular No. 1050 issued the guidelines on voluntary surrender of banking license in case of voluntary dissolution and liquidation, or to convert into a non-bank entity.
- *Amendments to the Prudential Requirements and Guidelines on the Public Offering and Listing of Bank Shares for Universal Banks.* On 15 November 2019, Circular No. 1060 was issued amending the prudential requirements on the public offering and listing of bank shares for universal banks. The amendments are aimed at supplementing the enhanced corporate governance frameworks of the BSP by encouraging dispersed shareholdings on banks.
- *Amendment of the Requirements on the Issuance of Long-Term Negotiable Certificates of Time Deposit*

BANKING REGULATION AND SUPERVISION

(LTNCTDs), Bonds and Commercial Papers. On 26 November 2019, Circular 1062 was issued amending the provisions of the Manual to relax certain requirements on the issuance of LTNCTDs, Bonds and Commercial Papers. Of note is the amendment expanding the entities that are now prohibited from holding the LTNCTDs, Bonds and Commercial Papers.

- *Report on Intraday Liquidity of Universal and Commercial Banks (UBs/KBs) and their Subsidiary Banks/Quasi-Banks (QBs).* On 3 December 2019, Circular No. 1064 was issued amending the Manual to implement and adopt the report on intraday liquidity for universal banks and their subsidiary thrift banks/quasi-banks. The report is aimed at appropriately monitoring the intraday liquidity position of BSP supervised financial institutions, their sources of intraday liquidity, and their ability to meet payment and settlement obligations on a timely basis under both normal and stressed conditions. The reporting requirements are also intended to facilitate the sound management of intraday liquidity risk as well as provide sufficient understanding and allocation of resources to effectively manage the same.
- *Amendments to Regulations on Financial Audit of Banks.* In 7 February 2020, Circular No. 1074 was issued amending regulations on the financial audit of BSP supervised financial institutions which aim to enhance the quality of information channeled to the supervisory process and ultimately promote fairness, transparency and accuracy in financial reporting. Amendments pertain to changes in prescribed formats of statements in the financial statements, changes in deadline of report submissions to the BSP, new and amended disclosure requirements to the financial statements, among others.
- *Amendments to the Regulations on the Disqualifications and Watchlisting of Directors/Officers.* In 18 February 2020, Circular No. 1076 was issued to strengthen the disqualification and watchlisting of directors and officers of banks and other financial institutions. The amendments aim to further promote the integrity of the financial system and better protect the interest of the public.

TAXATION

The following is a general description of certain Philippine tax aspects of the Bonds and Commercial Papers. It is based on the laws, regulations, and administrative rulings in force as at the date of this Offering Circular and is subject to any changes in law or regulation occurring after such date, which changes can be made on a retroactive basis. It does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own, or dispose of the Bonds and Commercial Papers. Prospective purchasers should consult their tax advisors as to the laws of other applicable jurisdictions and the specific tax consequences of acquiring, holding, and disposing of the Bonds and Commercial Papers.

As used in this section, the term “resident alien” refers to an individual whose residence is within the Philippines but who is not a citizen of the Philippines; a “non-resident alien” is an individual whose residence is not within the Philippines and who is not a citizen of the Philippines; a non-resident alien who is actually within the Philippines for an aggregate period of more than 180 days during any calendar year is considered a “non-resident alien doing business in the Philippines”; otherwise, such non-resident alien who is actually within the Philippines for an aggregate period of 180 days or less during any calendar year is considered a “non-resident alien not doing business in the Philippines.” A “resident foreign corporation” is a foreign corporation engaged in trade or business within the Philippines; and a “non-resident foreign corporation” is a foreign corporation not engaged in trade or business within the Philippines. The term “foreign” when applied to a corporation means a corporation which is not domestic while the term “domestic” when applied to a corporation means a corporation created or organized in the Philippines or under its laws.

Taxation of Interest

The Tax Code provides that interest-bearing obligations of Philippine residents are Philippine sourced income subject to Philippine income tax. Interest Income received by domestic and resident foreign corporations shall be subject to the final withholding tax of 20.0%. Interest income received by non-resident aliens not engaged in trade or business in the Philippines shall generally be subject to a final withholding tax of 25.0%. Interest income received by non-resident foreign corporations from the Bonds or Commercial Papers is subject to a 30% final withholding tax.

The foregoing rates are subject to further reduction by any applicable tax treaties in force between the Philippines and the country of residence of the non-resident owner. Most tax treaties to which the Philippines is a party generally provide for a reduced tax rate of 15% in cases where the interest which arises in the Philippines is paid to a resident of the other contracting state. However, most tax treaties also provide that reduced withholding tax rates shall not apply if the recipient of the interest who is a resident of the other contracting state, carries on business in the Philippines through a permanent establishment and the holding of the relevant interest-bearing instrument is effectively connected with such permanent establishment.

Given the above, all Holders are required to provide the Issuer through the Paying Agent their validly issued Tax Identification numbers issued by the Philippine Bureau of Internal Revenue.

Tax-Exempt Status or Entitlement to Preferential Tax Rate

An investor who is exempt from the aforesaid withholding tax, or is subject to a preferential withholding tax rate shall be required to submit the following requirements to the Registrar, subject to acceptance by the Bank as being sufficient in form and substance: (i) certified true copy of the tax exemption certificate, ruling or opinion issued by the BIR confirming the exemption or preferential rate; (ii) a duly notarized undertaking, in the prescribed form, declaring and warranting its tax exempt status or preferential rate entitlement, undertaking to immediately notify the Bank of any suspension or revocation of the tax exemption certificates or preferential rate entitlement, and agreeing to indemnify and hold the Bank and the Registrar free and harmless against any claims, actions, suits, and liabilities resulting from the non-withholding of the required tax; and (iii) such other documentary requirements as may be required under the applicable regulations of the relevant taxing or other authorities which for purposes of claiming tax treaty withholding rate benefits, which shall include evidence of the applicability of a tax treaty and consularized proof of the Holder’s legal domicile in the relevant treaty state, and confirmation acceptable to the Bank that the Holder is not doing business in the Philippines; provided further that, all sums payable by the Bank to tax exempt entities shall be paid in

TAXATION

full without deductions for taxes, duties assessments or government charges subject to the submission by the Holder claiming the benefit of any exemption of reasonable evidence of such exemption to the Registrar.

Documentary Stamp Taxes

The issuance of the Bonds and Commercial Papers will be subject to documentary stamp tax at the rate of ₱1.50 for every ₱200.00 of the issue value of such notes. The Bank is liable for the payment of the documentary stamp tax on the original issuance of the Bonds and Commercial Papers. No documentary stamp tax is imposed on the secondary transfer of the Bonds or Commercial Papers.

Taxation on Sale or Other Disposition of Bonds and Commercial Papers

Any gain realized from the sale, exchange or retirement of bonds will, as a rule, form part of the gross income of the sellers, for purposes of computing the relevant taxable income subject to the regular rates of 20% to 35% effective 1 January 2018 until 31 December 2022 and 15% to 35% effective 1 January 2023 for individuals or 30% for domestic and foreign corporations, as the case may be. If the bonds are sold by a seller, who is an individual and who is not a dealer in securities, who has held the bonds for a period of more than 12 months prior to the sale, only 50% of any capital gain will be recognized and included in the sellers' gross taxable income.

However, under the Tax Code, any gain realized from the sale, exchange or retirement of bonds, debentures and other certificates of indebtedness with an original maturity date of more than five years (as measured from the date of issuance of such bonds, debentures or other certificates of indebtedness) shall not be subject to income tax. Any gain arising from such sale, regardless of the original maturity date of the bonds, may also be exempt from income tax pursuant to various income tax treaties to which the Philippines is a party, and subject to procedures prescribed by the Bureau of Internal Revenue for the availment of tax treaty benefits.

Value-Added Tax/Gross Receipts Tax

The gross income from the sale or transfer of the Bonds or Commercial Papers in the Philippines by dealers in securities is subject to VAT at the rate of 12.0% of the gross income. Banks and non-bank financial intermediaries performing quasi-banking functions are subject to gross receipts tax as the following rates:

- (a) On interest, commissions and discounts from lending activities as well as income from financial leasing, on the basis of remaining maturities of instruments from which such receipts are derived:

Maturity period is 5 years or less —	5.0%
Maturity period is more than 5 years —	1.0%
- (b) On dividends and equity shares and net income of subsidiaries — 0%
- (c) On royalties, rentals of property, real or personal, profits, from exchange and all other items treated as gross income under the Tax Code — 7.0%
- (d) On net trading gains within the taxable year on foreign currency, debt securities, derivatives, and other similar financial instruments — 7.0%

Other nonbank financial intermediaries are subject to gross receipts tax at the following rates:

- (a) On interest, commissions, discounts and all other items treated as gross income under the Tax Code— 5.0%
- (b) On interests, commissions and discounts from lending activities, as well as income from financial leasing, on the basis of remaining maturities of instruments from which such receipts are derived:

Maturity period is 5 years or less —	5.0%
Maturity period is more than 5 years —	1.0%

TAXATION

Estate and Donor's Tax

The transfer of Bonds and Commercial Papers as part of the estate of a deceased individual to his heirs, whether or not such individual was a resident of the Philippines at the time of his death, will be subject to an estate tax, at a uniform rate of 6%, regardless of whether the decedent is a resident or non-resident of the Philippines.

A holder of such Bonds will be subject to donor's tax, at a uniform rate of 6% based on the value of the total gift in excess of ₱250,000.00 made during a calendar year, regardless of the relation of the donor to the donee.

The estate tax as well as the donor's tax in respect of the Bonds and Commercial Papers shall not be collected (i) if the deceased at the time of death or the donor at the time of the donation was a citizen and resident of a foreign country which at the time of his death or donation did not impose a transfer tax of any character in respect of intangible personal property of citizens of the Philippines not residing in that foreign country or (ii) if the laws of the foreign country of which the deceased or the donor was a citizen and resident at the time of his death or donation allows a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in that foreign country.

DISTRIBUTION AND SALE

Method of Distribution

The Bonds and Commercial Papers are being issued pursuant to BSP Circular No. 1010 (Series of 2018), BSP Circular No. 1062 (Series of 2019), and other related circulars and issuances of the BSP (the **BSP Rules**). The issuance of the Bonds is exempt from the registration requirement under the Securities Regulation Code pursuant to Section 9.1(e) of the said law.

The Bonds and Commercial Papers are being issued by the Issuer with First Metro, ING and SCB as Arrangers and Selling Agents, the Bank as Selling Agent, and Philippine Depository & Trust Corp. as Registrar and Paying Agent.

No action has been or will be taken by the Issuer, the Arrangers or the Selling Agents in any jurisdiction (other than the Philippines), that would permit a public offering of any of the Bonds, or possession or distribution of this Offering Circular, or any amendment or supplement thereto issued in connection with the offering of the Bonds, in any country or jurisdiction where action for that purpose is required.

The Arrangers and the Selling Agents are required to comply with all laws, BSP rules and directives as may be applicable in the Philippines, including without limitation any BSP rules issued by the BSP, in connection with the offering and purchase of the Bonds and Commercial Papers and any distribution and intermediation activities, whether in the primary or secondary markets, carried out by or on behalf of the Arrangers and the Selling Agents in connection therewith. Each of the Arrangers and the Selling Agents is a third-party in relation to Bank, such that, (i) it has no subsidiary/affiliate relationship with Bank; (ii) it is not related in any manner to Bank as would undermine the objective conduct of due diligence on Bank. The Registrar and Paying Agent and Trustee are likewise third-parties in relation to Bank, such that, (i) they have no subsidiary/affiliate relationship with Bank; (ii) they are not related in any manner to Bank as would undermine their independence.

The Bonds and Commercial Papers are newly issued securities for which there currently is no market. SCB and ING (each a **Market Maker**) has each severally committed to provide live bids good for the minimum denomination under the Terms and Conditions, and a cumulative trading commitment per trading day, as required under PDEx Trading Rules, Conventions, and Guidelines. The Market Makers are not obligated to make a market for the Bonds or Commercial Papers. Accordingly, no assurance can be given as to the development or liquidity of any market for the Bonds and Commercial Papers.

The Arrangers, the Selling Agents or their respective affiliates may purchase the Bonds and Commercial Papers for their own account or enter into secondary market transactions or derivative transactions relating to the Bonds and Commercial Papers, including, without limitation, purchase, sale (or facilitation thereof), stock borrowing or credit or equity-linked derivatives such as asset swaps, repackagings and credit default swaps, at the same time as the offering of the Bonds or Commercial Papers. Such transactions may be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Bonds and Commercial Papers to which this Offering Circular relates (notwithstanding that such selected counterparties may also be a purchaser of the Bonds or Commercial Papers). As a result of such transactions, the Arrangers, the Selling Agents or their respective affiliates may hold long or short positions relating to the Bonds and Commercial Papers. The Arrangers, the Selling Agents or their respective affiliates may also engage in investment or commercial banking and other dealings in the ordinary course of business with the Issuer or its affiliates from time to time and may receive fees and commissions for these transactions. In addition to the transactions noted above, each of the Arrangers, the Selling Agents or their respective affiliates may, from time to time after completion of the offering of the Bonds or Commercial Papers, engage in other transactions with, and perform services for, the Issuer or its affiliates in the ordinary course of their business. The Arrangers, the Selling Agents or their respective affiliates may also purchase Bonds and Commercial Papers for asset management and/or proprietary purposes but not with a view to distribution or may hold Bonds and Commercial Papers on behalf of clients or in the capacity of investment advisors. While the Arrangers, the Selling Agents and their respective affiliates have policies and procedures to deal with conflicts of interests, any such transactions may cause the Arrangers, the Selling Agents or their respective or their clients or counterparties to have economic interests and incentives which may conflict with those of an investor in the Bonds and Commercial Papers. The Arrangers or the Selling Agents may receive returns on such transactions and has no obligation to take, refrain from taking or cease taking any action with respect to any such transactions based on the potential effect on a prospective investor in the Bonds or Commercial Papers.

DISTRIBUTION AND SALE

Applications to Purchase the Bonds and Commercial Papers during the Offer Period

Applicants may purchase the Bonds and Commercial Papers during the Offer Period by submitting fully and duly accomplished Applications to Purchase the Bonds or Commercial Papers, in quadruplicate together with all the required attachments and the corresponding payments to the Selling Agent from whom such application was obtained no later than 5:00 p.m. of the last day of the Offer Period. Applications received after said date or without the required attachments will be rejected. The Issuer and Arrangers reserve the right to adjust the Offer Period as needed.

If the Applicant is an individual, the following documents must also be submitted:

- a. A clear copy of at least one (1) valid photo-bearing identification document of the Applicant issued by an official authority in accordance with BSP Circular No. 608 (2008) as may be amended from time to time;
- b. Two (2) fully executed signature cards containing the specimen signature of the Applicant, validated / signed by the Selling Agent's authorized signatory/ies, whose authority/ies and specimen signatures have been submitted to the Registrar;
- c. Such other documents as may be reasonably required by the Selling Agent(s) in implementation of its internal policies regarding "knowing your customer" and anti-money laundering; and
- d. For aliens residing in the Philippines or non-residents engaged in trade or business in the Philippines, consularized proof of tax domicile issued by the relevant tax authority of the Applicant.

If the Applicant is a corporation, partnership, trust, association or institution, the following documents must also be submitted:

- a. Copies of the Articles of Incorporation and By Laws and latest amendments thereof, together with the Certificate of Incorporation issued by the Securities and Exchange Commission (SEC) and equivalent government institution, stamped and signed as certified as true copies by the SEC or by the Applicant's Corporate Secretary, or by an equivalent officer/s who is/are authorized signatory/ies;
- b. An original Certificate of the Corporate Secretary of the Applicant, setting for the resolutions of the Applicant's Board of Directors authorizing the purchase of the Bonds or Commercial Papers and designating the signatories, with their specimen signatures, for the said purpose; and
- c. Two (2) duly accomplished signature cards containing the specimen signatures of the Applicant's authorized signatories, validated by its Corporate Secretary, Corporate Secretary or by an equivalent officer/s who is/are authorized signatory/ies, and further validated/signed by the Selling Agent's authorized signatory/ies whose authority/ies and specimen signatures have been submitted to the Registrar..

Corporate applicants who are claiming tax exemption must also submit the following:

- a. A copy of the (dated no earlier than required to be considered valid under applicable tax regulations at the relevant time) current and valid original tax exemption certificate, ruling or opinion issued by the Bureau of Internal Revenue, addressed to the Applicant, confirming the exemption or preferential rate, and certified as being a true copy of the original on file with the Applicant;
- b. A duly notarized undertaking, in the prescribed form and substance by the Bank, declaring and warranting that the same Holder named in the tax exempt certificate described in (a) above is specifically exempt from the relevant tax or is subject to a preferential tax rate for the relevant tax, undertaking to immediately notify the Issuer and the Registrar of any suspension or revocation of its tax exemption certificates or preferential privilege and agreeing to indemnify and hold the Issuer, the Registrar and Paying Agent free and harmless against any claims, actions, suits, and liabilities resulting from the non-withholding of the required tax; and
- c. Such other documentary requirements as may be reasonably required by the Bank, the Registrar or the Paying Agent under applicable regulations of the relevant taxing or other authorities, which for purposes of claiming tax treaty withholding rate benefits shall include evidence of the applicability of a tax treaty and consularized proof of the Applicant's legal domicile in the relevant treaty state, and confirmation from the SEC that the entity is not doing business in the Philippines.

Allocation and Issue of the Bonds and Commercial Papers

Applications to Purchase the Bonds and Commercial Papers shall be subject to the availability of the Bonds and Commercial Papers and acceptance by the Issuer. The Arrangers, in consultation with the Issuer, reserves the right to

DISTRIBUTION AND SALE

accept, reject, scale down or reallocate any Application to purchase the Bonds or Commercial Papers applied for.

In the event that payment supporting any Application is returned by the drawee bank for any reason whatsoever, the Application shall be automatically cancelled and any prior acceptance of the Application shall be deemed revoked. If any Application is rejected or accepted in part only, the application money or the appropriate portion thereof will be returned without interest by the relevant Selling Agent.

The Selling Agents shall, on behalf of the Issuer, accept the relevant Applications to Purchase. The acceptance of the Application to Purchase shall *ipso facto* convert such Application to Purchase into a purchase agreement between the Issuer and the relevant Holder.

Upon confirmation by the Issuer of acceptance of the relevant Applications and the respective amount of Bonds or Commercial Papers, the Registrar and Paying Agent shall issue the relevant registry confirmation (the **Registry Confirmation**) to successful applicants confirming the acceptance of their purchase of the Bonds or Commercial Papers and consequent ownership thereof and stating the pertinent details including the amount accepted, with copies to the Issuer.

The Registrar shall be entitled to rely solely on the Final Sales Reports submitted by the Selling Agents to the Registrar. Where PDTC discovers, after Issue Date, any inconsistency between the Final Sales Report and the Application to Purchase submitted by the Holder, PDTC reserves the right to rely subsidiarily on the Applications to Purchase, to the extent that the information in the Final Sales Report is noted to be inconsistent with the Application to Purchase. Within seven (7) Business Days from the Issue Date, the Registrar shall distribute the Registry Confirmations directly to the Holders in the mode elected by the Holder as indicated in the Application to Purchase.

Transactions in the Secondary Market

All secondary trading of the Bonds and Commercial Papers shall be coursed the trading facilities of PDEX, as applicable, subject to the payment by the Holder of fees to the connection with trading on PDEX, and the Registrar. Transfers shall be subject to the procedures of the BSP, the Registrar and PDEX, including but not limited to the guidelines on minimum trading lots, minimum holding denominations, and record dates.

The Bank shall list the Bonds and Commercial Papers in PDEX for secondary market trading. Upon listing of the Bonds and Commercial Papers with PDEX, investors shall course their secondary market trades through the trading participants of PDEX for execution in the PDEX Trading Platform in accordance with the PDEX Trading Rules, Conventions and Guidelines, as these may be amended or supplemented from time to time, and must settle such trades on a Delivery versus Payment (**DvP**) basis in accordance with PDEX Settlement Rules and Guidelines. The secondary trading of the Bonds and Commercial Papers in PDEX may be subject to such fees and charges of PDEX, the trading participants of PDEX, and other providers necessary for the completion of such trades. Transactions on the Bonds and Commercial Papers on PDEX will be subject to the duly approved and relevant rules of the exchange, including guidelines on minimum trading lots and other guidelines for holding and trading of the Bonds and Commercial Papers as may be prescribed by the BSP.

For the avoidance of doubt, the minimum denomination for the Bonds and Commercial Papers as prescribed by the BSP must be kept at all times. Consequently, no negotiation or secondary trading will be allowed if the result is that a remaining Holder of the Bonds or Commercial Papers will hold less than the minimum denomination as prescribed or approved by the BSP.

No transfers will be effected for a period of two (2) Business Days preceding the due date for any payment of interest on the Bonds or Commercial Papers, or during the period of two (2) Business Days preceding the due date for the payment of the principal amount of the Bonds or Commercial Papers.

The Registrar shall register any transfer of the Bonds or Commercial Papers, upon and within five (5) Business Days from, presentation to it of the following documents in form and substance acceptable to it:

- The relevant Trade-Related Transfer Form or Non-Trade Related Transfer Form as the case may be, duly accomplished by the transferor Holder and endorsed by the PDEX Trading Participant;
- The Investor Registration Form, duly accomplished by the transferee Holder and endorsed by the relevant PDEX Trading Participant, in the form agreed upon between the Bank and the Registrar
- Tax-exempt/Treaty Documents, if applicable;
- the Written Consent of the Transferee Holder

DISTRIBUTION AND SALE

- such other documents that may be reasonably required by the Registrar to be submitted by the transferee Holder in support of the transfer or assignment of the Bonds or Commercial Paper.

Transfers of the Bonds and Commercial Papers made in violation of the restrictions on transfer under the Terms and Conditions shall be null and void and shall not be registered by the Registrar.

Interest and Principal Payment

On the relevant Payment Date, the Registrar shall, upon receipt of the corresponding funds from the Issuer, make available to the Holders the amounts due under the Bonds and Commercial Papers, net of taxes and fees (if any), by way of credits to the bank accounts identified by the Holders in the Applications to Purchase.

INDEX TO FINANCIAL STATEMENTS

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP AS OF 31 DECEMBER 2018
AND 2017 AND FOR THE YEARS ENDED 31 DECEMBER 2018, 2017, AND 2016**

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP AS OF 31 DECEMBER 2019
AND 2018 AND FOR THE YEARS ENDED 31 DECEMBER 2019, 2018, AND 2017**

FINANCIAL STATEMENTS

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE
GROUP AS OF 31 DECEMBER 2018 AND 2017 AND FOR THE YEARS
ENDED 31 DECEMBER 2018, 2017, AND 2016**

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Metropolitan Bank & Trust Company
Metrobank Plaza, Sen. Gil Puyat Avenue
Urdaneta Village, Makati City
Metro Manila, Philippines

Report on the Consolidated and Parent Company Financial Statements

Opinion

We have audited the consolidated financial statements of Metropolitan Bank & Trust Company and its subsidiaries (the Group) and the parent company financial statements of Metropolitan Bank & Trust Company (the Parent Company), which comprise the consolidated and parent company statements of financial position as at December 31, 2018 and 2017, and the consolidated and parent company statements of income, consolidated and parent company statements of comprehensive income, consolidated and parent company statements of changes in equity and consolidated and parent company statements of cash flows for each of the three years in the period ended December 31, 2018, and notes to the consolidated and parent company financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated and parent company financial statements present fairly, in all material respects, the financial position of the Group and the Parent Company as at December 31, 2018 and 2017, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2018 in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

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



Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and parent company financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and parent company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated and Parent Company Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated and parent company financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated and parent company financial statements.

Applicable to the audit of the consolidated and parent company financial statements

Adoption of PFRS 9, Financial Instruments

On January 1, 2018, the Group and the Parent Company adopted PFRS 9, *Financial Instruments*, which replaced Philippine Accounting Standards 39, *Financial Instruments: Recognition and Measurement*. PFRS 9 provides revised principles for classifying financial assets and introduces a forward-looking expected credit loss model to assess impairment on debt financial assets not measured at fair value through profit or loss and loan commitments and financial guarantee contracts. The Group and the Parent Company used the modified retrospective approach in adopting PFRS 9.

1. Classification of Financial Assets

As at January 1, 2018 (the transition date), the Group and the Parent Company classified their financial assets based on their business models for managing these financial assets and the contractual cash flow characteristics of the financial assets. This resulted in transition adjustments that increased surplus and other comprehensive income by ₱210.5 million and ₱15.4 billion, respectively. Thereafter, the financial assets were accounted for based on the transition date classification, while newly originated or acquired financial assets were classified based on the PFRS 9 classification criteria.

The Group's and the Parent Company's application of the PFRS 9 classification criteria is significant to our audit as the classification determines how financial assets are measured and accounted for in the financial statements.

The disclosures in relation to the adoption of the PFRS 9 classification criteria are included in Note 2 to the financial statements.

Audit response

We obtained an understanding of the Group's and the Parent Company's contracts review process to establish the contractual cash flow characteristics of debt financial assets, including the identification of standard and non-standard contracts, and reviewed the assessment made by management by inspecting underlying contracts on a sample basis. We obtained the board-approved business models



for the Group's and the Parent Company's portfolios of financial assets. We compared the parameters set within the business models with the portfolio and risk management policies of the Group and the Parent Company. For significant portfolios, we assessed frequency and relative amount of sales in the past, understood how the business performance is measured and evaluated performance measurement reports.

We checked the appropriateness of the transition adjustments and reviewed the completeness of the disclosures made in the financial statements.

2. Expected Credit Loss (ECL)

The Group's and the Parent Company's adoption of the ECL model is significant to our audit as it involves the exercise of significant management judgment. Key areas of judgment include: segmenting the Group's and the Parent Company's credit risk exposures; determining the method to estimate ECL; defining default; identifying exposures with significant deterioration in credit quality; determining assumptions to be used in the ECL model such as the counterparty credit risk rating, the expected life of the financial asset and expected recoveries from defaulted accounts; and incorporating forward-looking information (called overlays) in calculating ECL.

The adoption of the impairment requirements under PFRS 9 resulted in an increase in ECL allowances as of January 1, 2018 by ₱5.6 billion for the Group and ₱3.6 billion for the Parent Company. Provision for credit losses of the Group and the Parent Company in 2018 using the ECL model amounted to ₱7.7 billion and ₱807.5 million, respectively.

Refer to Notes 2 and 15 of the financial statements for the disclosure on the transition adjustments and details of the allowance for credit losses using the ECL model, respectively.

Audit response

We obtained an understanding of the board-approved methodologies and models used for the Group's and the Parent Company's different credit exposures and assessed whether these considered the requirements of PFRS 9 to reflect an unbiased and probability-weighted outcome, and to consider time value of money and the best available forward-looking information.

We (a) assessed the Group's and the Parent Company's segmentation of its credit risk exposures based on homogeneity of credit risk characteristics; (b) tested the definition of default and significant increase in credit risk criteria against historical analysis of accounts and credit risk management policies and practices in place; (c) tested the Group's and the Parent Company's application of internal credit risk rating system by reviewing the ratings of sample credit exposures; (d) assessed whether expected life is different from the contractual life by testing the maturity dates reflected in the Group's and the Parent Company's records and considering management's assumptions regarding future collections, advances, extensions, renewals and modifications; (e) tested loss given default by inspecting historical recoveries and related costs, write-offs and collateral valuations; (f) tested exposure at default considering outstanding commitments and repayment scheme; (g) checked the reasonableness of forward-looking information used for overlay through statistical test and corroboration using publicly available information and our understanding of the Group's and the Parent Company's lending portfolios and broader industry knowledge; and (h) tested the effective interest rate used in discounting the expected loss.



Further, we checked the data used in the ECL models by reconciling data from source system reports to the data warehouse and from the data warehouse to the loss allowance analysis/models and financial reporting systems. To the extent that the loss allowance analysis is based on credit exposures that have been disaggregated into subsets of debt financial assets with similar risk characteristics, we traced or re-performed the disaggregation from source systems to the loss allowance analysis. We also assessed the assumptions used where there are missing or insufficient data.

We recalculated impairment provisions on a sample basis. We checked the appropriateness of the transition adjustments and reviewed the completeness of the disclosures made in the financial statements.

We involved our internal specialists in the performance of the above procedures.

Existence of Loans and Receivables

As of December 31, 2018, the Group and the Parent Company's loans and receivables represent 62% and 60% of the total assets of the Group and the Parent Company, respectively. We considered loans and receivables as a key audit matter because of the significance of the account balance, high volume of transactions, and the incident that happened in 2017 as discussed in Note 30.

The disclosures in relation to the loans and receivables are included in Note 9 to the financial statements.

Audit response

We performed confirmation procedures for loans and receivable accounts. For those accounts without confirmation replies, we performed loan review by examining the credit folders containing promissory notes, board resolutions of the borrowers, call memos and collateral documents; checking whether the signature of the borrowers and the use of proceeds of the loans were verified by the authorized personnel/department; and checking through the assistance of the Internal Audit Group the crediting of the loan proceeds to the designated bank accounts of the borrowers, if applicable. For those loan accounts where the proceeds were disbursed through checks, we inspected whether the checks were issued in the borrower's name.

Recognition of Deferred Tax Assets

As of December 31, 2018, the net deferred tax assets of the Group and the Parent Company amounted to ₱10.2 billion and ₱6.8 billion, respectively. The recognition of deferred tax assets was significant to our audit because it requires significant judgment and is based on assumptions such as availability of future taxable income and the timing of the reversal of the temporary differences that are affected by expected future market or economic conditions and the expected performance of the Group and the Parent Company.

The disclosures in relation to deferred income taxes are included in Note 28 of the financial statements.



Audit response

We involved our internal specialist in interpreting the tax regulations, testing the temporary differences identified by the Group and the Parent Company and the applicable tax rate. We also re-performed the calculation of the deferred tax assets. We reviewed the management's assessment on the availability of future taxable income in reference to financial forecast and tax strategies. We evaluated management's forecast by comparing the loan portfolio and deposit growth rates to the historical performance of the Group and the Parent Company and the industry.

Applicable to the audit of the consolidated financial statements

Recoverability of Investments in Associates and a Joint Venture

The Group assesses the impairment of its investments in associates and a joint venture whenever events or changes in circumstances indicate that the carrying amount of the investments may not be recoverable. As of December 31, 2018, the Group has an investment in associate amounting to ₱2.1 billion where its fair value declined significantly compared to the carrying value. The Group performed impairment testing using the investment's value-in-use (VIU). We considered the impairment testing of the Group's investment in this associate as a key audit matter as significant judgment and estimates are involved in the determination of the investment's VIU.

The disclosures relating to investments in associates and a joint venture are included in Notes 3 and 11 to the financial statements.

Audit response

We discussed the investee's current business performance and prospects and how these were reflected in the Group's VIU calculation with the management. We involved our internal specialist to assist us in evaluating the methodology and calculation of the VIU by comparing the key assumptions – such as the expected production volume and capital expenditures to historical performance and plans of the investee, and the price assumption, exchange rates and long-term growth rate to available industry, economic and financial data including consensus market forecasts. We also tested whether the discount rate used represents current market assessment of risks associated with the investment.

Recoverability of Goodwill

As of December 31, 2018, the Group has goodwill amounting to ₱5.2 billion as a result of various business acquisitions. Under PFRS, the Group is required to annually test the amount of goodwill for impairment. The Group performed the impairment testing using the fair value less costs to sell (FVLCTS). The annual impairment test was significant to our audit because significant judgment and estimates are involved in the determination of the cash generating unit's (CGU's) FVLCTS. The CGU's assets include significant investments in unquoted equity shares and their fair values were determined using price-to-earnings (P/E) ratios of comparable companies. Other assets of the CGU include investments in quoted equity shares and debt financial assets, and real properties, while other liabilities include unquoted debt financial liabilities.

The disclosures in relation to goodwill are included in Notes 3 and 11 to the financial statements.



Audit response

We involved our internal specialist to evaluate the assumptions and methodology used by the Group in determining the FVLCTS of the CGU, in particular those relating to the use of P/E ratios of comparable companies in the valuation of the unquoted equity shares. We tested the fair value of the other assets and liabilities by referring to the quoted prices of listed equity and debt instruments, agreeing the appraised values of real estate properties to the appraisal reports, comparing the future cash flows of unquoted debt instruments to the related contracts, and tested the discount rate if based on prevailing interest rates for similar instruments. We also re-performed the calculation of the FVLCTS.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018, but does not include the consolidated and parent company financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018 are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated and parent company financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated and parent company financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated and parent company financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

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

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

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

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



Auditor's Responsibilities for the Audit of the Consolidated and Parent Company Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated and parent company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and parent company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Parent Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and parent company financial statements, including the disclosures, and whether the consolidated and parent company financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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



We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated and parent company financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations No. 15-2010 in Note 37 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of the Parent Company. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The engagement partner on the audit resulting in this independent auditor's report is
Janeth T. Nuñez-Javier.

SYCIP GORRES VELAYO & CO.



Janeth T. Nuñez-Javier

Partner

CPA Certificate No. 111092

SEC Accreditation No. 1328-AR-1 (Group A),

July 28, 2016, valid until July 28, 2019

Tax Identification No. 900-322-673

BIR Accreditation No. 08-001998-69-2018,

February 26, 2018, valid until February 25, 2021

PTR No. 7332590, January 3, 2019, Makati City

February 13, 2019



METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
STATEMENTS OF FINANCIAL POSITION
(In Millions)

	Consolidated	Parent Company		
	December 31			
	2018	2017	2018	2017
ASSETS				
Cash and Other Cash Items	₱33,091	₱27,631	₱29,280	₱24,975
Due from Bangko Sentral ng Pilipinas (Notes 4 and 16)	240,134	261,959	206,289	224,723
Due from Other Banks (Note 4)	45,802	31,291	35,218	19,286
Interbank Loans Receivable and Securities Purchased Under Resale Agreements (SPURA) (Notes 4, 7 and 26)	50,719	45,475	24,712	27,208
Investment Securities at Fair Value Through Profit or Loss (FVTPL) (Note 8)	39,689	43,887	30,166	32,272
Fair Value Through Other Comprehensive Income (FVOCI) (Notes 4 and 8)	111,288	—	92,144	—
Amortized Cost (Notes 4 and 8)	265,376	—	212,607	—
Available-for-Sale (AFS) Investments (Note 8)	—	343,910	—	270,445
Loans and Receivables (Notes 4 and 9)	1,391,034	1,265,469	1,116,257	1,002,921
Property and Equipment (Note 10)	21,954	22,362	15,632	15,757
Investments in Subsidiaries (Note 11)	—	—	81,288	68,452
Investments in Associates and a Joint Venture (Note 11)	5,947	5,764	494	644
Goodwill (Note 11)	5,200	5,200	—	—
Investment Properties (Note 12)	7,500	7,717	2,825	3,013
Deferred Tax Assets (Note 28)	10,238	9,161	6,769	6,528
Other Assets (Note 14)	15,721	10,466	9,983	5,161
	₱2,243,693	₱2,080,292	₱1,863,664	₱1,701,385
LIABILITIES AND EQUITY				
LIABILITIES				
Deposit Liabilities (Notes 16 and 31)				
Demand	₱355,473	₱344,708	₱322,371	₱314,542
Savings	609,471	605,508	577,815	576,807
Time	548,019	547,721	390,475	395,948
Long-Term Negotiable Certificates	43,790	30,025	35,330	26,650
	1,556,753	1,527,962	1,325,991	1,313,947
Bills Payable and Securities Sold Under Repurchase Agreements (SSURA) (Notes 17 and 31)	259,607	227,835	151,079	106,482
Derivative Liabilities (Note 8)	6,537	5,352	6,182	5,352
Manager’s Checks and Demand Drafts Outstanding	7,565	8,054	5,950	5,840
Income Taxes Payable	2,830	3,381	1,670	2,077
Accrued Interest and Other Expenses (Note 18)	9,619	6,973	5,625	3,905
Bonds Payable (Notes 19 and 31)	30,743	2,910	27,826	—
Subordinated Debts (Note 20)	26,618	26,580	22,471	22,437
Deferred Tax Liabilities (Note 28)	357	277	—	—
Non-equity Non-controlling Interest (Note 21)	6,747	8,002	—	—
Other Liabilities (Note 21)	45,613	58,876	24,107	34,719
	1,952,989	1,876,202	1,570,901	1,494,759

(Forward)



	Consolidated		Parent Company	
	December 31			
	2018	2017	2018	2017
EQUITY				
Equity Attributable to Equity Holders of the Parent Company				
Common stock (Note 23)	₱79,600	₱63,603	₱79,600	₱63,603
Capital paid in excess of par value (Note 23)	85,252	42,139	85,252	42,139
Treasury stock (Notes 23 and 31)	(67)	(46)	(67)	(46)
Surplus reserves (Note 24)	1,956	1,810	1,956	1,810
Surplus (Note 23)	130,550	116,786	130,550	116,786
Net unrealized loss on investment securities at FVOCI (Note 8)	(2,994)	—	(2,994)	—
Net unrealized loss on AFS investments (Note 8)	—	(15,804)	—	(15,804)
Remeasurement losses on retirement plan (Notes 11 and 27)	(3,591)	(4,025)	(3,591)	(4,025)
Equity in other comprehensive income (losses) of investees (Note 11)	(27)	22	(27)	22
Translation adjustment and others (Note 11)	(7,719)	(2,530)	2,084	2,141
	282,960	201,955	292,763	206,626
Other Equity Reserves (Note 11)	—	(7,400)	—	—
Non-controlling Interest (Note 11)	7,744	9,535	—	—
	290,704	204,090	292,763	206,626
	₱2,243,693	₱2,080,292	₱1,863,664	₱1,701,385

See accompanying Notes to Financial Statements.



METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES

STATEMENTS OF INCOME

(In Millions, Except Earnings Per Share)

	Consolidated			Parent Company		
	Years Ended December 31					
	2018	2017	2016	2018	2017	2016
INTEREST INCOME ON						
Loans and receivables (Notes 9 and 31)	₱79,659	₱63,391	₱51,266	₱46,860	₱35,072	₱27,386
Investment securities at FVOCI/AFS investments and at amortized cost (Note 8)	14,610	13,480	14,261	11,592	10,655	11,892
Investment securities at FVTPL (Note 8)	1,170	1,585	1,110	1,006	1,362	853
Interbank loans receivable and securities purchased under resale agreements (Notes 7 and 31)	1,092	1,231	898	441	606	479
Deposits with banks and others	655	635	646	422	316	387
	97,186	80,322	68,181	60,321	48,011	40,997
INTEREST AND FINANCE CHARGES						
Deposit liabilities (Notes 16 and 31)	18,968	12,613	9,888	13,447	8,777	6,811
Bills payable and securities sold under repurchase agreements, bonds payable, subordinated debts and others (Notes 17, 19, 20, 21 and 31)	9,396	6,303	5,347	4,546	2,741	1,979
	28,364	18,916	15,235	17,993	11,518	8,790
NET INTEREST INCOME	68,822	61,406	52,946	42,328	36,493	32,207
PROVISION FOR CREDIT AND IMPAIRMENT LOSSES (Note 15)	7,770	7,507	7,342	807	1,395	1,174
NET INTEREST INCOME AFTER PROVISION FOR CREDIT AND IMPAIRMENT LOSSES	61,052	53,899	45,604	41,521	35,098	31,033
OTHER OPERATING INCOME						
Service charges, fees and commissions (Notes 25 and 31)	12,695	11,045	10,329	4,954	4,171	3,768
Trading and securities gain (loss) - net (Notes 8, 21 and 31)	2,541	(402)	6,563	3,041	(1,079)	6,154
Foreign exchange gain (loss) - net (Note 31)	210	4,257	2,005	(66)	4,101	1,533
Leasing (Notes 12, 13 and 31)	2,252	2,129	2,001	224	215	220
Profit from assets sold (Notes 12 and 31)	1,371	1,075	732	623	639	463
Income from trust operations (Notes 24 and 31)	1,290	1,377	1,274	1,259	1,351	1,251
Dividends (Note 11)	141	182	151	23	19	17
Miscellaneous (Note 25)	2,410	2,484	2,611	401	446	452
	22,910	22,147	25,666	10,459	9,863	13,858
OTHER OPERATING EXPENSES						
Compensation and fringe benefits (Notes 27 and 31)	22,368	20,218	18,374	15,115	13,526	12,339
Taxes and licenses (Note 28)	8,776	6,580	5,997	5,253	3,701	3,317
Depreciation and amortization (Notes 10, 12 and 14)	3,572	3,524	3,290	1,559	1,585	1,515
Occupancy and equipment-related cost (Note 13)	3,193	2,929	2,819	1,824	1,730	1,680
Amortization of software costs (Note 14)	512	494	474	131	123	141
Miscellaneous (Note 25)	15,235	13,730	13,639	9,573	8,553	8,881
	53,656	47,475	44,593	33,455	29,218	27,873
INCOME BEFORE SHARE IN NET INCOME OF SUBSIDIARIES, ASSOCIATES AND A JOINT VENTURE	30,306	28,571	26,677	18,525	15,743	17,018
SHARE IN NET INCOME OF SUBSIDIARIES, ASSOCIATES AND A JOINT VENTURE (Note 11)	874	689	261	7,967	6,995	4,958
INCOME BEFORE INCOME TAX	31,180	29,260	26,938	26,492	22,738	21,976
PROVISION FOR INCOME TAX (Note 28)	7,745	7,990	6,622	4,484	4,515	3,890
NET INCOME	₱23,435	₱21,270	₱20,316	₱22,008	₱18,223	₱18,086
Attributable to:						
Equity holders of the Parent Company (Note 32)	₱22,008	₱18,223	₱18,086			
Non-controlling interest (Note 11)	1,427	3,047	2,230			
	₱23,435	₱21,270	₱20,316			
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 32)	₱5.83	₱5.62*	₱5.50*			

*Restated to show the effect of stock rights issued in 2018

See accompanying Notes to Financial Statements.



METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
STATEMENTS OF COMPREHENSIVE INCOME
(In Millions)

	Consolidated			Parent Company		
	Years Ended December 31					
	2018	2017	2016	2018	2017	2016
Net Income	₱23,435	₱21,270	₱20,316	₱22,008	₱18,223	₱18,086
Other Comprehensive Income for the Year, Net of Tax						
Items that may not be reclassified to profit or loss:						
Change in remeasurement loss on retirement plan (Notes 11 and 27)	498	26	(489)	434	(18)	(477)
Items that may be reclassified to profit or loss:						
Change in net unrealized loss on investment securities at FVOCI (Note 8)	(2,794)	—	—	(2,671)	—	—
Change in net unrealized loss on AFS investments (Note 8)	—	(5,772)	(5,464)	—	(5,689)	(5,332)
Change in equity in other comprehensive income of investees (Note 11)	(50)	(32)	(127)	(49)	(32)	(126)
Translation adjustment and others (Note 11)	(309)	733	(1,076)	(57)	881	277
	(3,153)	(5,071)	(6,667)	(2,777)	(4,840)	(5,181)
Total Comprehensive Income for the Year	₱20,780	₱16,225	₱13,160	₱19,665	₱13,365	₱12,428
Attributable to:						
Equity holders of the Parent Company	₱19,665	₱13,365	₱12,428			
Non-controlling interest	1,115	2,860	732			
	₱20,780	₱16,225	₱13,160			

See accompanying Notes to Financial Statements.



METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES

STATEMENTS OF CHANGES IN EQUITY

(In Millions)

	Consolidated													
	Common Stock (Note 23)	Hybrid Capital Securities (Note 23)	Capital Paid In Excess of Par Value (Note 23)	Treasury Stock (Note 23)	Surplus Reserves (Note 24)	Surplus (Note 23)	Net Unrealized Loss on Investment Securities at FVOCI/AFS Investments (Note 8)	Remeasurement Losses on Retirement Plan (Notes 11 and 27)	Equity in Other Comprehensive Income (Losses) of Investees (Note 11)	Translation Adjustment and Others (Note 11)	Total	Other Equity Reserve (Note 11)	Non-controlling Interest (Note 11)	Total Equity
Balance as at December 31, 2017	₱63,603	₱–	₱42,139	(₱46)	₱1,810	₱116,786	(₱15,804)	(₱4,025)	₱22	(₱2,530)	₱201,955	(₱7,400)	₱9,535	₱204,090
Effect of adoption of Philippine Financial Reporting Standards (PFRS) 9, <i>Financial Instruments</i> (Note 2)	–	–	–	–	–	(4,756)	15,359	–	–	–	10,603	–	(108)	10,495
Effect of adoption of PFRS 15, <i>Revenue from Contracts with Customers</i> (Note 2)	–	–	–	–	–	(40)	–	–	–	–	(40)	–	(10)	(50)
Balance as at January 1, 2018	63,603	–	42,139	(46)	1,810	111,990	(445)	(4,025)	22	(2,530)	212,518	(7,400)	9,417	214,535
Issuance of stock rights	15,997	–	43,113	–	–	–	–	–	–	–	59,110	–	–	59,110
Total comprehensive income for the year	–	–	–	–	–	22,008	(2,671)	434	(49)	(57)	19,665	–	1,115	20,780
Transfer to surplus reserves	–	–	–	–	146	(146)	–	–	–	–	–	–	–	–
Cash dividends	–	–	–	–	–	(3,180)	–	–	–	–	(3,180)	–	(520)	(3,700)
Realized loss on sale of equity securities at FVOCI	–	–	–	–	–	(122)	122	–	–	–	–	–	–	–
Parent Company shares held by mutual fund subsidiaries	–	–	–	(21)	–	–	–	–	–	–	(21)	–	–	(21)
Settlement of non-controlling interest acquired (Note 11)	–	–	–	–	–	–	–	–	–	(5,132)	(5,132)	7,400	(2,268)	–
Balance as at December 31, 2018	₱79,600	₱–	₱85,252	(₱67)	₱1,956	₱130,550	(₱2,994)	(₱3,591)	(₱27)	(₱7,719)	₱282,960	₱–	₱7,744	₱290,704
Balance as at January 1, 2017	₱63,603	₱–	₱42,139	(₱485)	₱1,653	₱101,900	(₱10,115)	(₱4,007)	₱54	₱1,260	₱196,002	₱–	₱9,551	₱205,553
Total comprehensive income for the year	–	–	–	–	–	18,223	(5,689)	(18)	(32)	881	13,365	–	2,860	16,225
Transfer to surplus reserves	–	–	–	–	157	(157)	–	–	–	–	–	–	–	–
Cash dividends	–	–	–	–	–	(3,180)	–	–	–	–	(3,180)	–	(147)	(3,327)
Disposal of Parent Company shares held by mutual fund subsidiaries	–	–	–	439	–	–	–	–	–	–	439	–	–	439
Acquisition of non-controlling interest (Note 11)	–	–	–	–	–	–	–	–	–	(4,671)	(4,671)	(7,400)	(2,729)	(14,800)
Balance as at December 31, 2017	₱63,603	₱–	₱42,139	(₱46)	₱1,810	₱116,786	(₱15,804)	(₱4,025)	₱22	(₱2,530)	₱201,955	(₱7,400)	₱9,535	₱204,090
Balance as at January 1, 2016	₱63,603	₱6,351	₱42,139	(₱187)	₱1,506	₱87,497	(₱4,783)	(₱3,530)	₱180	₱983	₱193,759	₱–	₱9,551	₱203,310
Total comprehensive income for the year	–	–	–	–	–	18,086	(5,332)	(477)	(126)	277	12,428	–	732	13,160
Transfer to surplus reserves	–	–	–	–	147	(147)	–	–	–	–	–	–	–	–
Cash dividends	–	–	–	–	–	(3,180)	–	–	–	–	(3,180)	–	(732)	(3,912)
Coupon payment of hybrid capital securities	–	–	–	–	–	(267)	–	–	–	–	(267)	–	–	(267)
Redemption of hybrid capital securities	–	(6,351)	–	–	–	(89)	–	–	–	–	(6,440)	–	–	(6,440)
Parent Company shares held by mutual fund subsidiaries	–	–	–	(298)	–	–	–	–	–	–	(298)	–	–	(298)
Balance as at December 31, 2016	₱63,603	₱–	₱42,139	(₱485)	₱1,653	₱101,900	(₱10,115)	(₱4,007)	₱54	₱1,260	₱196,002	₱–	₱9,551	₱205,553



	Parent Company										
						Net Unrealized Loss on Investment Securities at FVOCI/AFS Investments	Remeasurement Losses on Retirement Plan (Notes 11 and 27)	Equity in Other Comprehensive Income (Losses) of Investees (Note 11)	Translation Adjustment and Others (Note 11)	Total Equity	
	Common Stock (Note 23)	Hybrid Capital Securities (Note 23)	Capital Paid In Excess of Par Value (Note 23)	Treasury Stock (Note 23)	Surplus Reserves (Note 24)	Surplus (Note 23)					
Balance as at December 31, 2017	₱63,603	₱–	₱42,139	(₱46)	₱1,810	₱116,786	(₱15,804)	(₱4,025)	₱22	₱2,141	₱206,626
Effect of adoption of PFRS 9 (Note 2)	–	–	–	–	–	(4,756)	15,359	–	–	–	10,603
Effect of adoption of PFRS 15 (Note 2)	–	–	–	–	–	(40)	–	–	–	–	(40)
Balance as at January 1, 2018	63,603	–	42,139	(46)	1,810	111,990	(445)	(4,025)	22	2,141	217,189
Issuance of stock rights	15,997	–	43,113	–	–	–	–	–	–	–	59,110
Total comprehensive income for the year	–	–	–	–	–	22,008	(2,671)	434	(49)	(57)	19,665
Transfer to surplus reserves	–	–	–	–	146	(146)	–	–	–	–	–
Cash dividends	–	–	–	–	–	(3,180)	–	–	–	–	(3,180)
Share in realized loss on sale of equity securities at FVOCI	–	–	–	–	–	(122)	122	–	–	–	–
Parent Company shares held by mutual fund subsidiaries	–	–	–	(21)	–	–	–	–	–	–	(21)
Balance as at December 31, 2018	₱79,600	₱–	₱85,252	(₱67)	₱1,956	₱130,550	(₱2,994)	(₱3,591)	(₱27)	₱2,084	₱292,763
Balance as at January 1, 2017	₱63,603	₱–	₱42,139	(₱485)	₱1,653	₱101,900	(₱10,115)	(₱4,007)	₱54	₱1,260	₱196,002
Total comprehensive income for the year	–	–	–	–	–	18,223	(5,689)	(18)	(32)	881	13,365
Transfer to surplus reserves	–	–	–	–	157	(157)	–	–	–	–	–
Cash dividends	–	–	–	–	–	(3,180)	–	–	–	–	(3,180)
Disposal of Parent Company shares held by mutual fund subsidiaries	–	–	–	439	–	–	–	–	–	–	439
Balance as at December 31, 2017	₱63,603	₱–	₱42,139	(₱46)	₱1,810	₱116,786	(₱15,804)	(₱4,025)	₱22	₱2,141	₱206,626
Balance as at January 1, 2016	₱63,603	₱6,351	₱42,139	(₱187)	₱1,506	₱87,497	(₱4,783)	(₱3,530)	₱180	₱983	₱193,759
Total comprehensive income for the year	–	–	–	–	–	18,086	(5,332)	(477)	(126)	277	12,428
Transfer to surplus reserves	–	–	–	–	147	(147)	–	–	–	–	–
Cash dividends	–	–	–	–	–	(3,180)	–	–	–	–	(3,180)
Coupon payment of hybrid capital securities	–	–	–	–	–	(267)	–	–	–	–	(267)
Redemption of hybrid capital securities	–	(6,351)	–	–	–	(89)	–	–	–	–	(6,440)
Parent Company shares held by mutual fund subsidiaries	–	–	–	(298)	–	–	–	–	–	–	(298)
Balance as at December 31, 2016	₱63,603	₱–	₱42,139	(₱485)	₱1,653	₱101,900	(₱10,115)	(₱4,007)	₱54	₱1,260	₱196,002

See accompanying Notes to Financial Statements.



METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES

STATEMENTS OF CASH FLOWS

(In Millions)

	Consolidated			Parent Company		
	Years Ended December 31					
	2018	2017	2016	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES						
Income before income tax	₱31,180	₱29,260	₱26,938	₱26,492	₱22,738	₱21,976
Adjustments for:						
Provision for credit and impairment losses (Note 15)	7,770	7,507	7,342	807	1,395	1,174
Depreciation and amortization (Notes 10, 12 and 14)	3,572	3,524	3,290	1,559	1,585	1,515
Unrealized market valuation loss (gain) on financial assets and liabilities at FVTPL	(3,499)	1,652	(778)	(3,494)	1,652	(802)
Profit from assets sold (Notes 10 and 12)	(1,371)	(1,075)	(732)	(623)	(639)	(463)
Share in net income of subsidiaries, associates and a joint venture (Note 11)	(874)	(689)	(261)	(7,967)	(6,995)	(4,958)
Gain on initial recognition of investment properties and chattel properties acquired in foreclosure (Note 25)	(638)	(1,075)	(834)	(23)	(26)	(24)
Amortization of software costs (Note 14)	512	494	474	131	123	141
Dividends (Note 11)	(141)	(182)	(151)	(23)	(19)	(17)
Trading and securities loss on investment securities at FVOCI (Note 8)	115	–	–	24	–	–
Amortization of discount on subordinated debts and bonds payable (Notes 19 and 20)	45	66	20	34	33	31
Trading and securities gain on AFS investments (Note 8)	–	(641)	(5,144)	–	(554)	(4,693)
Changes in operating assets and liabilities:						
Decrease (increase) in:						
Investment securities at FVTPL	5,735	(7,497)	12,820	3,617	(6,327)	8,981
Loans and receivables	(138,128)	(213,951)	(182,710)	(117,786)	(161,020)	(149,598)
Other assets	(5,785)	1,033	2,820	(4,737)	938	1,643
Increase (decrease) in:						
Deposit liabilities	28,791	138,660	131,332	12,044	108,260	99,302
Bills payable - deposit substitutes	(14,952)	2,425	(263)	–	–	–
Manager's checks and demand drafts outstanding	(489)	1,122	1,319	110	669	907
Accrued interest and other expenses	2,646	(94)	(1,120)	1,720	(741)	(1,125)
Other liabilities	(8,732)	(5,704)	(3,894)	(3,187)	(7,317)	(2,649)
Non-equity non-controlling interest	(1,255)	68	(1,975)	–	–	–
Net cash used in operations	(95,498)	(45,097)	(11,507)	(91,302)	(46,245)	(28,659)
Dividends received (Note 11)	141	182	151	23	19	17
Income taxes paid	(8,489)	(7,053)	(5,884)	(4,886)	(3,704)	(3,168)
Net cash used in operating activities	(103,846)	(51,968)	(17,240)	(96,165)	(49,930)	(31,810)
CASH FLOWS FROM INVESTING ACTIVITIES						
Acquisitions of:						
Investment securities at FVOCI (Note 4)	(786,157)	–	–	(774,480)	–	–
Investment securities at amortized cost (Note 4)	(7,017)	–	–	(5,037)	–	–
AFS investments	–	(108,623)	(388,626)	–	(89,874)	(374,158)
Property and equipment (Note 10)	(2,889)	(3,556)	(3,512)	(1,473)	(1,826)	(1,640)
Investments in subsidiaries and associates (Note 11)	–	(235)	–	(15,011)	–	(1,611)
Software costs (Note 14)	(636)	(978)	(816)	(233)	(144)	(40)
Proceeds from sale of:						
Investment securities at FVOCI (Notes 4 and 11)	764,214	–	–	759,803	–	–
AFS investments	–	77,175	508,014	–	67,936	494,106
Held-to-maturity (HTM) investments (Note 8)	–	–	4,745	–	–	4,745
Property and equipment (Note 10)	585	165	331	278	85	147
Investments in associates (Note 11)	–	190	–	–	–	–
Investment properties (Note 12)	1,896	3,031	2,275	626	1,407	1,083
Proceeds from maturity of:						
Investment securities at amortized cost	4,077	–	–	30	–	–
HTM investments	–	–	1,221	–	–	1,221
Return of investment from an associate (Note 11)	180	–	–	180	–	–
Cash dividends from investees (Note 11)	462	288	23	2,448	3,655	1,847
Decrease (increase) in interbank loans receivable and SPURA (Note 26)	1,388	3,039	(11,192)	5,984	(322)	(5,221)
Net cash provided by (used in) investing activities	(23,897)	(29,504)	112,463	(26,885)	(19,083)	120,479

(Forward)



	Consolidated			Parent Company		
	Years Ended December 31					
	2018	2017	2016	2018	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES						
(Note 26)						
Settlements of bills payable	(P4,472,284)	(P2,808,869)	(P983,550)	(P3,445,236)	(P2,458,936)	(P983,551)
Availments of bills payable and SSURA	4,519,008	2,872,903	968,398	3,489,833	2,496,553	963,776
Proceeds from issuance of:						
Bonds payable (Note 19)	27,826	—	—	27,826	—	—
Notes payable (Note 21)	2,600	—	—	—	—	—
Stock rights (Note 23)	59,110	—	—	59,110	—	—
Maturity of bonds payable (Note 19)	—	(8,599)	—	—	—	—
Repayments of subordinated debts (Note 20)	—	(3,000)	—	—	—	—
Cash dividends paid (Note 23)	(3,700)	(3,327)	(3,160)	(3,180)	(3,180)	(3,180)
Coupon payment of hybrid capital securities (Note 23)	—	—	(267)	—	—	(267)
Redemption of hybrid capital securities (Note 23)	—	—	(6,440)	—	—	(6,440)
Proceeds from disposal of Parent Company shares by mutual fund subsidiaries (Note 31)	10	455	—	—	—	—
Acquisition of Parent Company shares by a mutual fund subsidiary (Note 23)	(31)	(16)	(298)	—	—	—
Net cash provided by (used in) financing activities	132,539	49,547	(25,317)	128,353	34,437	(29,662)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,796	(31,925)	69,906	5,303	(34,576)	59,007
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR						
Cash and other cash items	27,631	26,553	32,536	24,975	23,470	28,570
Due from Bangko Sentral ng Pilipinas	261,959	238,806	214,704	224,723	203,781	185,484
Due from other banks	31,291	44,315	36,864	19,286	30,101	26,213
Interbank loans receivable and SPURA (Note 26)	32,736	75,868	31,532	19,242	65,450	23,528
	353,617	385,542	315,636	288,226	322,802	263,795
CASH AND CASH EQUIVALENTS AT END OF YEAR						
Cash and other cash items	33,091	27,631	26,553	29,280	24,975	23,470
Due from Bangko Sentral ng Pilipinas	240,134	261,959	238,806	206,289	224,723	203,781
Due from other banks	45,808	31,291	44,315	35,218	19,286	30,101
Interbank loans receivable and SPURA (Note 26)	39,380	32,736	75,868	22,742	19,242	65,450
	P358,413	P353,617	P385,542	P293,529	P288,226	P322,802
OPERATIONAL CASH FLOWS FROM INTEREST						
	Consolidated			Parent Company		
	Years Ended December 31					
	2018	2017	2016	2018	2017	2016
Interest paid	P25,910	P18,347	P15,569	P17,452	P11,391	P9,102
Interest received	95,315	79,549	69,370	61,129	47,253	42,232

See accompanying Notes to Financial Statements.



METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Metropolitan Bank & Trust Company (the Parent Company) is a universal bank incorporated in the Philippines on April 6, 1962. The Securities and Exchange Commission (SEC) approved the renewal until April 6, 2057 on November 19, 2007. The Parent Company's shares were listed with the Philippine Stock Exchange, Inc. (PSE) on February 26, 1981, as approved by the SEC in November 1980. It has a universal banking license granted by the Bangko Sentral ng Pilipinas (BSP) on August 21, 1981.

The Parent Company and its subsidiaries (the Group) are engaged in all aspects of banking, financing, leasing, real estate and stock brokering through a network of over 2,000 local and international branches, subsidiaries, representative offices, remittance correspondents and agencies. As a bank, the Parent Company, which is the ultimate parent of the Group, provides services such as deposit products, loans and trade finance, domestic and foreign fund transfers, treasury, foreign exchange, trading and remittances, and trust services. Its principal place of business is at Metrobank Plaza, Sen. Gil Puyat Avenue, Urdaneta Village, Makati City, Metro Manila, Philippines.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying financial statements have been prepared on a historical cost basis except for financial assets and financial liabilities at fair value through profit or loss (FVTPL) and fair value through other comprehensive income (FVOCI)/available-for-sale (AFS) investments that have been measured at fair value.

The financial statements of the Parent Company and Philippine Savings Bank (PSBank) include the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU). The functional currency of RBU and FCDU is Philippine Peso (PHP) and United States Dollar (USD), respectively. For financial reporting purposes, FCDU accounts and foreign currency-denominated accounts in the RBU are translated into their equivalents in Philippine peso (see accounting policy on Foreign Currency Translation). The financial statements of these units are combined after eliminating inter-unit accounts.

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The respective functional currencies of the subsidiaries are presented under Basis of Consolidation. The financial statements are presented in PHP, and all values are rounded to the nearest million pesos (₱000,000), except when otherwise indicated.

Statement of Compliance

The financial statements of the Group and the Parent Company have been prepared in compliance with Philippine Financial Reporting Standards.

Presentation of Financial Statements

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets



and liabilities are presented gross in the statement of financial position. Income and expense are not offset in the statement of income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

Basis of Consolidation

The consolidated financial statements include the financial statements of the Parent Company and of its subsidiaries and are prepared for the same reporting period as the Parent Company using consistent accounting policies. The following are the wholly and majority-owned foreign and domestic subsidiaries of the Parent Company in 2018 and 2017 (Note 11):

Subsidiary	Principal Place of Business and Country of Incorporation	Effective Percentage of Ownership	Functional Currency
Financial Markets:			
Domestic:			
Metrobank Card Corporation (A Finance Company and General Insurance Agency) (MCC) (80.00% in 2017)	Philippines	100.00	PHP
First Metro Investment Corporation (FMIC) and Subsidiaries	Philippines	99.25	PHP
PSBank	Philippines	82.68	PHP
ORIX Metro Leasing and Finance Corporation (ORIX Metro) and Subsidiaries	Philippines	59.85	PHP
Foreign:			
Metropolitan Bank (China) Ltd. (MBCL)	China	100.00	Chinese Yuan
Metropolitan Bank (Bahamas) Limited (Metrobank Bahamas)**	The Bahamas	100.00	USD
First Metro International Investment Company Limited (FMIIIC) and Subsidiary	Hong Kong	100.00	Hong Kong Dollar (HKD)
Remittances:			
Metro Remittance (Hong Kong) Limited (MRHL)	Hong Kong	100.00	HKD
Metro Remittance (Singapore) Pte. Ltd. (MRSPL)	Singapore	100.00	Singapore Dollar
			Great Britain
Metro Remittance (UK) Limited (MR UK)	United Kingdom	100.00	Pound
	United States of		
Metro Remittance (USA), Inc. (MR USA)	America (USA)	100.00	USD
Metro Remittance (Japan) Co. Ltd. (MR Japan)	Japan	100.00	Japanese Yen
Metro Remittance (Italia), S.p.A. (MR Italia)*	Italy	100.00	Euro
Real Estate:			
Circa 2000 Homes, Inc. (Circa)*	Philippines	100.00	PHP
Others:			
Philbancor Venture Capital Corporation (PVCC)*	Philippines	60.00	PHP
MBTC Technology, Inc. (MTI)**	Philippines	100.00	PHP

* In process of dissolution

** In process of liquidation

All significant intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full at consolidation (Note 31). Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved where the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Consolidation of subsidiaries ceases when control is transferred out of the Group or the Parent Company. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statements of income and consolidated statements of comprehensive income from the date of acquisition or up to the date of disposal, as appropriate.

Changes in the Parent Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for within equity. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid (or to be paid) or



received is recognized directly in equity included as part of 'Translation adjustment and others' and attributed to the owners of the Parent Company.

When a change in ownership interest in a subsidiary occurs which results in a loss of control over the subsidiary, the Parent Company: (a) derecognizes the assets (including goodwill) and liabilities of the subsidiary; (b) derecognizes the carrying amount of any non-controlling interest; (c) derecognizes the related other comprehensive income (OCI) recorded in equity and recycles the same to statement of income or retained earnings; (d) recognizes the fair value of the consideration received; (e) recognizes the fair value of any investment retained; (f) recognizes any surplus or deficit in statement of income; and (g) reclassifies the Parent Company's share of components' gains (losses) previously recognized in OCI to profit or loss or surplus, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

Entity with Significant Influence over the Group

GT Capital Holdings, Inc. (GT Capital) holds 36.36% and 36.09% interests in the Parent Company as of December 31, 2018 and 2017, respectively (Note 31).

Other Equity Reserves

Other equity reserves represent the charge to equity for an obligation of the Group to purchase its own equity instruments for cash which gives rise to a financial liability even if the obligation to purchase is conditional on the counterparty exercising a right to sell.

Non-controlling Interest

Non-controlling interest represents the portion of profit or loss and the net assets of the funds not held by the Group and are presented separately in the consolidated statement of income, consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from equity attributable to the Parent Company. Any losses applicable to the non-controlling interests in excess of the non-controlling interests are allocated against the interests of the non-controlling interest even if this results in the non-controlling interest having a deficit balance. Acquisitions of non-controlling interests are accounted for as equity transactions.

Non-equity Non-controlling Interest

The Group has seed capital investments in a number of funds where it is in a position to be able to control those funds. These funds are consolidated.

Non-equity non-controlling interest represents the portion of net assets of the consolidated funds not attributed, directly or indirectly, to the Parent Company and is presented separately in the liability section in the consolidated statement of financial position. This liability is accounted for at FVTPL and measured using net asset value per unit with changes recognized in 'Trading and securities gain (loss) - net' in the consolidated statement of income.

Changes in Accounting Policies and Disclosures

The Group applied, for the first time, the following applicable new and revised accounting standards. Unless otherwise indicated, these new and revised accounting standards have no impact to the Group. Except for these new and amended standards which were adopted as of January 1, 2018, the accounting policies adopted are consistent with those of previous financial year.

Amendments

Philippine Accounting Standards (PAS) 40, Investment Property

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. A change in use occurs when the



property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use.

PAS 28, Investment in Associate and Joint Venture - Measuring an associate or joint venture at fair value

The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at FVTPL. Further, if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity, when applying the equity method, may elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interest in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

PFRS 4, Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4

The amendments address concerns arising from implementing PFRS 9 before implementing the new insurance contracts standard (PFRS 17). Entities are allowed to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in OCI, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the earlier of application of PFRS 17 or January 1, 2021. The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9.

New Standards and Philippine Interpretations

PFRS 9, Financial Instruments

PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. It introduces new requirements for classification and measurement, impairment, and hedge accounting. Retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Group adopted PFRS 9 on January 1, 2018 and the comparative information for 2017 for financial instruments in scope of PFRS 9 was not restated and was reported under PAS 39, thus not comparable with the information presented for 2018. Differences arising from the adoption of PFRS 9 have been recognized directly in 'Surplus', 'Net unrealized loss on investment securities at FVOCI/AFS investments' and 'Non-controlling interest' as of January 1, 2018 and are disclosed under "Transition to PFRS 9" below.

To reflect the differences between PFRS 9 and PAS 39, the Group also adopted the revised PFRS 7, *Financial Instruments: Disclosures*, as at January 1, 2018. Changes include transition disclosures as shown under "Transition to PFRS 9" below and detailed qualitative and quantitative information on impairment calculations such as the assumptions and inputs used as presented under "Significant Accounting Policies" below, reconciliation of gross carrying amounts of financial assets subject to expected credit loss (ECL) as presented in Note 4, and reconciliation from opening to closing ECL allowances as presented in Note 15.



a. Classification and Measurement

The Group classifies debt instruments based on the contractual cash flow characteristics of the assets and the business model for managing those assets. These factors determine whether the financial assets are measured at amortized cost, FVTPL or FVOCI. The accounting for financial liabilities remains largely the same as it was under PAS 39.

b. Impairment

The Group recognizes ECL for all loans and other debt financial assets not classified as FVTPL, together with loan commitments and financial guarantee contracts.

Incurred loss versus ECL methodology

The application of ECL significantly changed the Group's credit loss methodology and models. ECL represents 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 is to record lifetime losses on all financial instruments which have experienced a significant increase in credit risk (SICR) since their initial recognition. As a result, ECL allowances are measured at amounts equal to either:

- (i) 12-month ECL; or
- (ii) lifetime ECL for those financial instruments which have experienced a SICR since initial recognition (General Approach)

The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date. The lifetime ECL are credit losses that result from all possible default events over the expected life of a financial instrument. In comparison, the previous incurred loss model under PAS 39 recognizes lifetime credit losses only when there is objective evidence of impairment while ECL model eliminates the threshold or trigger event required under the incurred loss model, and lifetime ECL are recognized earlier.

c. Hedge accounting

The hedge accounting model under PFRS 9 aims to simplify hedge accounting, align the accounting for hedge relationships more closely with the Group's risk management activities and permit hedge accounting to be applied more broadly to a greater variety of hedging instruments and risks eligible for hedge accounting. The Group has assessed that this adoption does not have a significant impact on the financial statements as the hedging relationships continue to be accounted for under PFRS 9 as cash flow hedges as they were under PAS 39.

d. Transition to PFRS 9

As at January 1, 2018, the change in classification and measurement of financial instruments (specifically, recognition of investment securities at amortized cost) and the shift to ECL impairment model resulted in reversal of 'Net unrealized loss' in OCI of ₱15.4 billion for the Group and the Parent Company, and net decrease in Surplus by ₱4.8 billion for the Group and the Parent Company.

A reconciliation between the carrying amounts under PAS 39 to the balances reported under PFRS 9 as at January 1, 2018 is presented below. The Group's adoption of PFRS 9 has no impact on its financial liabilities.



Consolidated	December 31, 2017 under PAS 39, as previously reported		Reclassification/ Remeasurement Ref	January 1, 2018 under PFRS 9, as restated	
	Category	Amount		Category	Amount
Loans and advances to banks					
Cash and other cash items		₱27,631			₱27,631
Due from BSP		261,959			261,959
Due from other banks		31,291	f/		31,273
Interbank loans receivable and SPURA		45,475	f/		45,450
	L&R	₱366,356		Amortized cost	₱366,313
Investment securities at FVTPL					
Debt		₱29,656		FVTPL	₱26,759
				Amortized cost	2,897
	FVTPL	29,656			29,656
Equity		7,862		FVTPL	7,738
			a/	FVOCI	124
	FVTPL	7,862			7,862
Derivatives	FVTPL	6,369		FVTPL	6,369
		₱43,887			₱43,887
AFS investments					
Debt		₱342,111	c/ f/	Amortized cost	₱258,114
				FVOCI	98,203
			b/	FVTPL	1,420
	AFS	342,111			357,737
Equity		1,799	e/	FVOCI	1,006
			b/	FVTPL	793
	AFS	1,799			1,799
		₱343,910			₱359,536
Loans and receivables (L&R)					
			f/	Amortized cost	₱1,260,395
			d/	FVTPL	229
	L&R	₱1,265,469			₱1,260,624

Parent Company	December 31, 2017 under PAS 39, as previously reported		Reclassification/ Remeasurement Ref	January 1, 2018 under PFRS 9, as restated	
	Category	Amount		Category	Amount
Loans and advances to banks					
Cash and other cash items		₱24,975			₱24,975
Due from BSP		224,723			224,723
Due from other banks		19,286	j/		19,268
Interbank loans receivable and SPURA		27,208	j/		27,183
	L&R	₱296,192		Amortized cost	₱296,149
Investment securities at FVTPL					
Debt		₱25,977		FVTPL	₱23,080
				Amortized cost	2,897
	FVTPL	25,977			25,977
Derivatives	FVTPL	6,295		FVTPL	6,295
		₱32,272			₱32,272
AFS investments					
Debt		₱270,041	g/ j/	Amortized cost	₱204,751
			j/	FVOCI	79,038
	AFS	270,041			283,789
Equity		404	i/	FVOCI	349
			h/	FVTPL	55
	AFS	404			404
		₱270,445			₱284,193
Loans and receivables					
			j/	Amortized cost	₱999,370
				FVTPL	24
	L&R	₱1,002,921			₱999,394



The summary of impact on reclassification and remeasurement under PFRS 9 as of January 1, 2018 follows:

	Surplus	Net Unrealized Loss on Investment Securities at FVOCI/AFS Investments	Non-controlling Interest	Total
Consolidated				
a/ Reclassification of net unrealized losses from Surplus	₱2	(₱2)	₱—	₱—
b/ Reclassification of net unrealized gains to Surplus				
AFS debt investments	21	(21)	—	—
AFS equity investments	47	(47)	—	—
c/ Reversal of net unrealized losses	—	15,564	197	15,761
d/ Recognition of unrealized gains	5	—	—	5
e/ Reversal of allowance on AFS equity investments reclassified to investment securities at FVOCI	135	(135)	—	—
f/ Recognition of additional allowance under ECL	(4,966)	—	(305)	(5,271)
	(₱4,756)	₱15,359	(₱108)	₱10,495
Parent Company				
g/ Reversal of net unrealized losses	₱—	₱13,890	₱—	₱13,890
h/ Reclassification of net unrealized gains on AFS equity investments to Surplus	22	(22)	—	—
i/ Reversal of allowance on AFS equity investments reclassified to investment securities at FVOCI	23	(23)	—	—
j/ Recognition of additional allowance under ECL	(3,768)	—	—	(3,768)
	(3,723)	13,845	—	10,122
Share in impact of PFRS 9 adoption by investees	(1,033)	1,514	—	481
	(₱4,756)	₱15,359	₱—	₱10,603

The following explains how applying the new classification requirements of PFRS 9 led to changes in classification of certain financial assets of the Group and the Parent Company on January 1, 2018:

- Certain equity investment securities previously classified at FVTPL amounting to ₱124.4 million were reclassified to investment securities at FVOCI as these will be held by the Group for strategic investment.
- Certain debt investment securities of the Group previously classified as AFS investments with carrying value of ₱1.4 billion were classified as investment securities at FVTPL, while certain equity securities previously classified as AFS investments amounting to ₱792.6 million for the Group and ₱55.2 million for the Parent Company were reclassified to investment securities at FVTPL in compliance with the defined business model.
- Certain debt investment securities previously classified as AFS investments with carrying value of ₱242.3 billion for the Group and ₱190.9 billion for the Parent Company were reclassified as at amortized cost as the business model is to collect contractual cash flows until the instruments' corresponding maturities.
- The Group's asset-backed securities and investment in tier 2 notes with total carrying value of ₱223.8 million (of which ₱23.8 pertains to the Parent Company) have been reclassified from loans and receivables to investment securities at FVTPL as the cash flows relating to these instruments do not represent solely payments of principal and interest (SPPI).
- The Group and the Parent Company elected the option to irrevocably designate and present in OCI the changes in fair value of certain equity securities amounting to ₱1.1 billion and ₱348.9 million, respectively, as the Group and the Parent Company consider these to be strategic in nature.



The application of the PFRS 9 classification requirements resulted in adjustments that increased surplus and OCI by ₱210.5 million and ₱15.4 billion, respectively, as of January 1, 2018.

As of December 31, 2018, the fair value of the investment securities at amortized cost which were transferred out of investment securities at FVTPL upon adoption of PFRS 9 amounted to ₱2.6 billion for the Group and the Parent Company. As of the same date, the fair value of the investment securities at amortized cost which were transferred out of AFS investments amounted to ₱216.8 billion for the Group and ₱173.6 billion for the Parent Company. Had these been retained to be measured at fair value, fair value loss amounting to ₱291.2 million would have been recognized in the 2018 net income of the Group and the Parent Company, while fair value loss amounting to ₱21.5 billion and ₱17.3 billion would have been recognized in the 2018 OCI of the Group and the Parent Company, respectively. Interest income recognized by the Group and the Parent Company in 2018 from investment securities at amortized cost that were transferred out of investment securities at FVTPL amounted to ₱109.9 million, with effective interest rates ranging from 2.5% to 4.9%.

As a result of PFRS 9 adoption as at January 1, 2018, additional provisions for credit losses have been recognized on the following accounts, net of deferred tax of ₱513.1 million for the Group, which are charged against the beginning balance of Surplus as follows:

	Consolidated	Parent Company
Financial assets at amortized cost		
Due from other banks	₱18	₱18
Interbank loans receivable and SPURA	25	25
Investment securities at amortized cost	2	2
Loans and receivables	4,259	3,527
Investment securities at FVOCI	140	140
Loan commitments and financial guarantee contracts	522	56
	₱4,966	₱3,768

The following table reconciles the aggregate opening loan loss provision allowances under PAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets* (December 31, 2017) to the ECL allowances under PFRS 9 (January 1, 2018).

	Consolidated		Parent Company			
	December 31, 2017	Remeasurement	January 1, 2018	December 31, 2017	Remeasurement	January 1, 2018
Loans and advances to banks						
Due from other banks	₱–	₱18	₱18	₱–	₱18	₱18
Interbank loans receivable and SPURA	–	25	25	–	25	25
	₱–	₱43	₱43	₱–	₱43	₱43
Investment securities						
AFS investments						
Debt	₱1	(₱1)	₱–	₱–	₱–	₱–
Equity	294	(294)	–	160	(160)	–
	295	(295)	–	160	(160)	–
Investment securities at FVOCI						
Government	–	107	107	–	107	107
Private	–	33	33	–	33	33
	–	140	140	–	140	140
Investments securities at amortized cost						
Treasury notes and bonds	–	2	2	–	2	2
	₱295	(₱153)	₱142	₱160	(₱18)	₱142

(Forward)



	Consolidated		Parent Company			
	December 31, 2017	Remeasurement	January 1, 2018	December 31, 2017	Remeasurement	January 1, 2018
Loans and receivables						
Receivables from customers						
Commercial loans	₱5,529	₱2,063	₱7,592	₱3,723	₱2,720	₱6,443
Auto loans	1,958	1,012	2,970	1	575	576
Residential mortgage loans	881	277	1,158	249	404	653
Trade loans	246	43	289	246	43	289
Others	2,742	1,780	4,522	78	(32)	46
	11,356	5,175	16,531	4,297	3,710	8,007
Other receivables	5,051	(325)	4,726	4,293	(183)	4,110
	₱16,407	₱4,850	₱21,257	₱8,590	₱3,527	₱12,117
Loan commitments and financial guarantees	₱—	₱887	₱887	₱—	₱56	₱56

The application of the PFRS 9 ECL requirements resulted in transition adjustments that increased ECL allowances by ₱5.6 billion for the Group and ₱3.6 billion for the Parent Company.

PFRS 15, Revenue from Contracts with Customers

PFRS 15 establishes a new five-step model that applies to revenue arising from contracts with customers. Revenue is recognized at an amount that reflects the consideration to which the Group expects to be entitled in exchange for transferring goods or services to a customer. It affects the Group's credit card business wherein it requires that, where contract has more than one performance obligation, transaction price must be allocated to all the performance obligations. Prior to PFRS 15, card features that provide rewards and credits (e.g. rebates, real-time redemption and credit-back option) are not treated as separate performance obligations.

The Group adopted PFRS 15 using a modified retrospective approach. As at January 1, 2018, the adoption of PFRS 15 resulted in recognition of additional 'Deferred tax asset' of ₱21.4 million and 'Deferred revenue' of ₱71.5 million with a reduction in 'Surplus' of ₱40.0 million and 'Non-controlling interest' of ₱10.0 million for the Group, and a reduction in 'Investments in subsidiaries' and 'Surplus' of ₱40.0 million for the Parent Company.

Philippine Interpretation IFRIC 22, Foreign Currency Transaction and Advance Consideration

This clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency and covers foreign currency transactions when an entity recognizes a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. It does not apply when an entity measures the related asset, expense or income on initial recognition at fair value or at the fair value of the consideration received or paid at a date other than the date of initial recognition of the non-monetary asset or non-monetary liability. Also, the Interpretation need not be applied to income taxes, insurance contracts or reinsurance contracts.

Significant Accounting Policies

Foreign Currency Translation

Transactions and balances

For financial reporting purposes, the foreign currency-denominated monetary assets and liabilities in the RBU are translated in Philippine peso based on the Bankers Association of the Philippines (BAP) closing rate (for 2018) and the Philippine Dealing System (PDS) closing rate (for 2017 and prior years) prevailing at the statement of financial position date and foreign currency-denominated income and expenses, at the prevailing exchange rates as at the date of transaction. Foreign exchange differences arising from revaluation and translation of foreign currency-denominated assets and liabilities are credited to or charged against operations in the year in which the rates change. Non-



monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

FCDU, foreign branches and subsidiaries

As at the reporting date, the assets and liabilities of foreign branches and subsidiaries and FCDU of the Parent Company and PSBank are translated into the Parent Company's presentation currency (the PHP) at BAP (PDS in 2017 and prior years) closing rate prevailing at the statement of financial position date, and their income and expenses are translated at BAP weighted average rate for 2018 while in 2017 and prior, the basis was the PDS weighted average rate. Exchange differences arising on translation are taken to the statement of comprehensive income under 'Translation adjustment and others'. Upon disposal of a foreign entity or when the Parent Company ceases to have control over the subsidiaries or upon actual remittance of FCDU profits to RBU, the deferred cumulative amount recognized in the statement of comprehensive income is recognized in the statement of income.

Fair Value Measurement

The Group measures certain financial instruments, such as derivatives, at fair value at each statement of financial position date. Also, fair values of financial instruments measured at amortized cost and investment properties are disclosed in Note 5.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., an exit price). The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability; or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

If an asset or a liability measured at fair value has a bid price and an ask price, the price within the bid - ask spread that is most representative of fair value in the circumstances shall be used to measure fair value regardless of where the input is categorized within the fair value hierarchy.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For assets and liabilities not listed in an active market, the Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable



- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. The Group determines the policies and procedures for both recurring fair value measurement, such as financial assets and liabilities at FVTPL, and for non-recurring measurement, such as investment properties.

External valuers are involved for valuation of significant assets, such as investment properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Financial Instruments - Initial Recognition

Date of recognition

Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date. Derivatives are recognized on trade date basis. Deposits, amounts due to banks and customers and loans are recognized when cash is received by the Group or advanced to the borrowers.

Initial recognition of financial instruments

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

'Day 1' difference

Where the transaction price in a non-active market is different with the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the statement of income. In cases where the transaction price used is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' difference amount.

Financial Assets at FVTPL

Financial assets or financial liabilities held for trading (HFT)

HFT financial assets or financial liabilities are recorded in the statement of financial position at fair value and are classified as investment securities at FVTPL. Changes in fair value relating to the HFT positions are recognized in 'Trading and securities gain (loss) - net'. Interest earned or incurred is recorded in 'Interest income' or 'Interest expense' respectively, while dividend income is recorded in 'Dividends' when the right to receive payment has been established. Included in this classification are debt and equity securities which have been acquired principally for the purpose of selling or repurchasing in the near term.

Derivatives recorded at FVTPL

The Parent Company and some of its subsidiaries are counterparties to derivative contracts, such as currency forwards, currency swaps, interest rate swaps, call options, non-deliverable forwards and



other interest rate derivatives. These derivatives are entered into as a service to customers and as a means of reducing or managing their respective foreign exchange and interest rate exposures, as well as for trading purposes. Such derivative financial instruments are initially recorded at fair value on the date at which the derivative contract is entered into and are subsequently remeasured at fair value. Any gains or losses arising from changes in fair values of derivatives (except those accounted for as accounting hedges) are taken directly to the statement of income and are included in 'Trading and securities gain (loss) - net'. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Embedded derivatives

The Group has certain derivatives that are embedded in host financial (such as structured notes and debt instruments) and non-financial (such as lease and service agreements) contracts. These embedded derivatives include interest rate derivatives in debt instruments which include structured notes and foreign currency derivatives in debt instruments and lease agreements.

Under PAS 39, embedded derivatives are bifurcated from their host contracts and carried at fair value with fair value changes being reported through profit or loss, when the entire hybrid contracts (composed of both the host contract and the embedded derivative) are not accounted for as financial assets or liabilities at FVTPL, when their economic risks and characteristics are not clearly and closely related to those of their respective host contracts, and when a separate instrument with the same terms as the embedded derivatives would meet the definition of a derivative. The Group assesses whether embedded derivatives are required to be separated from the host contracts when the Group first becomes a party to the contract. Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modifies the contractual cash flows.

Under PFRS 9, the Group accounts for derivatives embedded in financial liabilities and non-financial host contracts similar with PAS 39. For financial assets, embedded derivatives are accounted for together with the host contracts and are classified based on the business model and contractual cash flows of the instrument.

Financial Instruments - Classification and Subsequent Measurement

Policies applicable beginning January 1, 2018

Financial assets are measured at FVTPL unless these are measured at FVOCI or at amortized cost. Financial liabilities are classified as either financial liabilities at FVTPL or financial liabilities at amortized cost. The classification of financial assets depends on the contractual terms and the business model for managing the financial assets. Subsequent to initial recognition, the Group may reclassify its financial assets only when there is a change in its business model for managing these financial assets. Reclassification of financial liabilities is not allowed.

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios. If cash flows after initial recognition are realized in a way that is different from the Group's original expectations, the Group 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 a second step of its classification process, the Group assesses the contractual terms of financial assets to identify whether they pass the contractual cash flows test (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 (for example, if there are repayments of principal or amortization of the 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 than *de minimis* exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are SPPI. In such cases, the financial asset is required to be measured at FVTPL.

Investment securities at FVOCI

Investment securities at FVOCI include debt and equity securities. After initial measurement, investment securities at FVOCI are subsequently measured at fair value. The unrealized gains and losses arising from the fair valuation of investment securities at FVOCI are excluded, net of tax as applicable, from the reported earnings and are included in the statement of comprehensive income as 'Change in net unrealized loss on investment securities at FVOCI'.

Debt securities at FVOCI are those that meet both of the following conditions: (i) the asset is held within a business model whose objective is to hold the financial assets in order to both collect contractual cash flows and sell financial assets; and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the outstanding principal amount. The effective yield component of debt securities at FVOCI, as well as the impact of restatement on foreign currency-denominated debt securities at FVOCI, is reported in the statement of income. Interest earned on holding debt securities at debt securities at FVOCI are reported as 'Interest income' using the effective interest rate (EIR) method. When the debt securities at FVOCI are disposed of, the cumulative gain or loss previously recognized in the statement of comprehensive income is recognized as 'Trading and securities gain (loss) - net' in the statement of income. The ECL arising from impairment of such investments are recognized in OCI with a corresponding charge to 'Provision for credit and impairment losses' in the statement of income.

Equity securities designated at FVOCI are those that the Group made an irrevocable election to present in OCI the subsequent changes in fair value. Dividends earned on holding equity securities at FVOCI are recognized in the statement of income as 'Dividends' when the right of the payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Gains and losses on disposal of these equity securities are never recycled to profit or loss, but the cumulative gain or loss previously recognized in the statement of comprehensive income is reclassified to 'Surplus' or any other appropriate equity account upon disposal. Equity securities at FVOCI are not subject to impairment assessment.

Financial assets at amortized cost

Financial assets at amortized cost are debt financial assets that meet both of the following conditions: (i) these are held within a business model whose objective is to hold the financial assets in order to collect contractual cash flows; and (ii) the contractual terms give rise on specified dates to cash flows that are SPPI on the outstanding principal amount. This accounting policy relates to the statement of financial position captions 'Due from BSP', 'Due from other banks', 'Interbank loans receivable and securities purchased under resale agreements (SPURA)', 'Investment securities at amortized cost' and 'Loans and receivables'.

Loans and receivables include purchases made by MCC's cardholders which are collected on installments and are recorded at the cost of the items purchased plus interest covering the installment period which is initially credited to unearned discount, shown as a deduction from 'Loans and receivables'. This also includes ORIX Metro's lease contracts receivable and notes receivable financed which are stated at the outstanding balance, reduced by unearned lease income and unearned finance income, respectively.



After initial measurement, financial assets at amortized cost are subsequently measured at amortized cost using the EIR method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in 'Interest income' in the statement of income. Gains and losses are recognized in statement of income when these investments are derecognized or impaired, as well as through the amortization process. The ECL are recognized in the statement of income under 'Provision for credit and impairment losses'. The effects of revaluation on foreign currency-denominated investments are recognized in the statement of income.

Policies applicable prior to January 1, 2018

Prior to January 1, 2018, the Group classifies its financial assets in the following categories: financial assets at FVTPL, AFS investments, held-to-maturity (HTM) investments, and loans and receivables, while financial liabilities are classified as 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 reporting date.

AFS investments

AFS investments include debt and equity instruments. Equity investments classified under AFS investments are those which are neither classified as HTM nor designated at FVTPL. Debt securities are those that do not qualify to be classified as HTM investments or loans and receivables, are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. After initial measurement, AFS investments are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in the statement of income. The unrealized gains and losses arising from the fair valuation of AFS investments are excluded, net of tax, from reported earnings and are included in the statement of comprehensive income as 'Change in net unrealized loss on AFS investments'. When the AFS investments are disposed of, the cumulative gain or loss previously recognized in the statement of comprehensive income is recognized as 'Trading and securities gain (loss) - net' in the statement of income.

Interest earned on holding AFS debt investments are reported as 'Interest income' using the EIR method. Dividends earned on holding AFS equity investments are recognized in the statement of income as 'Dividends' when the right of the payment has been established. The losses arising from impairment of such investments are recognized as 'Provision for credit and impairment losses' in the statement of income.

HTM investments

HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group's management has the positive intention and ability to hold to maturity. Where the Group sells or reclassifies other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified to AFS investments and the Group would be prohibited from classifying any financial asset under HTM category during the current year and two succeeding years thereafter unless for sales or reclassifications that:

- are so close to maturity or the financial asset's call date (for example, less than three months before maturity) that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- occur after the entity has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or



- are attributable to an isolated event that is beyond the entity's control, is non-recurring and could not have been reasonably anticipated by the entity.

After initial measurement, these investments are subsequently measured at amortized cost using the EIR method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in 'Interest income' in the statement of income. Gains and losses are recognized in statement of income when the HTM investments are derecognized or impaired, as well as through the amortization process. The losses arising from impairment of such investments are recognized in the statement of income under 'Provision for credit and impairment losses'. The effects of revaluation on foreign currency-denominated HTM investments are recognized in the statement of income.

Loans and receivables

This accounting policy relates to the statement of financial position captions 'Due from BSP', 'Due from other banks', 'Interbank loans receivable and SPURA' and 'Loans and receivables'. These are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as 'other HFT financial assets', designated as AFS investments, or 'financial assets designated at FVTPL'. After initial measurement, these are subsequently measured at amortized cost using the EIR method, less allowance for credit losses.

Financial Liabilities at Amortized Cost

Issued financial instruments or their components, which are not designated at FVTPL, are classified as liabilities under 'Deposit liabilities', 'Bills payable and securities sold under repurchase agreements (SSURA)', 'Bonds payable', or 'Subordinated debts' or other appropriate financial liability accounts, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, bills payable and similar financial liabilities not qualified as and not designated at FVTPL, are subsequently measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

Financial Guarantees and Undrawn Loan Commitments

The Group issues financial guarantees and loan commitments. Financial guarantees are those issued by the Group to creditors as allowed under existing rules and regulations whereby it guarantees third party obligations by signing as guarantor in the contract/agreement. Undrawn loan commitments and letters of credit are commitments under which over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer. The nominal contractual value of financial guarantees and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded in the statement of financial position. Starting January 1, 2018, these contracts are in the scope of the ECL requirements where the Group estimates the expected portion of the undrawn loan commitments that will be drawn over their expected life. The ECL related to financial guarantees and loan commitments without outstanding drawn amounts is recognized in 'Miscellaneous liabilities' under 'Other liabilities'.



Derecognition of Financial Assets and Financial Liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired; or
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risks and rewards of the asset but has transferred the control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group’s continuing involvement in the asset. The extent of the Group’s continuing involvement in the transferred asset is the extent to which it is exposed to changes in the value of the transferred asset. When the Group’s continuing involvement takes the form of guaranteeing the transferred asset, the extent of the Group’s continuing involvement is the lower of (i) the amount of the asset and (ii) the maximum amount of the consideration received that the Group could be required to repay (‘the guarantee amount’). When the Group’s continuing involvement takes the form of a written or purchased option (or both) on the transferred asset the extent of the Group’s continuing involvement is the amount of the transferred asset that the Group may repurchase. However, in case of a written put option to an asset that is measured at fair value, the extent of the Group’s continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price. When the Group’s continuing involvement takes the form of a cash-settled option or similar provision on the transferred asset, the extent of the Group’s continuing involvement is measured in the same way as that which results from non-cash settled options.

The Group’s accounting policy for write-offs and recoveries after write-offs of financial assets under PFRS 9 remains the same as it was under PAS 39. Financial assets are written off either partially or in their entirety only when the Group has stopped pursuing the recovery.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of income.

Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date (‘repos’) are not derecognized from the statement of financial position. The corresponding cash received, including accrued interest, is recognized in the statement of financial position as SSURA included in ‘Bills payable and SSURA’ and is considered as a loan to the Group, reflecting the economic substance of such transaction.

Conversely, securities purchased under agreements to resell at a specified future date (‘reverse repos’) are not recognized in the statement of financial position. The corresponding cash paid including accrued interest, is recognized in the statement of financial position as SPURA, and is considered a



loan to the counterparty. The difference between the purchase price and resale price is treated as interest income and is accrued over the life of the agreement using the EIR method.

Impairment of Financial Assets

Policies applicable beginning January 1, 2018

The adoption of PFRS 9 has changed the Group's loss impairment method on financial assets by replacing PAS 39's incurred loss approach with a forward-looking ECL approach which covers all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts.

Overview of the ECL principles

The ECL allowance is based on the credit losses expected to arise on a 12-month duration if there has been no SICR of the financial asset since origination. Otherwise if a SICR is observed, then the ECL estimation is extended until the end of the life of the financial asset. The 12-month ECL represents the losses that result from default events on a financial asset which may happen within 12 months after the reporting date. The Lifetime ECL on the other hand represents the losses that result from default events on a financial asset which may happen over its life. Both Lifetime ECLs and 12-month ECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The major portfolios of financial assets identified upon initial analysis of the Group's credit exposure are loan receivables, treasury accounts, and other receivables. Loan receivables may be availed by specific individuals, corporations or organizations. Hence, these portfolios can be further segmented to commercial and consumer portfolios. After segmentation, financial assets are grouped into Stage 1, Stage 2, and Stage 3 as described below.

Definition of "default" and "cure"

The Group defines a financial instrument as in default, which is fully aligned with the definition of credit impaired, in all cases when the borrower becomes 31 days past due on its contractual payments. As a part of a qualitative assessment of whether a customer is in default, the Group also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Group carefully considers whether the event should result in treating the customer as defaulted. An instrument is considered to be no longer in default (i.e. to have cured) when it no longer meets any of the default criteria and has exhibited a satisfactory track record.

Treasury exposures are considered in default upon occurrence of a credit event such as but not limited to bankruptcy of counterparty, restructuring, failure to pay on agreed settlement date, or request for moratorium.

SICR

In order to determine whether an instrument is subject to 12-month or Lifetime ECL, the Group assesses whether there has been a SICR since initial recognition. The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in probabilities of default and qualitative factors, including a backstop based on delinquency. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Group's internal credit assessment, the borrower or counterparty is determined to have well-defined credit weaknesses. These may include adverse trends or developments of financial, managerial, economic or political nature, or a significant weakness in collateral. Credit weakness may be manifested by unfavorable record or unsatisfactory characteristics or may only be potential that deserves management's close attention and may lead to significant losses or may result in collection or liquidation of the outstanding loan amount to be highly improbable. For exposures without internal credit grades, if contractual payments are more than a specified days past due



threshold, the credit risk is deemed to have increased significantly since initial recognition. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. In subsequent reporting periods, if the credit risk of the financial asset improves such that there is no longer a SICR since initial recognition, the Group shall revert to recognizing a 12-month ECL.

Staging assessment

For non-credit-impaired financial assets:

- Stage 1 is comprised of all non-impaired financial assets which have not experienced a SICR since initial recognition. The Group recognizes a 12-month ECL for Stage 1 financial assets.
- Stage 2 is comprised of all non-impaired financial assets which have experienced a SICR since initial recognition. The Group recognizes a lifetime ECL for Stage 2 financial assets.

For credit-impaired financial assets:

- Financial assets 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 financial asset or a portfolio of financial assets. The ECL model requires a lifetime ECL for impaired financial assets.

Financial assets that are credit-impaired on initial recognition are classified as purchased or originated credit-impaired (POCI) assets. These are recorded at fair value at original recognition and interest income is subsequently recognized based on a credit-adjusted EIR. ECL is only recognized or released to the extent that there is a subsequent change in the ECLs. POCI assets pertain to loans purchased by the Parent Company from MBCL as discussed in Note 31.

Assessment of ECL on a collective basis

The Group calculates ECL either on an individual or a collective basis. The Group performs collective impairment by grouping exposures into smaller homogenous portfolios based on a combination of borrower and account characteristics. Accounts with similar risk attributes (i.e. facility, security, credit rating, months-on-books, utilization and collateral type, etc.) are pooled together for calculating provisions based on the ECL models.

ECL parameters and methodologies

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

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

EAD consists of the amortized cost and any accrued interest receivable. For off-balance sheet and undrawn committed amounts, EAD includes a credit conversion factor which is an estimate of any further amount to be drawn at the time of default.



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

The Group applies a simplified ECL approach for its accounts receivables wherein the Group uses a provisioning matrix that considers historical changes in the behavior of the portfolio to predict conditions over the span of a given observation period.

MCC offers credit card facilities, in which MCC has the right to cancel and/or reduce the facilities with one-day notice. MCC does not limit its exposure to credit losses to the contractual notice period, but instead, calculates ECL over a period that reflects MCC's expectations of the customers' behavior, their likelihood of default, and MCC's future risk mitigation procedures, which could include reducing or cancelling the facilities. Based on past experience and MCC's expectations, the period over which MCC calculates ECL for these products is two years. The interest rate used to discount the ECL for credit cards is based on interest rates derived using the capital asset pricing model. These rates are also used to discount future recoveries over a period of five years as these cover the cost of securing an equivalent fund.

Forward-looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of a financial asset has increased significantly since its initial recognition and its measurement of ECL. A broad range of forward-looking information are considered as economic inputs, such as growth of the gross domestic product, inflation rates, unemployment rates, interest rates and BSP statistical indicators. The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

Debt investment securities measured at FVOCI

The ECL for debt securities at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortized cost is recognized in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognized in OCI is recycled to profit or loss upon derecognition of these financial assets.

Policies applicable prior to January 1, 2018

The Group assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

For financial assets carried at amortized cost such as loans and receivables, due from other banks, interbank loans and SPURA, and HTM investments, the Group first assesses whether objective



evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. For individually assessed financial assets, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

Financial assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment. The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to the statement of income. Interest income continues to be recognized based on the original EIR of the asset. Financial assets, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent period, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited to 'Recovery on charged-off assets' under 'Miscellaneous income' in the statements of income. If the Group determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of credit risk characteristics such as industry, collateral type, past-due status and term. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with changes in related observable data from period to period (such as changes in property prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

The Group also uses the Net Flow Rate (NFR) method to determine the credit loss rate of a particular delinquency age bucket based on historical data of flow-through and flow-back of loans across specific delinquency age buckets. The allowance for credit losses is determined based on the results of the net flow to write-off methodology. Net flow tables are derived from monitoring of monthly peso movements between different stage buckets, from 1-day past due to 180-day past due. The net flow to write-off methodology relies on the last 12 months of net flow tables to establish a NFR percentage of accounts receivable that are current or in any state of delinquency (i.e., 30, 60, 90, 120, 150 and 180 day past due) as of reporting date that will eventually result in write-off. The gross provision is then computed based on the outstanding balances of the receivables as of statement of financial position date and the NFRs determined for the current and each delinquency bucket. This gross provision is reduced by the estimated recoveries, which are also based on historical data, to arrive at the required allowance for credit losses.



If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

AFS investments

In case of quoted equity securities classified as 'AFS investments', this would include a significant or prolonged decline in the fair value of the securities below their cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statement of income - is removed from OCI and recognized in the statement of income. Impairment losses on equity securities are not reversed through the statement of income. Increases in fair value after impairment are recognized directly in OCI. In case of unquoted equity securities classified as 'AFS investments', the amount of the impairment is measured as the difference between their carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

In case of debt instruments classified as 'AFS investments', impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of 'Interest income' in the statement of income. If subsequently, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of income, the impairment loss is reversed through the statement of income.

Restructured Loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews and monitors restructured loans until derecognition to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR. The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the original EIR, is recognized in 'Provision for credit and impairment losses' in the statement of income. Beginning January 1, 2018, when the loan has been restructured but not derecognized, the Group also reassesses whether there has been a SICR and considers whether the assets should be classified as Stage 3. If the restructuring terms are substantially different, the loan is derecognized and a new 'asset' is recognized at fair value using the revised EIR.

Collateral Valuation of Financial Assets

The Group's accounting policy for collateral assigned to it through its lending arrangements under PFRS 9 is the same as it was under PAS 39. Collateral, unless repossessed, is not recorded in the Group's statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed every other year. However, some collaterals, for example, cash or securities relating to margining requirements, are valued daily.

Revenue Recognition

Prior to January 1, 2018, under PAS 18, *Revenue*, revenue is recognized to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received.



Upon adoption of PFRS 15 beginning January 1, 2018, revenue from contracts with customers is recognized upon transfer of services to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those services.

The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or agent. The Group concluded that it is acting as a principal in all of its revenue arrangements except for certain brokerage transactions. The following specific recognition criteria must also be met before revenue is recognized within the scope of PFRS 15:

Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers, which are divided into the following two categories:

a. Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period as the customer simultaneously receives and consumes the benefits provided by the Group. Using an output method, revenue is recognized if the Group has a right to invoice the customer for services directly corresponding to performance completed to date. These fees include investment fund fees, custodian fees, fiduciary fees, commission income, asset management fees, income from trust operations, and advisory fees.

b. Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party - such as underwriting fees, corporate finance fees and brokerage fees for the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses - are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

The Group assessed that there is no difference in accounting for the above fees and commission income under PFRS 15 and PAS 18.

Discounts earned, membership fees and awards revenue on credit cards

The following table provides information about the nature and timing of the satisfaction of performance obligations for the Group's credit card business, 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	Revenue recognition under PAS 18
Discounts earned	Discounts are charges arising from credit availments by the Group's and other credit companies' cardholders when the Group is acting as an acquirer. These discounts are computed based on certain agreed rates. These also include interchange income from transactions processed by other acquirers through VISA and Mastercard and fees from cash advance transactions of cardholders.	Discounts are recognized as revenue upon receipt from member establishments of charges arising from credit availments by the Group's cardholders and other credit companies' cardholders when the Group is acting as an acquirer.	Discounts are recognized as revenue upon receipt from member establishments of charges arising from credit availments by the Group's cardholders and other credit companies' cardholders when the Group 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.



Type of product/service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under PFRS 15	Revenue recognition under PAS 18
Awards revenue	The Group operates a loyalty points program, which allows customers to accumulate points when they purchase from member establishments using the issued card of the Group. The points accumulate and do not expire.	The Group allocates a portion of the consideration received from discounts earned and interchange fees from credit cards to the reward points based on the estimated stand-alone selling prices. The amount allocated to the 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 the 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.

Revenues outside the scope of PFRS 15

Interest income

For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as investment securities at FVOCI/AFS investments, interest income is recorded at the EIR, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), including any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR. The adjusted carrying amount is calculated based on the original EIR. The change in carrying amount is recorded as 'Interest income'. Loan commitment fees that are likely to be drawn down are deferred (together with any incremental costs) and recognized as an adjustment to the EIR of the loan.

Under PFRS 9, when a financial asset becomes credit-impaired and is, therefore, regarded as Stage 3 (as discussed in "Impairment of Financial Assets" above), the Group calculates interest income by applying the EIR to the net amortized cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Group reverts to calculating interest income on a gross basis. Under PAS 39, once the recorded value of a financial asset or group of similar financial assets carried at amortized cost has been reduced due to an impairment loss, interest income continues to be recognized using the original EIR applied to the new carrying amount.

Purchases by credit cardholders, collectible on an installment basis, are recorded at the cost of the items purchased plus a certain percentage of cost. The excess over cost is credited to 'Unearned discount' and is shown as a deduction from 'Loans and receivables' in the consolidated statement of financial position. The unearned discount is taken up to interest income over the installment terms and is computed using the EIR method.

Recovery on charged-off assets

Income arising from collections on accounts or recoveries from impairment of items previously written off are recognized in the year of recovery.

Leasing income - Finance lease

The excess of aggregate lease rentals plus the estimated residual value over the cost of the leased equipment constitutes the unearned lease income. Residual values represent estimated proceeds from the disposal of equipment at the time lease is estimated. The unearned lease income is amortized over the term of the lease, commencing on the month the lease is executed using the EIR method.

Dividend income

Dividend income is recognized when the Group's right to receive payment is established.



Trading and securities gain (loss) - net

Results arising from trading activities include all gains and losses from changes in fair value for financial assets and financial liabilities at FVTPL and gains and losses from disposal of investment securities at FVTPL, debt securities at FVOCI/AFS and HTM investments.

Rental income

Rental income arising on leased properties is accounted for on a straight-line basis over the lease terms on ongoing leases and is recorded in the statement of income under 'Leasing'.

Income on direct financing leases and receivables financed

Income on loans and receivables financed with short-term maturities is recorded in 'Interest income' and is recognized using the EIR method. Interest and finance fees on finance leases and loans and receivables financed with long-term maturities and the excess of the aggregate lease rentals plus the estimated terminal value of the leased equipment over its cost are credited to unearned discount and amortized over the term of the note or lease using the EIR method.

Gain on sale of investment in associate

Upon loss of significant influence over an associate, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

Gain on sale of non-current asset held for sale

The gain or loss arising from the sale of non-current asset held for sale is included in profit or loss when the item is derecognized. The gain or loss arising from the derecognition of non-current asset held for sale is determined as the difference between the net disposal proceeds and its carrying amount on the date of the transaction.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, amounts due from BSP and other banks, and interbank loans receivable and SPURA with original maturities of three months or less from dates of placements and that are subject to insignificant risk of changes in value.

Property and Equipment

Land is stated at cost less any impairment in value and depreciable properties including buildings, furniture, fixtures and equipment and leasehold improvements are stated at cost less accumulated depreciation and amortization, and any impairment in value. Such cost includes the cost of replacing part of the property and equipment when that cost is incurred, if the recognition criteria are met but excludes repairs and maintenance costs. Building under construction (BUC) is stated at cost and includes cost of construction and other direct costs. BUC is not depreciated until such time that the relevant asset is completed and put into operational use.

Depreciation is calculated on the straight-line method over the estimated useful life of the depreciable assets. Leasehold improvements are amortized over the shorter of the terms of the covering leases and the estimated useful lives of the improvements.

The range of estimated useful lives of property and equipment follows:

Buildings	25 to 50 years
Furniture, fixtures and equipment	2 to 5 years
Leasehold improvements	5 to 20 years



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

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income under 'Profit from assets sold' in the year the asset is derecognized.

Investments in Subsidiaries, Associates and a Joint Venture (JV)

Investment in subsidiaries

Subsidiaries pertain to all entities over which the Group has control. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements; and
- the Group's voting rights.

Investment in associates

Associates pertain to all entities over which the Group and the Parent Company have significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. Investment in associates is accounted for under the equity method of accounting.

Investment in a JV

A JV is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the JV. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. Investment in a JV is accounted for under the equity method of accounting. The Group's investment in a JV represents the 30% interest of PSBank in Sumisho Motor Finance Corporation (SMFC) (Note 11).

Upon loss of significant influence over the associate or joint control over the JV, the Group and the Parent Company measure and recognize any retained investment at its fair value. Any difference between the carrying amount of the associate or JV upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in the statement of income.

Under the equity method, investments in associates and a JV are carried in the statement of financial position at cost plus post-acquisition changes in the Group's and the Parent Company's share of the net assets of the associate or JV less any impairment in value. Post-acquisition changes in the share of net assets of the associate or a JV include the share in the: (a) income or losses; and (b) unrealized gain or loss on investment securities, remeasurement of retirement plans and others. Dividends received are treated as a reduction in the carrying values of the investments. Goodwill relating to the associate and a JV is included in the carrying value of the investment and is not amortized. When the Group and the Parent Company increase its ownership interest in an associate or a JV that continues to be accounted for under the equity method, the cost for the additional interest is added to the existing carrying amount of the associate or JV and the existing interest in the associate or JV is not



remeasured. The share in an associate or a JV's post-acquisition profits or losses is recognized in the statement of income as 'Share in net income of subsidiaries, associates and a joint venture' while its share of post-acquisition movements in the associate or JV's equity reserves is recognized directly in the statement of comprehensive income. When the share of losses in an associate or a JV equals or exceeds its interest in the associate or JV, including any other unsecured receivables, the Group and the Parent Company do not recognize further losses, unless it incurred obligations or made payments on behalf of the associate or JV which is recognized as miscellaneous liabilities. Profits and losses resulting from transactions between the Group or the Parent Company and an associate or JV are eliminated to the extent of the Group or the Parent Company's interest in the associate or JV.

Investments in subsidiaries in the separate financial statements are accounted for under the equity method similarly as investments in associates and JV. Equity in other comprehensive income (losses) of subsidiaries and changes therein are included in remeasurement losses on retirement plan, net unrealized loss on investment securities at FVOCI and AFS investments, and translation adjustments and others as appropriate together with the Parent Company in the separate statement of financial position and statement of comprehensive income.

Investment Properties

Investment properties are measured initially at cost, including transaction costs. An investment property acquired through an exchange transaction is measured at fair value of the asset acquired unless the fair value of such an asset cannot be measured in which case the investment property acquired is measured at the carrying amount of asset given up. The difference between the fair value of the asset received and the carrying amount of the asset given up is recorded as 'Gain on initial recognition of investment properties' under 'Miscellaneous income'. Foreclosed properties are classified under 'Investment properties' upon: a.) entry of judgment in case of judicial foreclosure; b.) execution of the Sheriff's Certificate of Sale in case of extra-judicial foreclosure; or c.) notarization of the Deed of Dacion in case of dation in payment (*dacion en pago*). Subsequent to initial recognition, investment properties are carried at cost less accumulated depreciation (for depreciable investment properties) and impairment in value.

Investment properties are derecognized when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the statement of income under 'Profit from assets sold' in the year of retirement or disposal.

Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs, are normally charged to operations in the year in which the costs are incurred. Depreciation is calculated on a straight-line basis using the remaining useful lives from the time of acquisition of the investment properties based on appraisal reports but not to exceed 50 years for buildings and condominium units.

Transfers are made to investment properties when, and only when, there is a change in use evidenced by ending of owner occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment properties when, and only when, there is a change in use evidenced by commencement of owner occupation or commencement of development with a view to sale.

Interest in Joint Operations

The Group is a party to joint operations whereby it contributed parcels of land for development into residential and commercial units. In respect of the Group's interest in the joint operations, the Group recognizes the following: (a) the assets that it controls and the liabilities that it incurs; and (b) the expenses that it incurs and its share of the income that it earns from the sale of units by the joint



operations. The assets contributed to the joint operations are measured at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale (Note 14).

Chattel Mortgage Properties

Chattel mortgage properties comprise of repossessed vehicles. Chattel mortgage properties are stated at cost less accumulated depreciation and impairment in value. Depreciation is calculated on a straight-line basis using the remaining useful lives from the time of acquisition of the vehicles. The useful lives of chattel mortgage properties are estimated to be five years.

Subordinated Notes

Subordinated notes issued by Special Purpose Vehicles (SPV) (presented as 'Investment in SPVs' under 'Other assets') are stated at amortized cost reduced by an allowance for credit losses. The allowance for credit losses is determined based on the difference between the outstanding principal amount and the recoverable amount which is the present value of the future cash flow expected to be received as payment for the subordinated notes.

Intangible Assets

Software costs

Software costs (presented under 'Other assets') are capitalized on the basis of the cost incurred to acquire and bring to use the specific software. These costs are amortized over three to five years on a straight-line basis. Costs associated with maintaining the computer software programs are recognized as expense when incurred. Software costs are carried at cost less accumulated amortization.

Exchange trading right

Exchange trading right (included in 'Miscellaneous assets' presented under 'Other assets') is a result of the PSE conversion plan to preserve access of First Metro Securities Brokerage Corporation (FMSBC), a subsidiary of FMIC, to the trading facilities and continue transacting business in the PSE. The exchange trading right has an indefinite useful life as there is no foreseeable limit to the period over which this asset is expected to generate net cash inflows. It is carried at the amount allocated from the original cost to the exchange membership seat (after a corresponding allocation was made to the value of the PSE shares) less any allowance for impairment losses. FMSBC does not intend to sell the exchange trading right in the near future.

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. With respect to investments in associates and a JV, goodwill is included in the carrying amounts of the investments. Following initial recognition, goodwill is measured at cost net of impairment losses (see accounting policy on "Impairment of Non-financial Assets").

Customized System Development Cost

Customized system development cost consists of payments for customization of various banking systems. This account will be reclassified to appropriate accounts upon completion and will be depreciated and amortized from the time the asset is ready for its intended use (Note 14).

Impairment of Non-financial Assets

Property and equipment, investments in subsidiaries, associates and a JV, investment properties, chattel mortgage properties, intangible assets with finite useful lives and other assets

At each statement of financial position date, the Group assesses whether there is any indication that its non-financial assets may be impaired. When an indicator of impairment exists or when an annual



impairment testing for an asset is required, the Group makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell (FVLCTS) and its value in use (VIU) and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash generating unit to which it belongs. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to operations in the year in which it arises.

An assessment is made at each statement of financial position date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income. After such a reversal, the depreciation and amortization expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Intangible assets with indefinite useful lives and customized system development cost not yet available for use

Intangible assets with indefinite useful lives such as exchange trading right and customized system development cost not yet available for use are tested for impairment annually at statement of financial position date either individually or at the cash generating unit level, as appropriate.

Goodwill

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the cash generating unit (CGU) (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the CGU (or group of CGUs) to which goodwill has been allocated, an impairment loss is recognized immediately in the statement of income. The Group uses the higher of FVLCTS and VIU using cash flow projections from financial budgets approved by senior management in determining the recoverable amount.

Leases

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

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



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

Residual value of leased assets and deposits on lease contracts

The residual value of leased assets, which approximates the amount of guaranty deposit paid by the lessee at the inception of the lease, is the estimated proceeds from the sale of the leased asset at the end of the lease term. At the end of the lease term, the residual value of the leased asset is generally applied against the guaranty deposit of the lessee when the lessee decides to buy the leased asset.

Group as lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to the ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and included in 'Property and equipment' with the corresponding liability to the lessor included in 'Other liabilities'. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recorded directly to 'Interest expense'.

Capitalized leased assets are depreciated over the shorter of the estimated useful lives of the assets or the respective lease terms, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Leases where the lessor retains substantially all the risk and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognized as an expense in the statement of income on a straight-line basis over the lease term. Contingent rental payables are recognized as expense in the year in which they are incurred.

Group as lessor

Finance leases, where the Group transfers substantially all the risks and benefits incidental to the ownership of the leased item to the lessee, are included in the statement of financial position under 'Loans and receivables'. All income resulting from the receivable is included in 'Interest income' in the statement of income.

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the year in which they are earned.

Retirement Cost

The Group has a non-contributory defined benefit retirement plan except for FMIIC and its subsidiary which follow the defined contribution retirement benefit plan and the Mandatory Provident Fund Scheme (MPFS). The retirement cost of the Parent Company and most of its subsidiaries is determined using the projected unit credit method. Under this method, the current service cost is the present value of retirement benefits payable in the future with respect to services rendered in the current year. The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation (DBO) at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.



Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries. Net interest on the net defined benefit liability or asset is the change during the year in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss. Retirement expense is presented under 'Compensation and fringe benefits' in the statement of income. Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods. Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the DBO, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Group's right to be reimbursed of some or all of the expenditure required to settle a DBO is recognized as a separate asset at fair value when and only when reimbursement is virtually certain. Payments to the defined contribution retirement benefit plans and the MPFS are recognized as expenses when employees have rendered service entitling them to the contributions.

Equity

When the shares are sold at a premium, the difference between the proceeds and par value is credited to 'Capital paid in excess of par value', net of direct costs incurred related to the equity issuance. If 'Capital paid in excess of par value' is not sufficient, the excess is charged against surplus. When the Group issues more than one class of stock, a separate account is maintained for each class of stock and the number of stocks issued.

Surplus represents accumulated earnings of the Group less dividends declared.

Own equity instruments which are reacquired or Parent Company's shares acquired by its subsidiaries (treasury stock) are recognized at cost and deducted from equity. No gain or loss is recognized in the profit or loss on the purchase, sale, issue or cancellation of the Parent Company's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in 'Capital paid in excess of par value'. Voting rights related to treasury stocks are nullified and no dividends are allocated. When the stocks are retired, the Common stock account is reduced by its par value and the excess of cost over par value upon retirement is debited to capital paid in excess of par value at the time the stocks were issued and to surplus for the remaining balance.



Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as 'Interest expense'.

Contingent Liabilities and Contingent Assets

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

Income Taxes

Current taxes

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxing authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the statement of financial position date.

Deferred taxes

Deferred tax is provided on temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- a. Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- b. In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular income tax, and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable income will be available against which the deductible temporary differences and carryforward of unused tax credits from MCIT and unused NOLCO can be utilized except:

- a. Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- b. In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.



The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each statement of financial position date and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

Current tax and deferred tax relating to items recognized directly in equity are recognized in OCI and not in the statement of income.

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

Earnings Per Share

Basic earnings per share is computed by dividing net income for the year attributable to equity holders of the Parent Company by the weighted average number of common shares outstanding during the year after giving retroactive effect to stock dividends declared and stock rights exercised during the year. The Group does not have dilutive potential common shares.

Dividends on Common Shares

Cash dividends on common shares are recognized as a liability and deducted from the equity when approved by the Board of Directors (BOD) of the Parent Company while stock dividends are deducted from equity when approved by BOD and shareholders of the Parent Company. Dividends declared during the year but are paid or issued after the statement of financial position date are dealt with as a subsequent event.

Debt Issuance Costs

Issuance, underwriting and other related costs incurred in connection with the issuance of debt instruments are deferred and amortized over the terms of the instruments using the EIR method. Unamortized debt issuance costs are included in the related carrying amount of the debt instrument in the statement of financial position.

Capital Securities Issuance Costs

Issuance, underwriting and other related costs incurred in connection with the issuance of the capital securities are treated as a reduction of equity against 'Capital paid in excess of par value'.

Events after the Statement of Financial Position Date

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

Segment Reporting

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on business segments is presented in Note 6.



Fiduciary Activities

Assets and income arising from fiduciary activities together with related undertakings to return such assets to customers are excluded from the financial statements where the Parent Company and PSBank act in a fiduciary capacity such as nominee, trustee or agent.

Standards Issued but not yet Effective

The list below consists of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt these standards when they become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended standards and interpretations to have significant impact on its financial statements.

Effective beginning on or after January 1, 2019

New standard - PFRS 16, Leases

Lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, *Leases*. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements. The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs. The Group is currently assessing the impact of adopting PFRS 16.

Amendments

Amendments to PFRS 9, Financial Instruments - Prepayment Features with Negative Compensation

The amendments to PFRS 9 allow debt instruments with negative compensation prepayment features to be measured at amortized cost or FVOCI. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

Amendments to PAS 28, Investments in Associates and Joint Ventures - Long-term Interests in Associates and Joint Ventures

The amendments to PAS 28 clarify that entities should account for long-term interests in an associate or joint venture to which the equity method is not applied using PFRS 9. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

Subject to Board of Accountancy's Approval

Amendments to PAS 19, Employee Benefits - Plan Amendment, Curtailment or Settlement

The measurement requires the current service cost and the net interest for the period after the remeasurement be determined using the assumptions used for the remeasurement if a plan amendment, curtailment or settlement occurs.

Annual Improvements to PFRS 2015 to 2017 Cycle

PFRS 3, Business Combinations and PFRS 11, Joint Arrangements - Previously held interest in a joint operation

The amendments clarify when an entity remeasures previously held interests in a business that is classified as a joint operation. If the entity obtains control, it remeasures previously held interests in that business. If the entity only obtains joint control, it does not remeasure previously held interests in that business.



PAS 12, Income Taxes - Income tax consequence of payments on financial instruments classified as equity

The amendments clarify that the requirements to recognize the income tax consequence of dividends where the transactions or events that generate distributable profits are recognized apply to all income tax consequences of dividends.

PAS 23, Borrowing Costs - Borrowing costs eligible for capitalization

The amendments clarify that a specific borrowing that remains outstanding after the related asset is ready for its intended use becomes part of the general borrowings when calculating the capitalization rate on general borrowings.

Philippine Interpretation IFRIC 23, Uncertainty over Income Tax Treatments

This addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

The Group is currently assessing the impact of adopting this interpretation.

Effective beginning on or after January 1, 2020 (subject to Board of Accountancy's Approval)

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

The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business. An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted. These amendments will apply to future business combinations of the Group.

Amendments to PAS 1, Presentation of Financial Statements, and PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Material

The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements. An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

Effective beginning on or after January 1, 2021 (subject to Board of Accountancy's Approval)

PFRS 17, Insurance Contracts

PFRS 17 provides updated information about the obligation, risks and performance of insurance contracts, increases transparency in financial information reported by insurance companies, and



introduces consistent accounting for all insurance contracts based on a current measurement model. The standard is effective for annual periods beginning on or after January 1, 2021. Early application is permitted but only if the entity also applies PFRS 9 and PFRS 15.

Deferred effectivity

Amendments to PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture. On January 13, 2016, the Financial Reporting Standards Council postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

3. Significant Accounting Judgments and Estimates

The preparation of the financial statements in compliance with PFRS requires the Group to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and the disclosures of contingent assets and contingent liabilities. Future events may occur which can cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The following are the critical judgments and key assumptions that have a significant risk of material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Judgments

a. Classification of financial assets

As discussed in Note 2, beginning January 1, 2018, the Group 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 Group 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 Group'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 Group applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, 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. Consolidation of subsidiaries

The determination whether the Group has control over an investee company requires significant judgment. The Group considers that the following criteria are all met, including: (a) an investor has the power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's return.

In accordance with PFRS 10, the Group included the accounts of First Metro Save and Learn Balance Fund, Inc. (FMSALBF), First Metro Save and Learn Equity Fund, Inc. (FMSALEF), First Metro Save and Learn Fixed Income Fund (FMSLFIF), First Metro Philippine Equity Traded Fund, Inc. (FMPETF) and First Metro Save and Learn F.O.C.C.U.S. Dynamic Fund, Inc. collectively the "Funds", in its consolidated financial statements. The Group re-assessed the control conclusion for these Funds. Although the ownership is less than half of the voting power of these investees, the Group has control due to its power to direct the relevant activities of the Funds through First Metro Asset Management Inc. (FAMI), a subsidiary of FMIC, which acts as the fund manager of the Funds. Further, the Group has the exposure to variable returns from its investments and its ability to use its power over the Funds to affect their returns.

c. Existence of significant influence over an associate with less than 20.00% ownership

As discussed in Note 11, there are instances that an investor exercises significant influence even if its ownership is less than 20.00%. The Group applies significant judgment in assessing whether it holds significant influence over an investee and considers the following:

- (a) representation in the board of directors or equivalent governing body of the investee;
- (b) participation in policy-making processes, including participation in decisions about dividends or other distributions;
- (c) material transactions between the investor and the investee;
- (d) interchange of managerial personnel;
- (e) joint voting agreement with other investors; or
- (f) provision of essential technical information.

d. Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, these are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. These judgments may include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives (Note 5).

e. Leases

Operating lease

Group as lessor

The Group has entered into commercial property leases on its investment properties portfolio and over various items of furniture, fixtures and equipment. The Group has determined, based on an evaluation of the terms and conditions of the arrangements (i.e., the lease does not transfer ownership of the asset to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable and the lease term is not for the major part of the asset's economic life), that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.



Group as lessee

The Group has entered into lease on premises it uses for its operations. The Group has determined, based on the evaluation of the terms and conditions of the lease agreement (i.e., the lease does not transfer ownership of the asset to the lessee by the end of the lease term and lease term is not for the major part of the asset's economic life), that the lessor retains all the significant risks and rewards of ownership of these properties.

Finance lease

The Group has determined, based on an evaluation of terms and conditions of the lease arrangements (i.e., present value of minimum lease payments amounts to at least substantially all of the fair value of leased asset, lease term is for the major part of the economic useful life of the asset, and lessor's losses associated with the cancellation are borne by the lessee), that it has transferred all significant risks and rewards of ownership of the properties it leases out on finance leases.

f. Contingencies

The Group is currently involved in legal proceedings. The estimate of the probable cost for the resolution of claims has been developed in consultation with the aid of the outside legal counsel handling the Group's defense in this matter and is based upon an analysis of potential results. It is probable, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to this proceeding (Note 30).

Estimates

a. Credit losses on financial assets

The Group reviews its debt financial assets subject to ECL on a semi-annual basis with updating provisions made during the intervals as necessary based on the continuing analysis and monitoring of individual accounts by credit officers. The measurement of credit losses both under PFRS 9 and PAS 39 across all categories of such financial assets requires judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining credit losses and the assessment of a SICR. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

Beginning January 1, 2018

The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgments and estimates include, among others:

- Segmentation of the portfolio, where the appropriate model or ECL approach is used
- Criteria for assessing if there has been a SICR and so allowances for debt financial assets should be measured on a lifetime ECL basis and the qualitative assessment
- Segmentation of debt financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomics scenarios and their probability weightings, to derive the economic inputs into the ECL models

Refer to Note 2 for detailed discussions regarding the abovementioned significant judgments and estimates in relation to ECL estimation.

The gross carrying amounts of financial assets subject to ECL as of December 31, 2018 are disclosed in Note 4, while the related ECL allowances for credit losses are disclosed in Note 15.



In 2018, provision for credit losses on these financial assets amounted to ₱7.7 billion for the Group and ₱807.4 million for the Parent Company (Note 15).

Prior to January 1, 2018

In determining whether credit losses should be recorded in the statement of income, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

Management uses estimates in the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes in the allowance.

In addition to specific allowance against individually significant loans and receivables, the Group also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on historical loss experience adjusted on the basis of current historical data for assets with similar credit risk characteristics or using the NFR method.

The carrying values of loans and receivables and the related allowance for credit losses as of December 31, 2017 are disclosed in Note 9. In 2017 and 2016, provision for credit losses on loans and receivables amounted to ₱8.0 billion and ₱7.3 billion, respectively, for the Group, and ₱1.8 billion and ₱1.2 billion, respectively, for the Parent Company (Note 15).

b. Impairment of AFS equity securities

Prior to January 1, 2018, the Group determines that AFS equity securities are impaired when there has been a significant or prolonged decline in the fair value below their cost. This determination of what is significant or prolonged requires judgment. The Group treats 'significant' generally as 20.00% or more of the original cost of investment, and 'prolonged', greater than 12 months. In making this judgment, the Group evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

As of December 31, 2017, allowance for impairment losses on AFS equity securities amounted to ₱293.5 million for the Group and ₱159.6 million for the Parent Company. As of December 31, 2017, the carrying value of AFS equity securities (included under 'AFS investments') amounted to ₱1.8 billion for the Group and ₱404.0 million for the Parent Company (Notes 8 and 15).

c. Recognition of deferred income taxes

Deferred tax assets are recognized for all unused tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The estimates of future taxable income indicate that certain temporary differences will be realized in the future. The recognized net deferred tax assets and unrecognized deferred tax assets for the Group and the Parent Company are disclosed in Note 28.



d. *Present value of retirement liability*

The cost of defined retirement pension plan is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and the long-term nature of these plans, such estimates are subject to significant uncertainty. The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of the statement of financial position date. The present values of the retirement liability of the Group and the Parent Company are disclosed in Note 27.

e. *Impairment of non-financial assets*

The Group assesses impairment on non-financial assets (property and equipment, investments in subsidiaries, associates and a JV, investment properties, software costs, chattel mortgage properties and other assets) whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Group considers important which could trigger an impairment review include the following: a) significant underperformance relative to expected historical or projected future operating results; b) significant changes in the manner of use of the acquired assets or the strategy for overall business; and c) significant negative industry or economic trends.

The Group uses the higher of FVLCTS and VIU in determining recoverable amount. As of December 31, 2018 and 2017, there has been a significant and prolonged decline in the fair value of an associate. The recoverable amount of the investment in the associate has been determined based on a VIU calculation. Key assumptions in VIU calculation are most sensitive to the following assumptions: (a) production volume; (b) price; (c) exchange rates; (d) capital expenditures and (e) long-term growth rates. Based on the Group's impairment testing, the investment in associate is determined to be not impaired.

The carrying values of the property and equipment, investments in subsidiaries, associates and a JV, investment properties, software costs, chattel mortgage properties, and other assets of the Group and the Parent Company are disclosed in Notes 10, 11, 12 and 14, respectively.

Goodwill

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the CGU (or group of CGUs) to which goodwill has been allocated, an impairment loss is recognized immediately in the statement of income. The recoverable amount of the CGU is determined based on FVLCTS.

The fair value of the CGU is determined using the discounted cash flow method for unquoted debt financial assets/liabilities at the appropriate market rate, the price-to-earnings (P/E) valuation model (in 2018) and discounted cash flow method (in 2017) for unquoted equity investments, and the appraisal reports for the valuation of real properties. Fair values of listed debt and equity securities are based on their quoted market prices. In applying the discounted cash flow method for equity investments, the Group used weighted average cost of capital or cost of equity, as appropriate, to discount the future cash flows from the business. Average growth rate was derived based on the historical or industry data as applicable. In 2018, the Group applied the P/E valuation model by reference to P/E ratios of listed comparable companies of the CGU's equity investments. In 2017, the applicable pre-tax discount rates applied to cash flow projections is 7.18% and the growth rate applied to cash flows is 3.00%. Key assumptions in FVLCTS



calculation of CGUs are most sensitive to discount rates and growth rates used to project cash flows and the P/E ratios of listed comparable companies of the CGU's equity investments. As of December 31, 2018 and 2017, the Group's goodwill amounted to ₱5.2 billion (Note 11).

4. Financial Risk and Capital Management

Introduction

The Group has exposure to the following risks from its use of financial instruments: (a) credit; (b) liquidity; and (c) market risks.

Risk management framework

The Board of Directors (BOD) has overall responsibility for the oversight of the Parent Company's risk management process. On the other hand, the risk management processes of the subsidiaries are the separate responsibilities of their respective BOD. Supporting the BOD in this function are certain Board-level committees such as Risk Oversight Committee (ROC), Audit Committee (AC) and senior management committees through the Executive Committee, Asset and Liability Committee (ALCO) and Policy Committee, among others.

The ROC, which is composed primarily of independent members of the BOD, is responsible for overseeing the Parent Company's risk infrastructure, the adequacy and relevance of risk policies, and the compliance to defined risk appetite and levels of exposure. The ROC is assisted in this responsibility by the Risk Management Group (RSK). RSK undertakes the implementation and execution of the Parent Company's Risk Management framework which involves the identification, assessment, control, monitoring and reporting of risks.

The Parent Company and its subsidiaries manage their respective financial risks separately. The subsidiaries have their own risk management processes but are structured similar to that of the Parent Company. To a certain extent, the respective risk management programs and objectives are the same across the Group. Risk management policies adopted by the subsidiaries and affiliates are aligned with the Parent Company's risk policies. To further promote compliance with PFRS and Basel III, the Parent Company created a Risk Management Coordinating Council (RMCC) composed of risk officers of the Parent Company and its financial institution subsidiaries.

Credit Risk

Credit risk is the risk of financial loss to the Group if a counterparty to a financial instrument fails to meet its contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties, related groups of borrowers, for market segmentation, and industry concentrations, and by monitoring exposures in relation to such limits, among others. The same is true for treasury-related activities. Each business unit is responsible for the quality of its credit portfolio and for monitoring and controlling all credit risks in its portfolio. Regular reviews and audits of business units and credit processes are undertaken by Internal Audit Group and RSK, respectively.

Management of credit risk

The Group faces potential credit risks every time it extends funds to borrowers, commits funds to counterparties, guarantees the paying performance of its clients, invests funds to issuers (e.g., investment securities issued by either sovereign or corporate entities) or enter into either market-traded or over-the-counter derivatives, either through implied or actual contractual agreements (i.e., on- or off-balance sheet exposures). The Parent Company manages its credit risk at various



levels (i.e., strategic level, portfolio level down to individual obligor or transaction) by adopting a credit risk management environment that has the following components:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit/financial assessment, risk grading and reporting and compliance with regulatory requirements;
- Establishment of authorization limits for the approval and renewal of credit facilities;
- Limiting concentrations of exposure to counterparties and industries (for loans), and by issuer (for investment securities);
- Utilizing the Internal Credit Risk Rating System (ICRRS) in order to categorize exposures according to the risk profile. The risk grading system is used for determining impairment provisions against specific credit exposures. The current risk grading framework consists of ten grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation; and
- Monitoring compliance with approved exposure limits.

Borrowers, counterparties or group of related accounts across the Group are aggregated and managed by the Parent Company's Institutional Banking Sector as the "Control Unit". Group Limits for conglomerates are set-up and approved to guide subsidiaries and affiliates of the Group. Consolidated exposures are regularly reported to senior management and the ROC.

Credit risk at initial recognition

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

Modification

In certain circumstances, the Group modifies the original terms and conditions of a credit exposure to form a new loan agreement or payment schedule. The modifications can be given depending on the borrower's or counterparty's current or expected financial difficulty. The modifications may include, but are not limited to, change in interest rate and terms, principal amount, maturity date, date and amount of periodic payments and accrual of interest and charges

Maximum exposure to credit risk

An analysis of the maximum credit risk exposure relating to financial assets is shown below:

	Consolidated							
	2018				2017			
	Maximum Exposure to Credit Risk	Fair Value of Collateral	Financial Effect of Collateral or Credit Enhancement	Net Exposure	Maximum Exposure to Credit Risk	Fair Value of Collateral	Financial Effect of Collateral or Credit Enhancement	Net Exposure
Due from other banks	₱578	₱2,203	₱578	₱-	₱-	₱-	₱-	₱-
Interbank loans receivable and SPURA	8,067	8,060	8,058	9	2,890	1,497	1,497	1,393
Loans and receivables - net								
Receivables from customers								
Commercial loans	305,371	793,563	283,893	21,478	355,965	770,343	280,367	75,598
Auto loans	116,975	197,160	116,465	510	115,839	205,210	115,243	596
Residential mortgage loans	106,818	202,043	96,980	9,838	98,852	201,224	98,691	161
Trade loans	59,972	58,936	58,718	1,254	39,946	41,921	38,223	1,723
Others	674	694	655	19	688	679	642	46
	589,810	1,252,396	556,711	33,099	611,290	1,219,377	533,166	78,124
Accounts receivable	-	-	-	-	1	1	1	-
Accrued interest receivable	3,424	3,416	3,416	8	3,112	4,805	2,902	210
Sales contract receivable	155	347	122	33	89	364	89	-
	593,389	1,256,159	560,249	33,140	614,492	1,224,547	536,158	78,334
Total	₱602,034	₱1,266,422	₱568,885	₱33,149	₱617,382	₱1,226,044	₱537,655	₱79,727



	Parent Company							
	2018				2017			
	Maximum Exposure to Credit Risk	Fair Value of Collateral	Financial Effect of Collateral or Credit Enhancement	Net Exposure	Maximum Exposure to Credit Risk	Fair Value of Collateral	Financial Effect of Collateral or Credit Enhancement	Net Exposure
	P=	P=	P=	P=	P=	P=	P=	P=
Due from other banks								
Interbank loans receivable and SPURA	1,459	1,634	1,459	—	1,635	2,013	1,635	—
Loans and receivables - net								
Receivables from customers								
Commercial loans	269,607	753,469	254,545	15,062	244,514	655,998	217,393	27,121
Auto loans	29,109	74,249	28,646	463	33,524	78,135	32,950	574
Residential mortgage loans	57,239	113,903	57,026	213	52,890	111,478	52,729	161
Trade loans	59,908	58,873	58,654	1,254	39,895	41,870	38,172	1,723
Others	659	685	647	12	673	673	637	36
	416,522	1,001,179	399,518	17,004	371,496	888,154	341,881	29,615
Accrued interest receivable	1,489	1,483	1,483	6	1,371	1,161	1,161	210
Sales contract receivable	116	140	109	7	16	60	16	—
	418,127	1,002,802	401,110	17,017	372,883	889,375	343,058	29,825
Total	P419,586	P1,004,436	P402,569	P17,017	P374,518	P891,388	P344,693	P29,825

An analysis of the maximum credit risk exposure relating to financial assets under Stage 3 as of December 31, 2018 is shown below:

	Consolidated				
	Maximum Exposure to Credit Risk	Fair Value of Collateral	Financial Effect of Collateral or Credit Enhancement	Net Exposure	Expected Credit Loss
Loans and receivables - net					
Receivables from customers					
Commercial loans	P921	P2,907	P886	P35	P2,087
Auto loans	2,870	5,780	2,870	—	1,148
Residential mortgage loans	2,130	4,067	1,717	413	252
Trade loans	4	97	4	—	95
Others	1	40	1	—	38
	5,926	12,891	5,478	448	3,620
Accrued interest receivable	61	524	61	—	699
Sales contract receivable	—	62	—	—	27
Total	P5,987	P13,477	P5,539	P448	P4,346

	Parent Company				
	Maximum Exposure to Credit Risk	Fair Value of Collateral	Financial Effect of Collateral or Credit Enhancement	Net Exposure	Expected Credit Loss
Loans and receivables - net					
Receivables from customers					
Commercial loans	P791	P2,518	P757	P34	P1,805
Auto loans	100	463	100	—	82
Residential mortgage loans	667	1,512	667	—	88
Trade loans	4	97	4	—	95
Others	1	40	1	—	38
	1,563	4,630	1,529	34	2,108
Accrued interest receivable	10	10	10	—	333
Total	P1,573	P4,640	P1,539	P34	P2,441

Collateral on loans and receivables includes real estate and chattel mortgages, guarantees, and other registered securities over assets (Note 9). Generally, collateral is not held over loans and advances to banks except for reverse repurchase agreements and certain due from other banks. Collateral usually is not held against investment securities, and no such collateral was held as of December 31, 2018 and 2017. Estimates of fair values of the collateral are based on the value of collateral assessed at the time of borrowing and are regularly updated according to internal lending policies and regulatory guidelines. The Group is not permitted to sell or repledge the collateral in the absence of default by the counterparty.



The maximum exposure to credit risks for the other financial assets including loan commitments and financial guarantees is limited to their carrying values as of December 31, 2018 and 2017.

The following tables show the effect of rights of set-off associated with the recognized financial assets and financial liabilities.

Financial assets recognized by type	Gross Carrying Amounts (before offsetting)	Gross Amounts Offset in accordance with the Offsetting Criteria	Net Amount Presented in Statement of Financial Position	Effect of Remaining Rights of Set-Off (including rights to set-off financial collateral) offsetting criteria		Net Exposure
				Financial Instruments	Fair Value of Financial Collateral	
Consolidated						
2018						
Derivative assets	₱178,920	₱168,270	₱10,650	₱1,534	₱–	₱9,116
SPURA	8,067	–	8,067	–	8,058	9
	₱186,987	₱168,270	₱18,717	₱1,534	₱8,058	₱9,125
2017						
Derivative assets	₱164,806	₱158,611	₱6,195	₱919	₱–	₱5,276
SPURA	1,616	–	1,616	–	1,616	–
	₱166,422	₱158,611	₱7,811	₱919	₱1,616	₱5,276
Parent Company						
2018						
Derivative assets	₱177,295	₱166,659	₱10,636	₱1,534	₱–	₱9,102
2017						
Derivative assets	₱162,083	₱155,961	₱6,122	₱919	₱–	₱5,203
Financial liabilities recognized by type						
Consolidated						
2018						
Derivative liabilities	₱172,755	₱166,221	₱6,534	₱1,534	₱–	₱5,000
SSURA	95,247	–	95,247	–	95,247	–
	₱268,002	₱166,221	₱101,781	₱1,534	₱95,247	₱5,000
2017						
Derivative liabilities	₱161,538	₱156,211	₱5,327	₱919	₱–	₱4,408
SSURA	64,575	–	64,575	–	64,288	287
	₱226,113	₱156,211	₱69,902	₱919	₱64,288	₱4,695
Parent Company						
2018						
Derivative liabilities	₱154,742	₱148,562	₱6,180	₱1,534	₱–	₱4,646
SSURA	95,247	–	95,247	–	95,247	–
	₱249,989	₱148,562	₱101,427	₱1,534	₱95,247	₱4,646
2017						
Derivative liabilities	₱161,538	₱156,211	₱5,327	₱919	₱–	₱4,408
SSURA	61,249	–	61,249	–	61,249	–
	₱222,787	₱156,211	₱66,576	₱919	₱61,249	₱4,408

Excessive risk concentration

Credit risk concentrations can arise whenever a significant number of borrowers have similar characteristics and are affected similarly by changes in economic or other conditions. The Parent Company analyzes the credit risk concentration to an individual borrower, related group of accounts, industry, internal rating buckets, and security. For risk concentration monitoring purposes, the financial assets are broadly categorized into (1) loans and receivables and (2) trading and financial investment securities. To mitigate risk concentration, the Parent Company constantly checks for breaches in regulatory and internal limits.



Concentration of risks of financial assets with credit risk exposure

Below is an analysis of concentrations of credit risk at the reporting date based on carrying amount:

	Consolidated				
	Loans and Receivables*	Loans and Advances to Banks**	Investment Securities***	Others****	Total
2018					
Concentration by Industry					
Financial and insurance activities	₱184,848	₱336,673	₱80,486	₱199,358	₱801,365
Manufacturing	218,850	—	967	28,694	248,511
Wholesale and retail trade, repair of motor vehicles, motorcycles	231,924	—	—	8,023	239,947
Real estate activities	210,582	—	1,416	912	212,910
Transportation and storage, information and communication	113,058	—	152	1,372	114,582
Electricity, gas, steam and air-conditioning supply and water supply, sewerage, waste management and remediation activities	100,346	—	4,238	3,601	108,185
Activities of households as employers and undifferentiated goods and services and producing activities of households for own use	86,926	—	—	257	87,183
Construction	58,218	—	—	488	58,706
Agricultural, forestry and fishing	34,356	—	—	2,810	37,166
Accommodation and food service activities	32,211	—	—	5	32,216
Others*****	138,767	—	288,324	25,571	452,662
	1,410,086	336,673	375,583	271,091	2,393,433
Less allowance for credit losses	22,688	18	48	10,598	33,352
	₱1,387,398	₱336,655	₱375,535	₱260,493	₱2,360,081
Concentration by Location					
Philippines	₱1,371,536	₱249,078	₱323,643	₱265,578	₱2,209,835
Asia	38,166	53,007	25,362	5,298	121,833
USA	273	10,968	13,829	215	25,285
Europe	81	14,672	7,727	—	22,480
Others	30	8,948	5,022	—	14,000
	1,410,086	336,673	375,583	271,091	2,393,433
Less allowance for credit losses	22,688	18	48	10,598	33,352
	₱1,387,398	₱336,655	₱375,535	₱260,493	₱2,360,081
2017					
Concentration by Industry					
Financial and insurance activities	₱92,645	₱338,725	₱78,354	₱173,921	₱683,645
Activities of households as employers and undifferentiated goods and services and producing activities of households for own use	238,644	—	—	198	238,842
Manufacturing	194,439	—	1,013	17,209	212,661
Wholesale and retail trade, repair of motor vehicles, motorcycles	203,582	—	—	24,862	228,444
Real estate activities	205,574	—	1,550	818	207,942
Transportation and storage, information and communication	102,282	—	—	982	103,264
Electricity, gas, steam and air-conditioning supply and water supply, sewerage, waste management and remediation activities	89,061	—	4,898	1,259	95,218
Construction	52,411	—	—	15,110	67,521
Accommodation and food service activities	28,645	—	—	49	28,694
Agricultural, forestry and fishing	29,476	—	—	580	30,056
Others*****	40,624	—	256,297	6,018	302,939
	1,277,383	338,725	342,112	241,006	2,199,226
Less allowance for credit losses	16,407	—	1	9,614	26,022
	₱1,260,976	₱338,725	₱342,111	₱231,392	₱2,173,204
Concentration by Location					
Philippines	₱1,247,661	₱265,587	₱291,675	₱238,847	₱2,043,770
Asia	29,583	62,115	26,212	2,068	119,978
USA	50	6,021	12,138	91	18,300
Europe	54	4,740	7,310	—	12,104
Others	35	262	4,777	—	5,074
	1,277,383	338,725	342,112	241,006	2,199,226
Less allowance for credit losses	16,407	—	1	9,614	26,022
	₱1,260,976	₱338,725	₱342,111	₱231,392	₱2,173,204



	Parent Company				
	Loans and Receivables*	Loans and Advances to Banks**	Investment Securities***	Others****	Total
2018					
Concentration by Industry					
Financial and insurance activities	₱120,484	₱266,231	₱31,692	₱11,000	₱429,407
Manufacturing	213,184	—	967	28,694	242,845
Wholesale and retail trade, repair of motor vehicles, motorcycles	215,810	—	—	8,023	223,833
Real estate activities	164,310	—	—	873	165,183
Electricity, gas, steam and air-conditioning supply and water supply, sewerage, waste management and remediation activities	97,581	—	3,836	3,601	105,018
Transportation and storage, information and communication	98,907	—	152	1,372	100,431
Activities of households as employers and undifferentiated goods and services and producing activities of households for own use	86,271	—	—	257	86,528
Construction	44,195	—	—	435	44,630
Agricultural, forestry and fishing	29,837	—	—	2,810	32,647
Accommodation and food service activities	31,762	—	—	5	31,767
Others*****	23,077	—	267,679	24,397	315,153
	1,125,418	266,231	304,326	81,467	1,777,442
Less allowance for credit losses	12,797	12	48	9,685	22,542
	₱1,112,621	₱266,219	₱304,278	₱71,782	₱1,754,900
Concentration by Location					
Philippines	₱1,110,240	₱208,586	₱258,035	₱75,993	₱1,652,854
Asia	14,810	23,471	19,773	5,261	63,315
USA	258	10,589	13,769	213	24,829
Europe	80	14,637	7,727	—	22,444
Others	30	8,948	5,022	—	14,000
	1,125,418	266,231	304,326	81,467	1,777,442
Less allowance for credit losses	12,797	12	48	9,685	22,542
	₱1,112,621	₱266,219	₱304,278	₱71,782	₱1,754,900
2017					
Concentration by Industry					
Financial and insurance activities	₱87,854	₱271,217	₱32,337	₱13,756	₱405,164
Manufacturing	189,967	—	1,013	17,209	208,189
Wholesale and retail trade, repair of motor vehicles, motorcycles	189,915	—	—	24,862	214,777
Real estate activities	162,660	—	—	782	163,442
Electricity, gas, steam and air-conditioning supply and water supply, sewerage, waste management and remediation activities	85,673	—	4,445	1,258	91,376
Transportation and storage, information and communication	90,064	—	—	982	91,046
Activities of households as employers and undifferentiated goods and services and producing activities of households for own use	86,081	—	—	198	86,279
Construction	40,979	—	—	15,054	56,033
Accommodation and food service activities	28,093	—	—	49	28,142
Agricultural, forestry and fishing	25,486	—	—	580	26,066
Others*****	20,245	—	232,246	4,880	257,371
	1,007,017	271,217	270,041	79,610	1,627,885
Less allowance for credit losses	8,589	—	—	9,614	18,203
	₱998,428	₱271,217	₱270,041	₱69,996	₱1,609,682
Concentration by Location					
Philippines	₱997,421	₱226,512	₱225,410	₱77,486	₱1,526,829
Asia	9,157	34,087	20,595	2,034	65,873
USA	341	5,738	11,948	90	18,117
Europe	62	4,618	7,311	—	11,991
Others	36	262	4,777	—	5,075
	1,007,017	271,217	270,041	79,610	1,627,885
Less allowance for credit losses	8,589	—	—	9,614	18,203
	₱998,428	₱271,217	₱270,041	₱69,996	₱1,609,682

* Excludes statutory receivables which are not considered financial assets.

** Comprised of due from BSP, due from other banks and interbank loans receivable and SPURA.

*** Comprised of debt securities at FVOCI and investment securities at amortized cost (in 2018) and AFS debt investments (in 2017).

**** Comprised of applicable accounts under other assets, financial guarantees and loan commitments and other credit-related liabilities.

***** Includes government-issued debt securities.



Credit quality per class of financial assets

The credit quality of financial assets is assessed and managed using external and internal ratings.

The ICRRS contains the following:

- a. Borrower Risk Rating (BRR) - an assessment of the credit worthiness of the borrower (or guarantor) without considering the type or amount of the facility and security arrangements. It is an indicator of the probability that a borrower cannot meet its credit obligations when it falls due. The assessment is described below:

Component	Description	Credit Factor Weight
Financial Condition	Refers to the financial condition of the borrower based on audited financial statements as indicated by certain financial ratios. The Financial Factor Evaluation is conducted manually.	40.00%
Industry Analysis	Refers to the prospects of the industry as well as the company's performance and position in the industry.	30.00%
Management Quality	Refers to the management's ability to run the company successfully.	30.00%

- b. Facility Risk Factor (FRF) - determined for each individual facility considering the term of the facility, security arrangement and quality of documentation. This factor can downgrade or upgrade the BRR based on the elements relating to cover (collateral including pledged cash deposits and guarantee), quality of documentation and structure of transactions.
- c. Adjusted Borrower Risk Rating - combination of BRR and FRF.

Loans and receivables

The credit quality is generally monitored using the 10-grade ICRRS which is integrated in the credit process. Validation of the individual borrower's risk rating is performed by the Credit Group to maintain accurate and consistent risk ratings across the credit portfolio. The credit quality with the corresponding ICRRS Grade and description of commercial loans follows:

High Grade

1 - Excellent

An excellent rating is given to a borrower with a very low probability of going into default and with high degree of stability, substance and diversity. Borrower has access to raise substantial amounts of funds through public market at any time; very strong debt service capacity and has conservative balance sheet ratios. Track record in profit terms is very good. Borrower exhibits highest quality under virtually all economic conditions.

2 - Strong

This rating is given to borrowers with low probability of going into default in the coming year. Normally has a comfortable degree of stability, substance and diversity. Under normal market conditions, borrower has good access to public markets to raise funds. Have a strong market and financial position with a history of successful performance. Overall debt service capacity is deemed very strong; critical balance sheet ratios are conservative. Concerned multinationals or local corporations are well capitalized.

Standard Grade

3 - Good

This rating is given to smaller corporations with limited access to public capital markets or to alternative financial markets. Access is however limited to favorable economic and/or market conditions. While probability of default is quite low, it bears characteristics of some degree of stability and substance. However, susceptibility to cyclical changes and more concentration of



business risk, by product or market, may be present. Typical is the combination of comfortable asset protection and an acceptable balance sheet structure. Debt service capacity is strong.

4 - Satisfactory

A 'satisfactory' rating is given to a borrower where clear risk elements exist and probability of default is somewhat greater. Volatility of earnings and overall performance: normally has limited access to public markets. Borrower should be able to withstand normal business cycles, but any prolonged unfavorable economic period would create deterioration beyond acceptable levels. Combination of reasonable sound asset and cash flow protection: debt service capacity is adequate. Reported profits in the past year and is expected to report a profit in the current year.

5 - Acceptable

An 'acceptable' rating is given to a borrower whose risk elements are sufficiently pronounced although borrower should still be able to withstand normal business cycles. Any prolonged unfavorable economic and/or market period would create an immediate deterioration beyond acceptable levels. Risk is still acceptable as there is sufficient cash flow either historically or expected for the future; new business or projected finance transaction; an existing borrower where the nature of the exposure represents a higher risk because of extraordinary developments but for which a decreasing risk within an acceptable period can be expected.

Substandard Grade

6 - Watchlist

This rating is given to a borrower that belongs to an unfavorable industry or has company-specific risk factors which represent a concern. Operating performance and financial strength may be marginal and it is uncertain if borrower can attract alternative course of finance. Borrower finds it hard to cope with any significant economic downturn and a default in such a case is more than a possibility. Borrower which incurs net losses and has salient financial weaknesses, reflected on statements specifically in profitability. Credit exposure is not at risk of loss at the moment but performance of the borrower has weakened and unless present trends are reversed, could lead to losses.

7 - Especially Mentioned

This rating is given to a borrower that exhibits potential weaknesses that deserve management's close attention. These potential weaknesses, if left uncorrected, may affect the repayment of the loan and thus, increase credit risk to the Group.

Impaired

8 - Substandard

These are loans or portions, thereof which appear to involve a substantial and unreasonable degree of risk to the Group because of unfavorable record or unsatisfactory characteristics. There exists the possibility of future losses to the Group unless given closer supervision. Borrower has well-defined weaknesses or weaknesses that jeopardize loan liquidation. Such well-defined weaknesses may include adverse trends or development of financial, managerial, economic or political nature, or a significant weakness in collateral.

9 - Doubtful

This rating is given to a nonperforming borrower whose loans or portions thereof have the weaknesses inherent in those classified as Substandard, with the added characteristics that existing facts, conditions, and values make collection or liquidation in full highly improbable and in which substantial loss is probable.



10 - Loss

This rating is given to a borrower whose loans or portions thereof are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted although the loans may have some recovery or salvage value. The amount of loss is difficult to measure and it is not practical or desirable to defer writing off these basically worthless assets even though partial recovery may be obtained in the future.

The credit quality of consumer loan applicants are currently evaluated using PD models. For booked consumer loans, the description of credit quality is as follows:

High Grade

Good credit rating

This rating is given to a good repeat client with very satisfactory track record of its loan repayment (paid at least 50.00%) and whose account did not turn past due during the entire term of the loan.

Standard Grade

Good

A good rating is given to accounts which did not turn past due for 90 days and over.

Limited

This rating is given to borrowers who have average track record on loan repayment (paid less than 50.00%) and whose account did not turn past due for 90 days and over.

Substandard Grade

Poor

A poor rating is given to accounts who reached 90 days past due regardless of the number of times and the number of months past due.

Poor litigation

This rating is given to accounts that were past due for 180 days and over and are currently being handled by lawyers.

Impaired

Poor repossessed

This rating is given to accounts whose collaterals were repossessed.

Poor written-off

This rating is given to accounts that were recommended for write-off.

Investment securities

In ensuring quality investment portfolio, the Group uses the credit risk rating from the published data providers like Moody's, Standard & Poor's (S&P) or other reputable rating agencies. Presented here is Moody's rating - equivalent S&P rating and other rating agencies applies:

Credit Quality	External Rating								
High grade	Aaa	Aa1	Aa2	A1	A2	A3	Baa1	Baa2	Baa3
Standard grade	Ba1	Ba2	Ba3	B1	B2				
Substandard grade	B3	Caa1	Caa2	Caa3	Ca	C			
Impaired	D								

The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to those rated by external rating agencies as 'Investment grade' (i.e., those under High grade in the table above).



The following tables show the credit quality of loans and advances to banks and investment securities, gross of allowance for credit losses, as of December 31, 2018. All loans and advances to banks and investment securities are classified as Stage 1 in 2018.

	Consolidated	Parent Company
Due from BSP		
High grade	₱240,134	₱206,289
Due from other banks		
High grade	44,707	35,137
Standard grade	697	50
Unrated	404	31
	45,808	35,218
Interbank loans receivable and SPURA		
High grade	48,757	22,750
Unrated	1,974	1,974
	50,731	24,724
Total loans and advances to banks		
High grade	333,598	264,176
Standard grade	697	50
Unrated	2,378	2,005
	₱336,673	₱266,231
Debt securities at FVOCI		
Private		
High grade	₱41,872	₱32,576
Standard grade	258	258
Unrated	239	239
	42,369	33,073
Treasury notes and bonds		
High grade	40,786	37,377
Government		
High grade	26,226	20,443
Standard grade	778	778
	27,004	21,221
Total debt securities at FVOCI		
High grade	108,884	90,396
Standard grade	1,036	1,036
Unrated	239	239
	110,159	91,671
Investment securities at amortized cost		
Treasury notes and bonds		
High grade	237,476	204,176
Government		
High grade	21,859	8,479
Private		
High grade	5,298	—
Standard grade	742	—
	6,040	—
Treasury bills		
High grade	49	—
Total investment securities at amortized cost		
High grade	264,682	212,655
Standard grade	742	—
	265,424	212,655
Total debt investment securities		
High grade	373,566	303,051
Standard grade	1,778	1,036
Unrated	239	239
	₱375,583	₱304,326



For loans and advances to other banks, availments of interbank loans and SPURA amounted to ₱33.0 billion for the Group and ₱24.7 billion for the Parent Company, and maturities amounted to ₱27.7 billion for the Group and ₱27.2 billion for the Parent Company. Net increase (decrease) in due from BSP and due from other banks amounted to (₱21.8 billion) and ₱14.5 billion, respectively, for the Group, and (₱18.4 billion) and ₱15.9 billion, respectively, for the Parent Company.

For debt investment securities at FVOCI, purchases amounted to ₱786.2 billion for the Group and ₱774.5 billion for the Parent Company. Disposals/maturities amounted to ₱764.2 billion for the Group and ₱759.8 billion for the Parent Company. Other movements, which include amortization of premiums/discounts, mark-to-market and foreign exchange revaluations, resulted in a decrease in carrying value of ₱10.1 billion for the Group and ₱2.2 billion for the Parent Company.

For investment securities at amortized cost, purchases amounted to ₱7.0 billion for the Group and ₱5.0 billion for the Parent Company. Maturities amounted to ₱4.1 billion for the Group and ₱29.6 million for the Parent Company. Other movements, which include amortization of premiums/discounts, mark-to-market and foreign exchange revaluations, resulted in an increase in carrying value of ₱1.5 billion for the Group and a decrease in carrying value of ₱2.9 million for the Parent Company.

The credit quality of receivables from customers, net of unearned discount and capitalized interest, as of December 31, 2018 follow:

	Consolidated					
	Stage 1		Stage 2		Stage 3	Total
	Individual	Collective	Individual	Collective		
Commercial loans						
High grade	₱255,970	₱10,916	₱–	₱–	₱–	₱266,886
Standard grade	565,642	29,719	–	792	–	596,153
Sub-standard grade	104,141	1	7,290	198	3,793	115,423
Past due but not impaired	–	–	–	111	–	111
Non-performing individually impaired	–	–	230	–	7,114	7,344
	925,753	40,636	7,520	1,101	10,907	985,917
Auto loans						
High grade	4,014	67,561	1	8,103	–	79,679
Standard grade	25,120	34	313	5,892	–	31,359
Sub-standard grade	16	6	1	1,557	13	1,593
Past due but not impaired	–	–	–	3,301	–	3,301
Non-performing individually impaired	–	–	34	–	4,006	4,040
	29,150	67,601	349	18,853	4,019	119,972
Residential mortgage loans						
High grade	1,802	39,422	–	6,181	–	47,405
Standard grade	52,429	33	1,462	785	–	54,709
Sub-standard grade	1,009	–	183	70	310	1,572
Past due but not impaired	–	–	–	1,855	–	1,855
Non-performing individually impaired	–	–	142	–	2,264	2,406
	55,240	39,455	1,787	8,891	2,574	107,947
Trade loans						
High grade	6,664	–	–	–	–	6,664
Standard grade	53,566	–	–	–	–	53,566
Sub-standard grade	2,521	–	276	–	–	2,797
Non-performing individually impaired	–	–	–	–	99	99
	62,751	–	276	–	99	63,126
Other loans						
High grade	12,194	859	–	345	–	13,398
Standard grade	68,816	22,916	–	1,434	–	93,166
Sub-standard grade	–	6	–	420	–	426
Past due but not impaired	–	–	–	86	–	86
Non-performing individually impaired	–	–	2,077	–	2,106	4,183
	81,010	23,781	2,077	2,285	2,106	111,259
Total receivables from customers						
High grade	280,644	118,758	1	14,629	–	414,032
Standard grade	765,573	52,702	1,775	8,903	–	828,953
Sub-standard grade	107,687	13	7,750	2,245	4,116	121,811
Past due but not impaired	–	–	–	5,353	–	5,353
Non-performing individually impaired	–	–	2,483	–	15,589	18,072
	₱1,153,904	₱171,473	₱12,009	₱31,130	₱19,705	₱1,388,221



	Parent Company						
	Stage 1		Stage 2		Stage 3	POCI	Total
	Individual	Collective	Individual	Collective			
Commercial loans							
High grade	₱255,970	₱—	₱—	₱—	₱—	₱—	₱255,970
Standard grade	569,963	—	—	—	—	—	569,963
Sub-standard grade	104,141	—	7,290	—	3,793	—	115,224
Non-performing individually impaired	—	—	57	—	3,127	3,309	6,493
	930,074	—	7,347	—	6,920	3,309	947,650
Auto loans							
High grade	4,014	—	1	—	—	—	4,015
Standard grade	25,120	—	313	—	—	—	25,433
Sub-standard grade	16	—	2	—	12	—	30
Non-performing individually impaired	—	—	34	—	169	—	203
	29,150	—	350	—	181	—	29,681
Residential mortgage loans							
High grade	1,802	—	—	—	—	—	1,802
Standard grade	52,428	—	1,462	—	—	—	53,890
Sub-standard grade	1,009	—	183	—	311	—	1,503
Non-performing individually impaired	—	—	142	—	637	—	779
	55,239	—	1,787	—	948	—	57,974
Trade loans							
High grade	6,664	—	—	—	—	—	6,664
Standard grade	53,502	—	—	—	—	—	53,502
Sub-standard grade	2,521	—	276	—	—	—	2,797
Non-performing individually impaired	—	—	—	—	99	—	99
	62,687	—	276	—	99	—	63,062
Other loans							
High grade	12,194	—	—	—	—	—	12,194
Standard grade	336	—	—	—	—	—	336
Non-performing individually impaired	—	—	—	—	41	—	41
	12,530	—	—	—	41	—	12,571
Total receivables from customers							
High grade	280,644	—	1	—	—	—	280,645
Standard grade	701,349	—	1,775	—	—	—	703,124
Sub-standard grade	107,687	—	7,751	—	4,116	—	119,554
Non-performing individually impaired	—	—	233	—	4,073	3,309	7,615
	₱1,089,680	₱—	₱9,760	₱—	₱8,189	₱3,309	₱1,110,938

Movements during 2018 for receivables from customers follows:

	Consolidated					
	Stage 1		Stage 2		Stage 3	Total
	Individual	Collective	Individual	Collective		
Commercial loans						
Balance at January 1, 2018	₱847,899	₱47,240	₱9,214	₱997	₱5,820	₱911,170
New assets originated or purchased	465,911	12,730	—	—	—	478,641
Assets derecognized or repaid	(386,216)	(18,853)	(3,696)	(258)	(420)	(409,443)
Amounts written off	—	—	(1)	—	(78)	(79)
Transfers to/(from) Stage 1	(7,170)	(482)	—	—	—	(7,652)
Transfers to/(from) Stage 2	—	—	1,897	362	—	2,259
Transfers to/(from) Stage 3	—	—	—	—	5,393	5,393
Others	5,329	1	106	—	192	5,628
Balance at December 31, 2018	925,753	40,636	7,520	1,101	10,907	985,917
Auto loans						
Balance at January 1, 2018	32,153	66,459	1,578	14,490	3,485	118,165
New assets originated or purchased	10,921	35,206	—	—	—	46,127
Assets derecognized or repaid	(14,699)	(18,665)	(335)	(7,651)	(2,511)	(43,861)
Amounts written off	—	—	—	(12)	(447)	(459)
Transfers to/(from) Stage 1	775	(15,399)	—	—	—	(14,624)
Transfers to/(from) Stage 2	—	—	(894)	12,026	—	11,132
Transfers to/(from) Stage 3	—	—	—	—	3,492	3,492
Balance at December 31, 2018	29,150	67,601	349	18,853	4,019	119,972
Residential mortgage loans						
Balance at January 1, 2018	46,939	36,429	5,519	8,662	2,187	99,736
New assets originated or purchased	16,378	10,240	—	—	—	26,618
Assets derecognized or repaid	(10,493)	(4,398)	(752)	(2,016)	(748)	(18,407)
Transfers to/(from) Stage 1	2,416	(2,816)	—	—	—	(400)
Transfers to/(from) Stage 2	—	—	(2,980)	2,245	—	(735)
Transfers to/(from) Stage 3	—	—	—	—	1,135	1,135
Balance at December 31, 2018	55,240	39,455	1,787	8,891	2,574	107,947

(Forward)



	Consolidated					
	Stage 1		Stage 2		Stage 3	Total
	Individual	Collective	Individual	Collective		
Trade loans						
Balance at January 1, 2018	₱40,624	₱–	₱395	₱–	₱101	₱41,120
New assets originated or purchased	62,840	–	–	–	–	62,840
Assets derecognized or repaid	(41,071)	–	(253)	–	(20)	(41,344)
Transfers to/(from) Stage 1	(151)	–	–	–	–	(151)
Transfers to/(from) Stage 2	–	–	134	–	–	134
Transfers to/(from) Stage 3	–	–	–	–	17	17
Others	509	–	–	–	1	510
Balance at December 31, 2018	62,751	–	276	–	99	63,126
Other loans						
Balance at January 1, 2018	71,885	10,018	2,022	2,007	1,753	87,685
New assets originated or purchased	24,527	26,264	–	–	–	50,791
Assets derecognized or repaid	(8,954)	(11,673)	(59)	(609)	(242)	(21,337)
Amounts written off	(1)	(2)	–	(66)	(5,617)	(5,686)
Transfers to/(from) Stage 1	(6,453)	(826)	–	–	–	(7,279)
Transfers to/(from) Stage 2	–	–	114	953	–	1,067
Transfers to/(from) Stage 3	–	–	–	–	6,212	6,212
Others	6	–	–	–	–	6
Balance at December 31, 2018	81,010	23,781	2,077	2,285	2,106	111,259
Total receivables from customers						
Balance at January 1, 2018	1,039,500	160,146	18,728	26,156	13,346	1,257,876
New assets originated or purchased	580,577	84,440	–	–	–	665,017
Assets derecognized or repaid	(461,433)	(53,589)	(5,095)	(10,534)	(3,941)	(534,592)
Amounts written off	(1)	(2)	(1)	(78)	(6,142)	(6,224)
Transfers to/(from) Stage 1	(10,583)	(19,523)	–	–	–	(30,106)
Transfers to/(from) Stage 2	–	–	(1,729)	15,586	–	13,857
Transfers to/(from) Stage 3	–	–	–	–	16,249	16,249
Others	5,844	1	106	–	193	6,144
Balance at December 31, 2018	₱1,153,904	₱171,473	₱12,009	₱31,130	₱19,705	₱1,388,221

	Parent Company						
	Stage 1		Stage 2		Stage 3	POCI	Total
	Individual	Collective	Individual	Collective			
Commercial loans							
Balance at January 1, 2018	₱839,156	₱–	₱9,092	₱–	₱1,880	₱3,383	₱853,511
New assets originated or purchased	474,250	–	–	–	–	–	474,250
Assets derecognized or repaid	(381,738)	–	(3,661)	–	(265)	(74)	(385,738)
Transfers to/(from) Stage 1	(6,923)	–	–	–	–	–	(6,923)
Transfers to/(from) Stage 2	–	–	1,810	–	–	–	1,810
Transfers to/(from) Stage 3	–	–	–	–	5,113	–	5,113
Others	5,329	–	106	–	192	–	5,627
Balance at December 31, 2018	930,074	–	7,347	–	6,920	3,309	947,650
Auto loans							
Balance at January 1, 2018	32,153	–	1,579	–	151	–	33,883
New assets originated or purchased	10,921	–	–	–	–	–	10,921
Assets derecognized or repaid	(14,698)	–	(335)	–	(90)	–	(15,123)
Transfers to/(from) Stage 1	774	–	–	–	–	–	774
Transfers to/(from) Stage 2	–	–	(894)	–	–	–	(894)
Transfers to/(from) Stage 3	–	–	–	–	120	–	120
Balance at December 31, 2018	29,150	–	350	–	181	–	29,681
Residential mortgage loans							
Balance at January 1, 2018	46,938	–	5,519	–	684	–	53,141
New assets originated or purchased	16,379	–	–	–	–	–	16,379
Assets derecognized or repaid	(10,492)	–	(752)	–	(302)	–	(11,546)
Transfers to/(from) Stage 1	2,414	–	–	–	–	–	2,414
Transfers to/(from) Stage 2	–	–	(2,980)	–	–	–	(2,980)
Transfers to/(from) Stage 3	–	–	–	–	566	–	566
Balance at December 31, 2018	55,239	–	1,787	–	948	–	57,974
Trade loans							
Balance at January 1, 2018	40,574	–	395	–	101	–	41,070
New assets originated or purchased	62,826	–	–	–	–	–	62,826
Assets derecognized or repaid	(41,071)	–	(253)	–	(20)	–	(41,344)
Transfers to/(from) Stage 1	(151)	–	–	–	–	–	(151)
Transfers to/(from) Stage 2	–	–	134	–	–	–	134
Transfers to/(from) Stage 3	–	–	–	–	17	–	17
Others	509	–	–	–	1	–	510
Balance at December 31, 2018	62,687	–	276	–	99	–	63,062
Other loans							
Balance at January 1, 2018	12,793	–	–	–	42	–	12,835
New assets originated or purchased	8,118	–	–	–	–	–	8,118
Assets derecognized or repaid	(8,387)	–	–	–	(1)	–	(8,388)
Others	6	–	–	–	–	–	6
Balance at December 31, 2018	12,530	–	–	–	41	–	12,571

(Forward)



	Parent Company						Total
	Stage1		Stage 2		Stage 3	POCI	
	Individual	Collective	Individual	Collective			
Total receivables from customers							
Balance at January 1, 2018	₱971,614	₱–	₱16,585	₱–	₱2,858	₱3,383	₱994,440
New assets originated or purchased	572,494	–	–	–	–	–	572,494
Assets derecognized or repaid	(456,386)	–	(5,001)	–	(678)	(74)	(462,139)
Transfers to/(from) Stage 1	(3,886)	–	–	–	–	–	(3,886)
Transfers to/(from) Stage 2	–	–	(1,930)	–	–	–	(1,930)
Transfers to/(from) Stage 3	–	–	–	–	5,816	–	5,816
Others	5,844	–	106	–	193	–	6,143
Balance at December 31, 2018	₱1,089,680	₱–	₱9,760	₱–	₱8,189	₱3,309	₱1,110,938

The credit quality of other receivables, gross of allowance for credit losses, as of December 31, 2018 follows:

	Consolidated					
	Stage1		Stage 2		Stage 3	Total
	Individual	Collective	Individual	Collective		
Unquoted debt securities						
Standard grade	₱632	₱-	₱-	₱-	₱-	₱632
Non-performing individually impaired	-	-	-	-	386	386
	632	-	-	-	386	1,018
Accrued interest receivable						
High grade	4,305	1,758	-	120	-	6,183
Standard grade	2,783	4	6	99	-	2,892
Sub-standard grade	488	-	23	26	2	539
Unrated	21	1	-	-	-	22
Past due but not impaired	3	-	-	95	-	98
Non-performing individually impaired	-	-	1	-	932	933
	7,600	1,763	30	340	934	10,667
Sales contract receivables						
High grade	-	45	-	-	-	45
Unrated	-	116	-	-	-	116
Non-performing individually impaired	-	-	-	-	29	29
	-	161	-	-	29	190
Other receivables						
High grade	2	1	-	-	-	3
Standard grade	-	282	-	-	-	282
Unrated	36	12	-	-	-	48
Non-performing individually impaired	-	-	-	-	2	2
	38	295	-	-	2	335
Total other receivables						
High grade	4,307	1,804	-	120	-	6,231
Standard grade	3,415	286	6	99	-	3,806
Sub-standard grade	488	-	23	26	2	539
Unrated	57	129	-	-	-	186
Past due but not impaired	3	-	-	95	-	98
Non-performing individually impaired	-	-	1	-	1,349	1,350
	₱8,270	₱2,219	₱30	₱340	₱1,351	₱12,210

	Parent Company					
	Stage1		Stage 2		Stage 3	Total
	Individual	Collective	Individual	Collective		
Unquoted debt securities						
Non-performing individually impaired	₱-	₱-	₱-	₱-	₱386	₱386
Accrued interest receivable						
High grade	4,188	-	-	-	-	4,188
Standard grade	2,737	-	6	-	-	2,743
Sub-standard grade	487	-	23	-	2	512
Unrated	20	1	-	-	-	21
Past due but not impaired	3	-	-	-	-	3
Non-performing individually impaired	-	-	1	-	519	520
	7,435	1	30	-	521	7,987
Sales contract receivables						
Unrated	-	117	-	-	-	117
Non-performing individually impaired	-	-	-	-	2	2
	-	117	-	-	2	119
Other receivables						
Unrated	-	11	-	-	-	11
Non-performing individually impaired	-	-	-	-	2	2
	-	11	-	-	2	13

(Forward)



	Parent Company					
	Stage1		Stage 2		Stage 3	Total
	Individual	Collective	Individual	Collective		
Total other receivables						
High grade	₱4,188	₱–	₱–	₱–	₱–	₱4,188
Standard grade	2,737	–	6	–	–	2,743
Sub-standard grade	487	–	23	–	2	512
Unrated	20	129	–	–	–	149
Past due but not impaired	3	–	–	–	–	3
Non-performing individually impaired	–	–	1	–	909	910
	₱7,435	₱129	₱30	₱–	₱911	₱8,505

* Excludes statutory receivable which are not considered financial assets.

Movements during 2018 for other receivables follow:

	Consolidated					
	Stage1		Stage 2		Stage 3	Total
	Individual	Collective	Individual	Collective		
Balance at January 1, 2018	₱6,957	₱1,942	₱145	₱307	₱878	₱10,229
New assets originated or purchased	3,107	704	–	–	–	3,811
Assets derecognized or repaid	(1,252)	(253)	(55)	(50)	(218)	(1,828)
Transfers to/(from) Stage 1	(542)	(174)	–	–	–	(716)
Transfers to/(from) Stage 2	–	–	(60)	83	–	23
Transfers to/(from) Stage 3	–	–	–	–	693	693
Others	–	–	–	–	(2)	(2)
Balance at December 31, 2018	₱8,270	₱2,219	₱30	₱340	₱1,351	₱12,210

	Parent Company					
	Stage1		Stage 2		Stage 3	Total
	Individual	Collective	Individual	Collective		
Balance at January 1, 2018	₱5,979	₱25	₱145	₱–	₱726	₱6,875
New assets originated or purchased	2,748	113	–	–	–	2,861
Assets derecognized or repaid	(1,108)	(9)	(55)	–	(57)	(1,229)
Transfers to/(from) Stage 1	(184)	–	–	–	–	(184)
Transfers to/(from) Stage 2	–	–	(60)	–	–	(60)
Transfers to/(from) Stage 3	–	–	–	–	244	244
Others	–	–	–	–	(2)	(2)
Balance at December 31, 2018	₱7,435	₱129	₱30	₱–	₱911	₱8,505

The credit risk exposure on the accounts receivable (excluding statutory receivables which are not considered financial assets) of the Group and the Parent Company based on their aging as of December 31, 2018 follows:

	Age of accounts receivables				
	Up to 1 month	> 1 to 2 months	> 2 to 3 months	More than 3 months	Total gross carrying amount
Consolidated	₱5,256	₱126	₱55	₱4,218	₱9,655
Parent Company	₱2,359	₱57	₱18	₱3,541	₱5,975

The credit quality of loan commitments and financial guarantees as of December 31, 2018 follows:

	Consolidated					
	Stage1		Stage 2		Stage 3	Total
	Individual	Collective	Individual	Collective		
High grade	₱71	₱–	₱–	₱–	₱–	₱71
Standard grade	188,211	–	–	–	–	188,211
Unrated	69,513	–	84	–	–	69,597
	₱257,795	₱–	₱84	₱–	₱–	₱257,879

	Parent Company					
	Stage1		Stage 2		Stage 3	Total
	Individual	Collective	Individual	Collective		
Unrated	₱69,513	₱–	₱84	₱–	₱–	₱69,597



Movements during 2018 for loan commitments and financial guarantees follow:

	Consolidated					
	Stage 1		Stage 2		Stage 3	Total
	Individual	Collective	Individual	Collective		
Balance at January 1, 2018	₱228,559	₱–	₱302	₱–	₱–	₱228,861
New assets originated or purchased	50,093	–	–	–	–	50,093
Assets derecognized or repaid	(20,980)	–	(95)	–	–	(21,075)
Transfers to/(from) Stage 1	123	–	–	–	–	123
Transfers to/(from) Stage 2	–	–	(123)	–	–	(123)
Balance at December 31, 2018	₱257,795	₱–	₱84	₱–	₱–	₱257,879

	Parent Company					
	Stage 1		Stage 2		Stage 3	Total
	Individual	Collective	Individual	Collective		
Balance at January 1, 2018	₱68,419	₱–	₱302	₱–	₱–	₱68,721
New assets originated or purchased	21,939	–	–	–	–	21,939
Assets derecognized or repaid	(20,968)	–	(95)	–	–	(21,063)
Transfers to/(from) Stage 1	123	–	–	–	–	123
Transfers to/(from) Stage 2	–	–	(123)	–	–	(123)
Balance at December 31, 2018	₱69,513	₱–	₱84	₱–	₱–	₱69,597

The following tables show the credit quality of financial assets as of December 31, 2017:

	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Others***	Total
Consolidated					
Neither past due nor impaired	₱1,243,084	₱338,725	₱342,111	₱231,392	₱2,155,312
Past due but not individually impaired	19,963	–	–	–	19,963
Impaired	14,336	–	1	9,614	23,951
Gross	1,277,383	338,725	342,112	241,006	2,199,226
Less allowance for credit losses	16,407	–	1	9,614	26,022
Net	₱1,260,976	₱338,725	₱342,111	₱231,392	₱2,173,204
Parent Company					
Neither past due nor impaired	₱996,138	₱271,217	₱270,041	₱69,996	₱1,607,392
Past due but not individually impaired	553	–	–	–	553
Impaired	10,326	–	–	9,614	19,940
Gross	1,007,017	271,217	270,041	79,610	1,627,885
Less allowance for credit losses	8,589	–	–	9,614	18,203
Net	₱998,428	₱271,217	₱270,041	₱69,996	₱1,609,682

* Comprised of due from BSP, due from other banks and interbank loans receivable and SPURA.

** Comprised of AFS debt investments.

***Comprised of applicable accounts under other assets, financial guarantees and loan commitments and other credit-related liabilities.

The table below shows the credit quality per class of financial assets that are neither past due nor individually impaired (gross of allowance for credit losses) as of December 31, 2017:

	Consolidated				Total
	High Grade	Standard Grade	Substandard Grade	Unrated	
Loans and advances to banks					
Due from BSP	₱261,959	₱–	₱–	₱–	₱261,959
Due from other banks	27,892	2,111	–	1,288	31,291
Interbank loans receivable and SPURA	41,965	1,842	–	1,668	45,475
	331,816	3,953	–	2,956	338,725
AFS investments					
Debt securities					
Government	33,859	1,455	–	3,498	38,812
Private	50,980	2,720	–	53	53,753
Treasury bills	115	–	–	–	115
Treasury notes and bonds	249,380	–	–	51	249,431
	334,334	4,175	–	3,602	342,111

(Forward)



	Consolidated				
	High Grade	Standard Grade	Substandard Grade	Unrated	Total
Loans and receivables					
Receivables from customers					
Commercial loans	₱275,149	₱524,599	₱106,762	₱—	₱906,510
Auto loans	73,895	30,551	43	—	104,489
Residential mortgage loans	41,600	50,450	1,169	—	93,219
Trade loans	5,932	33,203	1,873	—	41,008
Others	72,853	10,577	119	330	83,879
	469,429	649,380	109,966	330	1,229,105
Unquoted debt securities	121	713	—	32	866
Accrued interest receivable	4,985	2,455	318	126	7,884
Accounts receivable	1,998	208	107	2,536	4,849
Sales contract receivable	87	—	—	16	103
Other receivables	4	1	—	272	277
	476,624	652,757	110,391	3,312	1,243,084
Others	5	26	—	231,361	231,392
	₱1,142,779	₱660,911	₱110,391	₱241,231	₱2,155,312

	Parent Company				
	High Grade	Standard Grade	Substandard Grade	Unrated	Total
Loans and advances to banks					
Due from BSP	₱224,723	₱—	₱—	₱—	₱224,723
Due from other banks	19,237	30	—	19	19,286
Interbank loans receivable and SPURA	25,539	—	—	1,669	27,208
	269,499	30	—	1,688	271,217
AFS investments					
Debt securities					
Government	16,310	776	—	3,497	20,583
Private	35,519	494	—	52	36,065
Treasury notes and bonds	213,393	—	—	—	213,393
	265,222	1,270	—	3,549	270,041
Loans and receivables					
Receivables from customers					
Commercial loans	261,376	479,810	106,545	—	847,731
Auto loans	3,387	30,327	23	—	33,737
Residential mortgage loans	1,799	49,758	1,038	—	52,595
Trade loans	5,932	33,153	1,873	—	40,958
Others	12,324	407	62	—	12,793
	284,818	593,455	109,541	—	987,814
Unquoted debt securities	—	—	—	26	26
Accrued interest receivable	3,722	1,731	313	126	5,892
Accounts receivable	—	—	—	2,382	2,382
Sales contract receivable	—	—	—	16	16
Other receivables	—	—	—	8	8
	288,540	595,186	109,854	2,558	996,138
Others	—	—	—	69,996	69,996
	₱823,261	₱596,486	₱109,854	₱77,791	₱1,607,392

Breakdown of restructured receivables from customers by class are shown below:

	Consolidated		Parent Company	
	2018	2017	2018	2017
Commercial loans	₱1,798	₱2,897	₱1,793	₱2,869
Auto loans	25	32	—	—
Residential mortgage loans	123	153	23	23
Others	164	195	—	—
	₱2,110	₱3,277	₱1,816	₱2,892



As of December 31, 2018, an analysis by past due status of receivables from customers wherein the SICR is based only on the past due information is as follows:

	Consolidated					
	Number of days past due					
	Within 30 days	31-60 days	61-90 days	91-180 days	Over 180 days	Total
Auto loans	₱61	₱14	₱10	₱34	₱1,464	₱1,583
Residential mortgage loans	266	88	43	120	838	1,355
	₱327	₱102	₱53	₱154	₱2,302	₱2,938

	Parent Company					
	Number of days past due					
	Within 30 days	31-60 days	61-90 days	91-180 days	Over 180 days	Total
Auto loans	₱54	₱12	₱9	₱26	₱103	₱204
Residential mortgage loans	265	87	43	119	436	950
	₱319	₱99	₱52	₱145	₱539	₱1,154

Aging analysis of past due but not individually impaired loans and receivables as of December 31, 2017 is shown below:

	Consolidated					
	Number of days past due					Total
	Within 30 days	31-60 days	61-90 days	91-180 days	Over 180 days	
Receivables from customers						
Commercial loans	₱139	₱12	₱22	₱34	₱134	₱341
Auto loans	5,461	2,435	1,176	1,293	1,394	11,759
Residential mortgage loans	2,891	1,010	344	306	657	5,208
Trade loans	—	—	—	—	7	7
Others	125	840	649	45	326	1,985
Receivables from customers - net of unearned discounts and capitalized interest	8,616	4,297	2,191	1,678	2,518	19,300
Accrued interest receivable	107	58	34	42	59	300
Accounts receivable	5	8	10	312	7	342
Sales contract receivable	3	4	—	3	11	21
	₱8,731	₱4,367	₱2,235	₱2,035	₱2,595	₱19,963

	Parent Company					Total
	Number of days past due					
	Within 30 days	31-60 days	61-90 days	91-180 days	Over 180 days	
Receivables from customers						
Commercial loans	₪—	₪—	₪7	₪28	₪126	₪161
Auto loans	—	—	—	1	145	146
Residential mortgage loans	—	—	—	2	232	234
Trade loans	—	—	—	—	7	7
Receivables from customers - net of unearned discounts and capitalized interest	—	—	7	31	510	548
Accrued interest receivable	—	—	—	—	4	4
Sales contract receivable	—	—	—	—	1	1
	₪—	₪—	₪7	₪31	₪515	₪553



Liquidity Risk

Liquidity risk is the current and prospective risk to earnings or capital arising from the inability to meet obligations when they come due. This may be caused by the inability to liquidate assets or to obtain funding to meet liquidity needs.

The Group manages its liquidity risk by holding adequate stock of high quality liquid assets, analyzing net funding requirements over time, diversification of funding sources and contingency planning.

To measure the prospective liquidity needs, the Group uses Maximum Cumulative Outflow (MCO), a liquidity gap tool to project short-term as well as long-term cash flow expectations on a business-as-usual condition.

The MCO is generated by distributing the cash flows of the Group's assets, liabilities and off-balance sheet items to time bands based cash flow expectations such as contractual maturity, nature of the account, behavioral patterns, projections on business strategies, and/or optionality of certain products. The incorporation of behavioral cash flow assumptions and business projections or targets results in a dynamic gap report which realistically captures the behavior of the products and creates a forward-looking cash flow projection.

Cash flows from assets are considered as cash inflows, while cash flows from liabilities are considered cash outflows. The net cash flows are determined for each given time period. If the inflows exceed the outflows, the Group is said to have a positive liquidity gap or excess funds for the given time bucket. Conversely, if the outflows exceed the inflows, the Group is said to have a negative liquidity gap or funding need for the given time bucket.

The MCO is monitored regularly to ensure that it remains within the set limits. The Parent Company generates and monitors daily its MCO. The subsidiaries generate at least monthly their respective MCO reports. The liquidity profile of the Group is reported monthly to the Parent Company's ROC.

To supplement the business-as-usual scenario parameters reflected in the MCO report, the Group also conducts liquidity stress testing to determine the impact of extreme factors, scenarios and/or events to the Group's liquidity profile. Liquidity stress testing is performed quarterly.

Financial assets

Analysis of debt securities into maturity groupings is based on the expected date on which these assets will be realized. For other financial assets, the analysis into maturity groupings is based on the remaining period from the end of the reporting period to the contractual maturity date or, if earlier, the expected date the assets will be realized.

Financial liabilities

The maturity groupings are based on the remaining period from the end of the reporting period to the contractual maturity date. When a counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the Group can be required to pay.



The table below summarizes the maturity profile of financial instruments and gross-settled derivatives based on contractual undiscounted cash flows.

	Consolidated						
	On demand	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year	Total
2018							
Financial Assets							
Cash and other cash items	₱33,091	₱–	₱–	₱–	₱–	₱–	₱33,091
Due from BSP	240,134	–	–	–	–	–	240,134
Due from other banks	40,058	3,728	2,036	–	–	–	45,822
Interbank loans receivable and SPURA	2,200	27,992	13,294	3,749	3,521	–	50,756
Investment securities at FVTPL	–	–	–	–	–	–	–
HFT investments	–	9,508	20,036	–	–	39	29,583
Derivative assets	–	–	–	–	–	–	–
Trading:	–	–	–	–	–	–	–
Receive	4	34,677	27,348	13,324	3,734	–	79,087
Pay	–	(59,215)	(24,785)	(12,371)	(5,417)	–	(101,788)
	4	(24,538)	2,563	953	(1,683)	–	(22,701)
Investment securities at FVOCI	–	309	1,314	5,405	15,132	109,071	131,231
Investment securities at amortized cost	29	40	253	929	3,773	366,156	371,180
Loans and receivables	–	–	–	–	–	–	–
Receivables from customers	49,067	242,271	173,781	125,761	89,350	984,476	1,664,706
Unquoted debt securities	–	9	–	9	18	1,306	1,342
Accrued interest receivable	8,546	1,319	358	377	67	–	10,667
Accounts receivable	8,515	564	24	5	56	491	9,655
Sales contract receivable	8	1	13	14	26	143	205
Other receivables	15	320	–	–	–	–	335
Other assets	–	–	–	–	–	–	–
Residual value of leased assets	28	40	61	67	158	776	1,130
Returned checks and other cash items	417	–	–	–	–	–	417
Miscellaneous	11	2	2	5	6	191	217
	₱382,123	₱261,565	₱213,735	₱137,274	₱110,424	₱1,462,649	₱2,567,770
Financial Liabilities							
Non-derivative liabilities							
Deposit liabilities	–	–	–	–	–	–	–
Demand	₱355,473	₱–	₱–	₱–	₱–	₱–	₱355,473
Savings	609,471	–	–	–	–	–	609,471
Time	–	328,841	133,644	38,455	28,169	20,887	549,996
Long-term negotiable certificates of deposit (LTNCD)	–	34	104	375	750	49,814	51,077
	964,944	328,875	133,748	38,830	28,919	70,701	1,566,017
Bills payable and SSURA	1,155	87,961	65,458	35,957	24,933	52,487	267,951
Manager's checks and demand drafts outstanding	7,565	–	–	–	–	–	7,565
Accrued interest payable	329	1,141	2,154	240	90	334	4,288
Accrued other expenses	2,592	848	325	195	–	2	3,962
Bonds payable	–	67	265	501	3,964	30,002	34,799
Subordinated debts	–	–	301	16,360	290	12,008	28,959
Non-equity non-controlling interest	6,747	–	–	–	–	–	6,747
Other liabilities	–	–	–	–	–	–	–
Bills purchased - contra	12,171	–	–	–	–	–	12,171
Accounts payable	3,101	10,446	–	2,082	–	–	15,629
Marginal deposits	82	–	4,150	–	–	–	4,232
Outstanding acceptances	–	898	419	225	251	–	1,793
Deposits on lease contracts	–	46	93	81	320	1,103	1,643
Notes payable	–	16	31	47	96	2,699	2,889
Dividends payable	–	90	–	–	–	–	90
Miscellaneous	8	–	–	–	–	–	8
	998,694	430,388	206,944	94,518	58,863	169,336	1,958,743
Derivative liabilities*							
Trading:	–	–	–	–	–	–	–
Pay	–	73,574	40,125	66,613	5,474	7,402	193,188
Receive	–	(36,064)	(30,290)	(15,322)	(4,895)	(7,277)	(93,848)
	–	37,510	9,835	51,291	579	125	99,340
Loan commitments and financial guarantees	199,507	7,373	19,844	10,917	14,763	5,475	257,879
	₱1,198,201	₱475,271	₱236,623	₱156,726	₱74,205	₱174,936	₱2,315,962



	Consolidated						Total
	On demand	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year	
2017							
Financial Assets							
Cash and other cash items	₱27,631	₱—	₱—	₱—	₱—	₱—	₱27,631
Due from BSP	261,959	—	—	—	—	—	261,959
Due from other banks	27,691	1,793	1,643	160	12	—	31,299
Interbank loans receivable and SPURA	800	27,897	9,992	3,624	2,759	427	45,499
Investment securities at FVTPL							
HFT investments	306	10,779	25,356	—	384	—	36,825
Derivative assets*							
Trading:							
Receive	—	29,365	27,836	9,286	3,167	2,793	72,447
Pay	—	(28,687)	(21,755)	(8,921)	(2,944)	(2,760)	(65,067)
	—	678	6,081	365	223	33	7,380
AFS investments	—	1,842	8,467	8,134	6,196	436,881	461,520
Loans and receivables							
Receivables from customers	40,003	192,955	180,877	120,582	82,487	885,197	1,502,101
Unquoted debt securities	—	9	126	40	27	1,524	1,726
Accrued interest receivable	6,693	245	20	33	75	1,730	8,796
Accounts receivable	6,827	981	17	9	1,198	22	9,054
Sales contract receivable	10	2	3	5	11	131	162
Other receivables	147	131	—	—	—	—	278
Other assets							
Residual value of leased assets	36	30	54	80	137	717	1,054
Returned checks and other cash items	10	—	285	—	—	—	295
Miscellaneous	191	—	—	—	—	5	196
	₱372,304	₱237,342	₱232,921	₱133,032	₱93,509	₱1,326,667	₱2,395,775
Financial Liabilities							
Non-derivative liabilities							
Deposit liabilities							
Demand	₱344,708	₱—	₱—	₱—	₱—	₱—	₱344,708
Savings	605,508	—	—	—	—	—	605,508
Time	—	253,185	172,830	43,711	52,555	29,931	552,212
LTNCD	—	30	104	258	517	33,575	34,484
	950,216	253,215	172,934	43,969	53,072	63,506	1,536,912
Bills payable and SSURA	—	131,248	29,844	11,775	24,294	33,617	230,778
Manager's checks and demand drafts outstanding	8,054	—	—	—	—	—	8,054
Accrued interest payable	275	580	887	103	75	146	2,066
Accrued other expenses	3,445	238	1	1	—	—	3,685
Bonds payable	—	—	—	—	—	3,043	3,043
Subordinated debts	—	—	301	360	1,675	27,732	30,068
Non-equity non-controlling interest	8,002	—	—	—	—	—	8,002
Other liabilities							
Bills purchased - contra	12,333	—	—	—	—	—	12,333
Accounts payable	6,625	9,124	—	—	330	4	16,083
Marginal deposits	—	—	3,229	—	—	—	3,229
Outstanding acceptances	—	980	347	138	265	11	1,741
Deposits on lease contracts	3	38	74	94	273	990	1,472
Dividends payable	91	—	—	—	—	—	91
Miscellaneous	7	7,400	—	—	7,401	—	14,808
	989,051	402,823	207,617	56,440	87,385	129,049	1,872,365
Derivative liabilities*							
Trading:							
Pay	—	52,874	26,252	9,196	3,132	105	91,559
Receive	—	(51,556)	(25,614)	(9,049)	(2,970)	(35)	(89,224)
	—	1,318	638	147	162	70	2,335
Loan commitments and financial guarantees	168,041	7,518	18,323	13,721	15,397	5,859	228,859
	₱1,157,092	₱411,659	₱226,578	₱70,308	₱102,944	₱134,978	₱2,103,559



	Parent Company						Total
	On demand	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year	
2018							
Financial Assets							
Cash and other cash items	₱29,280	₱–	₱–	₱–	₱–	₱–	₱29,280
Due from BSP	206,289	–	–	–	–	–	206,289
Due from other banks	29,607	3,701	1,923	–	–	–	35,231
Interbank loans receivable and SPURA	–	18,046	6,106	–	601	–	24,753
Investment securities at FVTPL							
HFT investments	–	–	20,036	–	–	38	20,074
Derivative assets							
Trading:							
Receive	–	34,674	27,341	13,324	3,734	–	79,073
Pay	–	(59,215)	(24,785)	(12,371)	(5,417)	–	(101,788)
	–	(24,541)	2,556	953	(1,683)	–	(22,715)
Investment securities at FVOCI	–	240	866	4,788	10,751	91,191	107,836
Investment securities at amortized cost	–	–	57	–	423	298,611	299,091
Loans and receivables							
Receivables from customers	6,227	236,314	159,325	107,788	43,325	732,624	1,285,603
Unquoted debt securities	–	–	–	–	–	595	595
Accrued interest receivable	7,987	–	–	–	–	–	7,987
Accounts receivable	5,975	–	–	–	–	–	5,975
Sales contract receivable	4	1	13	13	25	77	133
Other receivables	13	–	–	–	–	–	13
Other assets							
Returned checks and other cash items	397	–	–	–	–	–	397
	₱285,779	₱233,761	₱190,882	₱113,542	₱53,442	₱1,123,136	₱2,000,542
Financial Liabilities							
Non-derivative liabilities							
Deposit liabilities							
Demand	₱322,371	₱–	₱–	₱–	₱–	₱–	₱322,371
Savings	577,815	–	–	–	–	–	577,815
Time	–	255,265	98,486	24,356	12,121	1,563	391,791
LTNCD	–	34	104	375	750	39,946	41,209
	900,186	255,299	98,590	24,731	12,871	41,509	1,333,186
Bills payable and SSURA	–	58,122	42,463	26,629	5,396	21,201	153,811
Manager's checks and demand drafts outstanding	5,950	–	–	–	–	–	5,950
Accrued interest payable	–	807	1,149	238	88	93	2,375
Accrued other expenses	1,881	–	–	–	–	–	1,881
Bonds payable	–	–	265	501	1,001	30,002	31,769
Subordinated debts	–	–	241	16,300	171	6,756	23,468
Other liabilities							
Bills purchased - contra	12,158	–	–	–	–	–	12,158
Accounts payable	–	7,104	–	–	–	–	7,104
Outstanding acceptances	–	898	419	225	251	–	1,793
Marginal deposits	–	–	166	–	–	–	166
	920,175	322,230	143,293	68,624	19,778	99,561	1,573,661
Derivative liabilities*							
Trading:							
Pay	–	73,574	40,122	66,613	5,474	–	185,783
Receive	–	(36,064)	(30,290)	(15,322)	(4,895)	–	(86,571)
	–	37,510	9,832	51,291	579	–	99,212
Loan commitments and financial guarantees	11,296	7,373	19,791	10,900	14,762	5,475	69,597
	₱931,471	₱367,113	₱172,916	₱130,815	₱35,119	₱105,036	₱1,742,470



	Parent Company						Total
	On demand	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year	
2017							
Financial Assets							
Cash and other cash items	P24,975	P—	P—	P—	P—	P—	P24,975
Due from BSP	224,723	—	—	—	—	—	224,723
Due from other banks	14,602	3,048	1,643	—	—	—	19,293
Interbank loans receivable and SPURA	—	18,250	3,371	3,624	1,990	—	27,235
Investment securities at FVTPL							
HFT investments	—	—	25,271	—	—	—	25,271
Derivative assets*							
Trading:							
Receive	—	29,365	25,113	9,286	3,167	2,793	69,724
Pay	—	(28,687)	(24,405)	(8,921)	(2,944)	(2,760)	(67,717)
	—	678	708	365	223	33	2,007
AFS investments	—	600	5,580	3,669	4,191	348,263	362,303
Loans and receivables							
Receivables from customers	3,287	186,045	168,660	101,479	42,025	642,687	1,144,183
Unquoted debt securities	—	—	—	—	—	685	685
Accrued interest receivable	6,458	—	—	—	—	—	6,458
Accounts receivable	5,677	—	—	—	—	—	5,677
Sales contract receivable	4	1	2	3	5	7	22
Other receivables	9	—	—	—	—	—	9
Other assets							
Returned checks and other cash items	—	—	284	—	—	—	284
	P279,735	P208,622	P205,519	P109,140	P48,434	P991,675	P1,843,125
Financial Liabilities							
Non-derivative liabilities							
Deposit liabilities							
Demand	P314,542	P—	P—	P—	P—	P—	P314,542
Savings	576,807	—	—	—	—	—	576,807
Time	—	238,319	122,331	22,678	10,861	2,605	396,794
LTNCD	—	30	104	258	517	30,200	31,109
	891,349	238,349	122,435	22,936	11,378	32,805	1,319,252
Bills payable and SSURA	—	82,065	7,009	—	5,089	13,617	107,780
Manager's checks and demand drafts outstanding	5,840	—	—	—	—	—	5,840
Accrued interest payable	—	309	330	76	64	144	923
Accrued other expenses	1,778	—	—	—	—	—	1,778
Subordinated debts	—	—	241	300	386	23,742	24,669
Other liabilities							
Bills purchased - contra	12,323	—	—	—	—	—	12,323
Accounts payable	—	7,488	—	—	—	—	7,488
Outstanding acceptances	—	980	347	138	265	11	1,741
Marginal deposits	—	—	682	—	—	—	682
Miscellaneous	—	7,400	—	—	—	—	7,400
	911,290	336,591	131,044	23,450	17,182	70,319	1,489,876
Derivative liabilities*							
Trading:							
Pay	—	52,874	26,252	9,196	3,132	105	91,559
Receive	—	(51,556)	(25,614)	(9,049)	(2,970)	(35)	(89,224)
	—	1,318	638	147	162	70	2,335
Loan commitments and financial guarantees	7,984	7,518	18,316	13,704	15,340	5,859	68,721
	P919,274	P345,427	P149,998	P37,301	P32,684	P76,248	P1,560,932

*Does not include derivatives embedded in financial and non-financial contracts.

Market Risk

Market risk is the possibility of loss to future earnings, fair values, or future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates, foreign exchange rates, and other market factors. Market risk originates from holdings in foreign currencies, debt securities, and derivatives transactions. It is managed by segregating the balance sheet into a trading book and a banking book. ALCO, chaired by the President, is the senior review and decision-making body for the management of all related market risks. A set of risk limits is enforced to properly monitor and manage market risks. The risk limits are approved by the BOD. RSK serves under the ROC and performs daily



market risk analyses to ensure compliance with the Parent Company's policies. The Treasury Group manages asset/liability risks arising from both banking book and trading operations in financial markets.

As part of group supervision, the Parent Company regularly coordinates with subsidiaries to monitor their compliance to their respective risk tolerances and ensure consistency of risk management practices. Risk aggregation and consolidation of exposures provide senior management with a group-wide market risk profile perspective such as Group Trading Value-at-Risk (VaR) and Earnings-at-Risk (EaR).

To the extent possible, the risk management framework used in monitoring and controlling market risk of the Parent Company, are aligned across the Group. While the Parent Company sets the said framework, each institution has its own risk management unit responsible in monitoring the market risk exposure of their institution.

Market risk - trading book

In measuring the potential loss in its trading portfolio, the Parent Company uses VaR. VaR is an estimate of the potential decline in the value of a portfolio, under normal market conditions, for a given "confidence level" over a specified holding period. The Parent Company measures and monitors the Trading Book VaR daily and this value is compared against the set VaR limit. Meanwhile, the Group VaR is monitored and reported monthly.

VaR methodology assumptions and parameters

Historical Simulation (HS) is used to compute the VaR. This method assumes that market rates volatility in the future will follow the same movement that occurred within the 260-day historical period. In calculating VaR, a 99.00% confidence level and a one-day holding period are assumed. This means that, statistically, within a one-day horizon, the trading losses will exceed VaR in 1 out of 100 trading days.

Like any other model, the HS method has its own limitations. To wit, it cannot predict volatility levels which did not happen in the specified historical period. The validity of the VaR model is verified through a daily backtesting analysis, which examines how frequently both actual and hypothetical daily losses exceed VaR. The result of the daily backtesting analysis is reported to the ALCO and ROC monthly.

A summary of the VaR levels of the trading portfolio of the Parent Company appears below:

	Rates and FX	Fixed Income	FX Options
As of December 31, 2018			
December 28	₱47.91	₱34.15	₱2.58
Average	71.66	77.34	13.52
Highest	250.69	214.96	37.96
Lowest	23.21	28.84	1.88
As of December 31, 2017			
December 29	96.03	128.98	12.68
Average	147.86	216.65	6.19
Highest	468.60	431.25	20.99
Lowest	50.06	83.28	0.44

Rates and Foreign Exchange (FX) VaR is the correlated VaR of the following products: FX spot, outright forward, non-deliverable forwards, FX swaps, interest rate swaps, and cross currency swaps. The Fixed Income VaR is the correlated VaR of these products: peso and foreign currency bonds, bond forwards and credit default swaps (CDS).



Each subsidiary performs daily mark-to-market valuation and VaR calculations for their trading book exposures. Risk exposures are bounded by a system of risk limits and monitoring tools to effectively manage these risks.

The table below summarizes the VaR levels of FMIC and PSBank:

	FMIC			PSBank		
	EQUITIES	Bonds		Bonds		FX
		PHP	USD	PHP	USD	
As of December 31, 2018						
December 28	P-	₱7.58	P-	₱0.00	P-	₱0.86
Average	8.32	11.90	0.34	0.50	0.86	0.92
Highest	24.61	37.26	4.06	12.17	12.14	3.64
Lowest	1.45	4.40	1.31	0.00	-	0.12
As of December 31, 2017						
December 29	23.75	0.56	7.29	8.64	-	1.14
Average	23.79	5.36	3.43	9.33	9.11	0.88
Highest	97.03	13.32	7.91	30.31	39.34	1.30
Lowest	5.66	0.06	0.36	0.00	0.47	0.18

The limitations of the VaR methodology are recognized by supplementing VaR limits with other position and sensitivity limit structures and by doing stress testing analysis. These processes address potential product concentration risks, monitor portfolio vulnerability and give the management an early advice if an actual loss goes beyond what is deemed to be tolerable to the bank, even before the VaR limit is hit.

Stress testing is performed by the Parent Company on a quarterly basis and the results are reported to the ALCO and, subsequently, to the ROC and BOD. On a Group-wide perspective, stress testing is done, at least, on an annual basis. The results are reported by the Parent Company's Risk Management Group to the BOD through ROC. Furthermore, the results and contagion effects relevant to the specific institution will be reported by the institutions Risk Management Unit to their respective Senior Management and Board-level ROC.

Market risk - banking book

The Parent Company and its subsidiaries have in place their risk management system and processes to quantify and manage their respective market risks in the banking book.

The Group assesses interest rate risk in the banking book using measurement tools such as Interest Rate Repricing Gap, EaR, Delta Economic Value of Equity (ΔEVE), and Sensitivity Analysis.

Interest Rate Repricing Gap is a tool that distributes rate-sensitive assets and liabilities into pre-defined tenor buckets according to time remaining to their maturity (if fixed rate) or repricing (if floating rate). Items lacking definitive repricing schedule (e.g., current and savings account) and items with actual maturities that could vary from contractual maturities (e.g., securities with embedded options) are assigned to repricing tenor buckets based on analysis of historical patterns, past experience and/or expert judgment.

EaR measures the possible decline in the Group's net interest income as a result of adverse interest rate movements, given the current repricing profile. It is a tool used to evaluate the sensitivity of the accrual portfolio to changes in interest rates in the adverse direction over the next twelve (12) months.



EaR methodology assumptions and parameters

The Parent Company and its Subsidiaries calculate EaR using HS approach, with one-year horizon and using five years data. EaR is then derived as the 99th percentile biggest drop in net interest income. This methodology was implemented starting 2018, thus resulting to significant changes in the EaR figures below.

The table below shows the EaR profile of the Parent Company and certain subsidiaries as of December 31, 2018 and 2017:

	Parent Company	FMIC	PSBank	MCC	ORIX Metro	Total
2018	(₱1,407.13)	(₱166.00)	(₱1,121.72)	(₱197.34)	(₱18.12)	(₱2,910.31)
2017	(7,196.49)	(410.00)	(781.20)	(82.19)	(2.38)	(8,472.26)

The Parent Company generates and monitors daily its EaR exposure. The subsidiaries generate at least monthly their respective EaR reports.

In addition to EaR, starting 2018, the Parent Company uses Δ EVE to measure changes in the net present value of its banking book at different interest rates shocks and stress scenarios. It reflects changes in the economic value of equity over the remaining life of the assets and liabilities, i.e. run-off assumption. Δ EVE is calculated by slotting the notional repricing cash flows arising from rate-sensitive assets and liabilities into pre-defined tenor buckets. The present value of the net repricing cash flows is then calculated using various interest rate scenarios prescribed by Basel and internally developed by the Parent Company. As of December 31, 2018, the Δ EVE of the Parent Company amounted to (₱17.4 billion).

Aside from the EaR and Δ EVE, the Parent Company and its subsidiaries perform regular sensitivity and stress testing analysis on their banking books to further broaden their forward-looking analysis. This way, management can craft strategies to address and/or arrest probable risks, if necessary.

Foreign currency risk

Foreign exchange risk is the probability of loss to earnings or capital arising from changes in foreign exchange rates. Foreign currency liabilities generally consist of foreign currency deposits in the Group's FCDU account. Foreign currency deposits are generally used to fund the Group's foreign currency-denominated loan and investment portfolio in the FCDU. Banks are required by the BSP to match the foreign currency liabilities with the foreign currency assets held in FCDUs. In addition, the BSP requires a 30.00% liquidity reserve on all foreign currency liabilities held in the FCDU. Outside the FCDU, the Group has additional foreign currency assets and liabilities in its foreign branch network. The Group's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines.

The following table sets forth, for the year indicated, the impact of reasonably possible changes in the USD exchange rate and other currencies per Philippine peso on pre-tax income and equity:

Currency	Consolidated						Parent Company					
	2018			2017			2018			2017		
	Change in currency rate in %	Effect on profit before tax	Effect on equity	Change in currency rate in %	Effect on profit before tax	Effect on equity	Change in currency rate in %	Effect on profit before tax	Effect on equity	Change in currency rate in %	Effect on profit before tax	Effect on equity
USD	+1.00%	(121.52)	1.89	+1.00%	37.13	7.51	+1.00%	(34.54)	0.09	+1.00%	36.43	0.44
EUR	+1.00%	24.26	0.00	+1.00%	31.31	0.00	+1.00%	23.40	0.00	+1.00%	29.11	0.00
JPY	+1.00%	(18.51)	0.00	+1.00%	(11.53)	0.00	+1.00%	(18.51)	0.00	+1.00%	(11.53)	0.00
GBP	+1.00%	22.25	0.00	+1.00%	18.46	0.00	+1.00%	22.25	0.00	+1.00%	18.46	0.00
Others	+1.00%	11.41	0.00	+1.00%	(1.83)	0.00	+1.00%	11.41	0.00	+1.00%	(1.83)	0.00



Currency	Consolidated						Parent Company					
	2018			2017			2018			2017		
	Change in currency rate in %	Effect on profit before tax	Effect on equity	Change in currency rate in %	Effect on profit before tax	Effect on equity	Change in currency rate in %	Effect on profit before tax	Effect on equity	Change in currency rate in %	Effect on profit before tax	Effect on equity
USD	-1.00%	121.52	(1.89)	-1.00%	(37.13)	(7.51)	-1.00%	34.54	(0.09)	-1.00%	(36.43)	(0.44)
EUR	-1.00%	(22.53)	0.00	-1.00%	(31.31)	0.00	-1.00%	(23.40)	0.00	-1.00%	(29.11)	0.00
JPY	-1.00%	18.51	0.00	-1.00%	11.53	0.00	-1.00%	18.51	0.00	-1.00%	11.53	0.00
GBP	-1.00%	(22.25)	0.00	-1.00%	(18.46)	0.00	-1.00%	(22.25)	0.00	-1.00%	(18.46)	0.00
Others	-1.00%	(11.41)	0.00	-1.00%	1.83	0.00	-1.00%	(11.41)	0.00	-1.00%	1.83	0.00

Information relating to Parent Company's currency derivatives is included in Note 8. As of December 31, 2018 and 2017, the Parent Company has outstanding foreign currency spot transactions (in equivalent peso amounts) of ₱7.6 billion and ₱4.5 billion, respectively (sold), and ₱8.8 billion and ₱10.8 billion, respectively (bought).

The impact on the Parent Company's equity already excludes the impact on transactions affecting the profit and loss.

Capital Management

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

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital structure, or issue capital securities. No changes were made in the objectives, policies and processes from the previous year.

BSP Reporting

Regulatory Qualifying Capital

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

The Group complied with BSP issued Circular No. 781, *Basel III Implementing Guidelines on Minimum Capital Requirements*, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. The Circular sets out a minimum Common Equity Tier 1 (CET1) ratio of 6.00% and Tier 1 capital ratio of 7.50%; capital conservation buffer of 2.50% comprised of CET1 capital and Total Capital Adequacy Ratio (CAR) of 10.00%. These ratios shall be maintained at all times. Further, BSP Circular No. 856 covers the implementing guidelines on the framework for dealing with domestic systemically important banks (DSIBs) in accordance with the Basel III standards. Banks identified as DSIBs shall be required to have higher loss absorbency, on top of the minimum CET1 capital and capital conservation buffer. Compliance with this requirement was phased-in starting January 1, 2017, with full compliance on January 1, 2019.



The details of CAR, as reported to the BSP, as of December 31, 2018 and 2017 follow:

	Consolidated		Parent Company	
	2018	2017	2018	2017
Tier 1 capital	₱278,930	₱207,096	₱281,282	₱196,170
CET1 Capital	278,930	207,096	281,282	196,170
Less: Required deductions	31,156	26,824	106,847	69,006
Net Tier 1 Capital	247,774	180,272	174,435	127,164
Tier 2 capital	41,177	39,013	32,649	31,449
Total Qualifying Capital	₱288,951	₱219,285	₱207,084	₱158,613
Credit Risk-Weighted Assets	₱1,469,970	₱1,299,292	₱1,160,414	₱1,014,289
Market Risk-Weighted Assets	57,101	65,540	46,045	52,410
Operational Risk-Weighted Assets	174,345	163,790	102,152	107,484
Total Risk-Weighted Assets	1,701,416	1,528,622	1,308,611	1,174,183
CET1 Ratio*	14.56%	11.79%	13.33%	10.83%
Tier 1 capital ratio	14.56%	11.79%	13.33%	10.83%
Total capital ratio	16.98%	14.35%	15.82%	13.51%

* of which capital conservation buffer in 2018 and 2017 is 8.56% and 5.79%, respectively, for the Group and 7.33% and 4.83%, respectively, for the Parent Company

Qualifying capital and risk-weighted assets (RWA) are computed based on BSP regulations.

Under Basel III, the regulatory qualifying capital of the Parent Company consists of CET1 capital, which comprises paid-up common stock, additional paid-in capital, retained earnings including current year profit, retained earnings reserves, OCI and non-controlling interest less required regulatory deductions. The other component of regulatory capital is Tier 2 (supplementary) capital, which includes unsecured subordinated debts and general loan loss provision.

RWA consist of total assets excluding cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the Monetary Board (MB) of the BSP. Operational RWA are computed using the Basic Indicator Approach. As of December 31, 2018, as discussed in Note 30, this includes the additional operational risk as required by the MB which shall be subject to its periodic review.

The Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the year.

The Internal Capital Adequacy Assessment Process (ICAAP) supplements the BSP's risk-based capital adequacy framework. In compliance with this, the Group has adopted and developed its ICAAP framework to ensure that appropriate level and quality of capital are maintained by the Group. Under this framework, the assessment of risks extends beyond the Pillar 1 set of credit, market and operational risks and onto other risks deemed material by the Group. The level and structure of capital are assessed and determined in light of the Group's business environment, plans, performance, risks and budget; as well as regulatory edicts.

Leverage Ratio

On June 9, 2015, the BSP issued Circular No. 881 covering the implementing guidelines on the Leverage Ratio framework designed to act as a supplementary measure to the risk-based capital requirements and shall not be less than 5.00%. The monitoring period has been set every quarter starting December 31, 2014 and extended until June 30, 2018 per BSP Circular No. 990 issued on January 22, 2018. Effective July 1, 2018, the monitoring of the leverage ratio was implemented as a Pillar I minimum requirement.



Liquidity Coverage Ratio (LCR)

On March 10, 2016, the BSP issued Circular No. 905 which provides the implementing guidelines on LCR and disclosure standards that are consistent with the Basel III framework. The LCR is the ratio of high-quality liquid assets to total net cash outflows which should not be lower than 100.00%. Compliance with the LCR minimum requirement commenced on January 1, 2018 with the prescribed minimum ratio of 90.00% for 2018 and 100.00% effective January 1, 2019.

5. Fair Value Measurement

Financial Instruments

The methods and assumptions used by the Group and the Parent Company in estimating the fair values of financial assets and financial liabilities are:

Cash and other cash items, due from BSP and other banks and interbank loans receivable and SPURA

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

Trading and investment securities

Fair values of debt and equity securities are generally based on quoted market prices. Where the debt securities are not quoted or the market prices are not readily available, the Group and the Parent Company obtained valuations from independent parties offering pricing services, used adjusted quoted market prices of comparable investments, or applied discounted cash flow methodologies. In 2017, unquoted equity securities are carried at cost less allowance for impairment losses due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value. In 2018, remeasurement of such unquoted equity securities to their fair values is not material to the financial statements.

Derivative instruments

Fair values are estimated based on quoted market prices, prices provided by independent parties, or prices derived using acceptable valuation models. The models utilize published underlying rates (e.g. interest rates, FX rates, CDS rates, FX volatilities and spot and forward FX rates) and are implemented through validated calculation engines.

Loans and receivables

Fair values of the Group's loans and receivables are estimated using the discounted cash flow methodology, using current incremental lending rates for similar types of loans. Where the instrument reprices on a quarterly basis or has a relatively short maturity, the carrying amounts approximate fair values.

Liabilities

Fair values are estimated using the discounted cash flow methodology using the Group's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued, if any. The carrying amount of demand and savings deposit liabilities and other short-term liabilities approximate fair value considering that these are either due and demandable or with short-term maturities.



Non-Financial Assets

Investment properties

Fair value of investment properties is determined based on valuations performed by independent and in-house appraisers using valuation technique with significant inputs that are not based on observable market data (Level 3). The valuation of investment properties was based on the Sales Comparison Approach and considered recent sales similar or substitute properties in the same areas where the investment properties are located, taking into account the economic conditions prevailing at the time of the valuation. Other factors considered were the location and shape of the properties, environmental issues, development controls such as the height restrictions, building coverage and floor area ratio restrictions, among others. The fair value of investment properties is based on its highest and best use, which is their current use.

The following tables summarize the carrying amounts and fair values of assets and liabilities, analyzed among those whose fair value is based on:

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

	2018				
	Consolidated				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets Measured at Fair Value					
Financial Assets					
Investment securities at FVTPL					
HFT investments					
Debt securities					
Private	₱9,257	₱9,257	₱—	₱—	₱9,257
Government	6,247	6,247	—	—	6,247
Treasury notes and bonds	4,285	4,285	—	—	4,285
Treasury bills	2,642	2,642	—	—	2,642
BSP	2	2	—	—	2
	22,433	22,433	—	—	22,433
Equity securities	6,605	6,605	—	—	6,605
Derivative assets					
Cross currency swaps	8,222	—	8,222	—	8,222
Currency forwards	1,223	—	1,223	—	1,223
Interest rate swaps	1,205	—	1,205	—	1,205
Put option	1	—	1	—	1
	10,651	—	10,651	—	10,651
	39,689	29,038	10,651	—	39,689
Investment securities at FVOCI					
Debt securities					
Private	42,369	36,498	5,871	—	42,369
Treasury notes and bonds	40,786	40,786	—	—	40,786
Government	27,004	26,610	394	—	27,004
	110,159	103,894	6,265	—	110,159
Equity securities	1,129	945	184	—	1,129
	111,288	104,839	6,449	—	111,288
	₱150,977	₱133,877	₱17,100	₱—	₱150,977
Assets for which Fair Values are Disclosed					
Financial Assets					
Investment securities at amortized cost					
Treasury notes and bonds	₱237,464	₱202,537	₱—	₱—	₱202,537
Government	21,823	20,700	—	—	20,700
Private	6,040	5,654	—	—	5,654
Treasury bills	49	49	—	—	49
	265,376	228,940	—	—	228,940
Loans and receivables - net					
Receivables from customers					
Commercial loans	977,404	—	—	975,343	975,343
Auto loans	117,309	—	—	138,227	138,227
(Forward)					

(Forward)



2018					
Consolidated					
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Residential mortgage loans	₱107,079	₱–	₱–	₱128,752	₱128,752
Trade loans	62,786	–	–	62,786	62,786
Others	106,014	–	–	106,910	106,910
	1,370,592	–	–	1,412,018	1,412,018
Unquoted debt securities	632	–	–	635	635
Sales contract receivable	156	–	–	196	196
	1,371,380	–	–	1,412,849	1,412,849
Other assets					
Residual value of leased assets	1,130	–	–	1,006	1,006
Miscellaneous	207	–	–	315	315
	1,337	–	–	1,321	1,321
	1,638,093	228,940	–	1,414,170	1,643,110
Non-Financial Assets					
Investment properties	7,500	–	–	14,224	14,224
	₱1,645,593	₱228,940	₱–	₱1,428,394	₱1,657,334
Liabilities Measured at Fair Value					
Financial Liabilities					
Financial liabilities at FVTPL					
Derivative liabilities					
Cross currency swaps	₱3,857	₱–	₱3,857	₱–	₱3,857
Currency forwards	1,388	–	1,388	–	1,388
Interest rate swaps	1,290	–	1,290	–	1,290
Put option	2	–	2	–	2
Non-equity non-controlling interest	6,747	–	6,747	–	6,747
	₱13,284	₱–	₱13,284	₱–	₱13,284
Liabilities for which Fair Values are Disclosed					
Financial Liabilities					
Deposit liabilities					
Time	₱548,019	₱–	₱–	₱548,837	₱548,837
LTNCD	43,790	40,354	–	–	40,354
	591,809	40,354	–	548,837	589,191
Bills payable and SSURA	259,607	–	–	273,567	273,567
Bonds payable	30,743	28,023	–	2,944	30,967
Subordinated debts	26,618	22,047	–	3,356	25,403
Other liabilities					
Notes payable	2,600	–	–	2,575	2,575
Deposits on lease contracts	1,643	–	–	1,376	1,376
	₱913,020	₱90,424	₱–	₱832,655	₱923,079

2018					
Parent Company					
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets Measured at Fair Value					
Financial Assets					
Investment securities at FVTPL					
HFT investments					
Debt securities					
Private	₱8,571	₱8,571	₱–	₱–	₱8,571
Government	6,063	6,063	–	–	6,063
Treasury notes and bonds	3,394	3,394	–	–	3,394
Treasury bills	1,460	1,460	–	–	1,460
BSP	2	2	–	–	2
	19,490	19,490	–	–	19,490
Equity securities	38	38	–	–	38
Derivative assets					
Cross currency swaps	8,222	–	8,222	–	8,222
Currency forwards	1,210	–	1,210	–	1,210
Interest rate swaps	1,205	–	1,205	–	1,205
Put option	1	–	1	–	1
	10,638	–	10,638	–	10,638
	30,166	19,528	10,638	–	30,166
Investment securities at FVOCI					
Debt securities					
Treasury notes and bonds	37,377	37,377	–	–	37,377
Private	33,073	32,499	574	–	33,073
Government	21,221	21,058	163	–	21,221
	91,671	90,934	737	–	91,671

(Forward)



2018					
Parent Company					
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Equity securities	₱473	₱412	₱61	₱-	₱473
	92,144	91,346	798	-	92,144
	₱122,310	₱110,874	₱11,436	₱-	₱122,310
Assets for which Fair Values are Disclosed					
Financial Assets					
Investment securities at amortized cost					
Treasury notes and bonds	₱204,164	₱173,943	₱-	₱-	₱173,943
Government	8,443	8,162	-	-	8,162
	212,607	182,105	-	-	182,105
Loans and receivables - net					
Receivables from customers					
Commercial loans	940,127	-	-	922,105	922,105
Auto loans	29,444	-	-	29,522	29,522
Residential mortgage loans	57,500	-	-	57,860	57,860
Trade loans	62,722	-	-	62,722	62,722
Others	12,530	-	-	12,530	12,530
	1,102,323	-	-	1,084,739	1,084,739
Sales contract receivable	118	-	-	118	118
	1,102,441	-	-	1,084,857	1,084,857
	1,315,048	182,105	-	1,084,857	1,266,962
Non-Financial Assets					
Investment properties	2,825	-	-	6,194	6,194
	₱1,317,873	₱182,105	₱-	₱1,091,051	₱1,273,156
Liabilities Measured at Fair Value					
Financial Liabilities					
Financial liabilities at FVTPL					
Derivative liabilities					
Cross currency swaps	₱3,505	₱-	₱3,505	₱-	₱3,505
Currency forwards	1,385	-	1,385	-	1,385
Interest rate swaps	1,290	-	1,290	-	1,290
Put option	2	-	2	-	2
	₱6,182	₱-	₱6,182	₱-	₱6,182
Liabilities for which Fair Values are Disclosed					
Financial Liabilities					
Deposit liabilities					
Time	₱390,475	₱-	₱-	₱390,475	₱390,475
LTNCD	35,330	32,661	-	-	32,661
	425,805	32,661	-	390,475	423,136
Bills payable and SSURA	151,079	-	-	150,852	150,852
Bonds payable	27,826	28,023	-	-	28,023
Subordinated debts	22,471	22,047	-	-	22,047
	₱627,181	₱82,731	₱-	₱541,327	₱624,058

2017					
Consolidated					
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets Measured at Fair Value					
Financial Assets					
Investment securities at FVTPL					
Debt securities					
Treasury notes and bonds	₱13,383	₱13,383	₱-	₱-	₱13,383
Private	9,560	8,884	676	-	9,560
Government	5,310	5,310	-	-	5,310
Treasury bills	1,401	1,401	-	-	1,401
BSP	2	2	-	-	2
	29,656	28,980	676	-	29,656
Equity securities					
Quoted	7,862	7,862	-	-	7,862
Derivative assets					
Cross currency swaps	3,889	-	3,889	-	3,889
Currency forwards	1,671	-	1,671	-	1,671
Interest rate swaps	635	-	635	-	635
Put option	161	-	161	-	161
Call option	12	-	12	-	12
Embedded derivatives in non-financial contract	1	-	1	-	1
	6,369	-	6,369	-	6,369
	43,887	36,842	7,045	-	43,887

(Forward)



2017					
Consolidated					
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
AFS investments					
Debt securities					
Treasury notes and bonds	P249,431	P249,431	P-	P-	P249,431
Private	53,753	47,641	6,113	-	53,754
Government	38,812	34,659	4,153	-	38,812
Treasury bills	115	115	-	-	115
BSP	-	-	-	-	-
	342,111	331,846	10,266	-	342,112
Equity securities					
Quoted	1,625	1,625	-	-	1,625
	343,736	333,471	10,266	-	343,737
	P387,623	P370,313	P17,311	P-	P387,624
Assets for which Fair Values are Disclosed					
Financial Assets					
Loans and receivables - net					
Receivables from customers					
Commercial loans	P905,640	P-	P-	P894,297	P894,297
Residential mortgage loans	98,855	-	-	99,183	99,183
Auto loans	116,207	-	-	140,184	140,184
Trade loans	40,874	-	-	40,874	40,874
Others	84,943	-	-	84,486	84,486
	1,246,519	-	-	1,259,024	1,259,024
Unquoted debt securities	866	-	-	915	915
Sales contract receivable	91	-	-	125	125
	1,247,476	-	-	1,260,064	1,260,064
Other assets					
Residual value of leased assets	1,054	-	-	997	997
Miscellaneous	180	-	-	289	289
	1,234	-	-	1,286	1,286
	1,248,710	-	-	1,261,350	1,261,350
Non-Financial Assets					
Investment properties	7,717	-	-	12,185	12,185
	P1,256,427	P-	P-	P1,273,535	P1,273,535
Liabilities Measured at Fair Value					
Financial Liabilities					
Financial liabilities at FVTPL					
Derivative liabilities					
Currency forwards	P2,067	P-	P2,067	P-	P2,067
Cross currency swaps	2,759	-	2,759	-	2,759
Interest rate swaps	501	-	501	-	501
Call option	24	-	24	-	24
Put option	1	-	1	-	1
Non-equity non-controlling interest	8,002	-	8,002	-	8,002
	P13,354	P-	P13,354	P-	P13,354
Liabilities for which Fair Values are Disclosed					
Financial Liabilities					
Deposit liabilities					
Time	P547,721	P-	P-	P547,991	P547,991
LTNCD	30,025	28,740	-	-	28,740
	577,746	28,740	-	547,991	576,731
Bills payable and SSURA	227,835	-	-	227,276	227,276
Bonds payable	2,910	-	-	2,992	2,992
Subordinated debts	26,580	22,254	-	3,557	25,811
Other liabilities					
Deposits on lease contracts	1,472	-	-	1,302	1,302
	P836,543	P50,994	P-	P783,118	P834,112



	2017				
	Parent Company				Total Fair Value
	Carrying Value	Level 1	Level 2	Level 3	
Assets Measured at Fair Value					
Financial Assets					
Investment securities at FVTPL					
HFT investments					
Debt securities					
Treasury notes and bonds	₱10,881	₱10,881	₱—	₱—	₱10,881
Private	8,698	8,698	—	—	8,698
Government	5,240	5,240	—	—	5,240
Treasury bills	1,156	1,156	—	—	1,156
BSP	2	2	—	—	2
	25,977	25,977	—	—	25,977
Derivative assets					
Cross currency swaps	3,889	—	3,889	—	3,889
Currency forwards	1,597	—	1,597	—	1,597
Interest rate swaps	635	—	635	—	635
Put option	161	—	161	—	161
Call option	12	—	12	—	12
Embedded derivatives in non-financial contract	1	—	1	—	1
	6,295	—	6,295	—	6,295
	32,272	25,977	6,295	—	32,272
AFS investments					
Debt securities					
Government	20,583	16,932	3,651	—	20,583
Private	36,065	35,515	550	—	36,065
Treasury notes and bonds	213,393	213,393	—	—	213,393
	270,041	265,840	4,201	—	270,041
Equity securities					
Quoted	343	343	—	—	343
	270,384	266,183	4,201	—	270,384
	₱302,656	₱292,160	₱10,496	₱—	₱302,656
Assets for which Fair Values are Disclosed					
Financial Assets					
Loans and receivables - net					
Receivables from customers					
Commercial loans	₱849,789	₱—	₱—	₱836,175	₱836,175
Residential mortgage loans	52,893	—	—	53,339	53,339
Auto loans	33,882	—	—	34,247	34,247
Trade loans	40,824	—	—	40,824	40,824
Others	12,757	—	—	12,757	12,757
	990,145	—	—	977,342	977,342
Unquoted debt securities	26	—	—	26	26
Sales contract receivable	18	—	—	18	18
	990,189	—	—	977,386	977,386
Non-Financial Assets					
Investment properties	3,013	—	—	6,235	6,235
	₱993,202	₱—	₱—	₱983,621	₱983,621
Liabilities Measured at Fair Value					
Financial Liabilities					
Financial liabilities at FVTPL					
Derivative liabilities					
Cross currency swaps	₱2,759	₱—	₱2,759	₱—	₱2,759
Currency forwards	2,067	—	2,067	—	2,067
Interest rate swaps	501	—	501	—	501
Call option	24	—	24	—	24
Put option	1	—	1	—	1
	₱5,352	₱—	₱5,352	₱—	₱5,352
Liabilities for which Fair Values are Disclosed					
Financial Liabilities					
Deposit liabilities					
Time	₱395,948	₱—	₱—	₱395,948	₱395,948
LTNCD	26,650	25,608	—	—	25,608
	422,598	25,608	—	395,948	421,556
Bills payable and SSURA	106,482	—	—	106,534	106,534
Subordinated debts	22,437	22,254	—	—	22,254
	₱551,517	₱47,862	₱—	₱502,482	₱550,344



When fair values of listed equity and debt securities, as well as publicly traded derivatives at the reporting date are based on quoted market prices or binding dealer price quotations, without any deduction for transaction costs, the instruments are included within Level 1 of the hierarchy.

For all other financial instruments, fair value is determined using valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist and other revaluation models. Instruments included in Level 3 include those for which there is currently no active market. There were no transfers between levels of the fair value hierarchy in 2018 and 2017.

6. Segment Information

The Group's operating businesses are recognized and managed separately according to the nature of services provided and the different markets served with segment representing a strategic business unit. Operating segments are reported in accordance with internal reporting to the Senior Management who is responsible for allocating resources to the segments and assessing its performance.

The Group's business segments follow:

- Consumer Banking - principally providing consumer type loans and support for effective sourcing and generation of consumer business;
- Corporate Banking - principally handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers;
- Investment Banking - principally arranging structured financing, and providing services relating to privatizations, initial public offerings, mergers and acquisitions; and providing advisory services primarily aimed to create wealth to individuals and institutions;
- Treasury - principally providing money market, trading and treasury services, as well as the management of the Group's funding operations by use of treasury bills, government securities and placements and acceptances with other banks, through treasury and corporate banking;
- Branch Banking - principally handling branch deposits and providing loans and other loan related businesses for domestic middle market clients; and
- Others - principally handling other services including but not limited to remittances, leasing, account financing, and other support services. Other operations of the Group comprise the operations and financial control groups.

Segment assets are those operating assets that are employed by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment liabilities are those operating liabilities that result from the operating activities of a segment and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Interest income is reported net, as management primarily relies on the net interest income as performance measure, not the gross income and expense. The Group has no significant customers which contributes 10.00% or more of the consolidated revenue net of interest expense. Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is charged/credited to business segments based on a pool rate which approximates the cost of funds.



The following table presents revenue and income information of operating segments presented in accordance with PFRS and segment assets and liabilities:

	Consumer Banking	Corporate Banking	Investment Banking	Treasury	Branch Banking	Others	Total
2018							
Results of Operations							
Net interest income (expense)							
Third party	₱17,881	₱40,602	₱—	₱9,444	(₱1,997)	₱2,892	₱68,822
Intersegment	(476)	(30,190)	—	1,761	27,639	1,266	—
Net interest income after intersegment transactions	17,405	10,412	—	11,205	25,642	4,158	68,822
Non-interest income	6,892	1,078	347	1,748	4,771	8,074	22,910
Revenue - net of interest expense	24,297	11,490	347	12,953	30,413	12,232	91,732
Non-interest expense	14,523	4,877	26	2,418	23,203	16,379	61,426
Income (loss) before share in net income of subsidiaries, associates and a JV	9,774	6,613	321	10,535	7,210	(4,147)	30,306
Share in net income of subsidiaries, associates and a JV	—	77	—	—	—	797	874
Provision for income tax	(2,212)	(455)	—	(2,637)	(88)	(2,353)	(7,745)
Non-controlling interest in net income of consolidated subsidiaries	—	—	—	—	—	(1,427)	(1,427)
Net income (loss)	₱7,562	₱6,235	₱321	₱7,898	₱7,122	(₱7,130)	₱22,008
Statement of Financial Position							
Total assets	₱221,884	₱1,043,630	₱—	₱464,751	₱153,913	₱359,515	₱2,243,693
Total liabilities	₱75,848	₱999,803	₱—	₱488,041	₱259,621	₱129,676	₱1,952,989
Other Segment Information							
Capital expenditures	₱488	₱62	₱—	₱108	₱60	₱2,807	₱3,525
Depreciation and amortization	₱586	₱130	₱—	₱28	₱1,557	₱1,783	₱4,084
Provision for credit and impairment losses	₱6,607	₱669	₱—	₱126	₱172	₱196	₱7,770
2017							
Results of Operations							
Net interest income (expense)							
Third party	₱15,528	₱29,594	₱—	₱10,900	₱2,491	₱2,893	₱61,406
Intersegment	(267)	(11,914)	—	(1,240)	16,036	(2,615)	—
Net interest income after intersegment transactions	15,261	17,680	—	9,660	18,527	278	61,406
Non-interest income	6,827	871	307	2,252	3,935	7,955	22,147
Revenue - net of interest expense	22,088	18,551	307	11,912	22,462	8,233	83,553
Non-interest expense	12,784	5,521	28	1,587	20,818	14,244	54,982
Income (loss) before share in net income of subsidiaries, associates and a JV	9,304	13,030	279	10,325	1,644	(6,011)	28,571
Share in net income of subsidiaries, associates and a JV	—	72	—	—	—	617	689
Provision for income tax	(2,192)	(306)	—	(2,686)	(6)	(2,800)	(7,990)
Non-controlling interest in net income of consolidated subsidiaries	—	—	—	—	—	(3,047)	(3,047)
Net income (loss)	₱7,112	₱12,796	₱279	₱7,639	₱1,638	(₱11,241)	₱18,223
Statement of Financial Position							
Total assets	₱199,070	₱948,654	₱—	₱428,021	₱146,941	₱357,606	₱2,080,292
Total liabilities	₱73,918	₱915,469	₱—	₱462,108	₱241,208	₱183,499	₱1,876,202
Other Segment Information							
Capital expenditures	₱884	₱91	₱—	₱130	₱110	₱3,319	₱4,534
Depreciation and amortization	₱583	₱137	₱—	₱19	₱1,271	₱2,008	₱4,018
Provision for credit and impairment losses	₱5,667	₱1,882	₱—	(₱426)	₱202	₱182	₱7,507
2016							
Results of Operations							
Net interest income (expense)							
Third party	₱14,020	₱22,689	₱—	₱12,342	₱1,726	₱2,169	₱52,946
Intersegment	(254)	(8,977)	—	(4,109)	15,123	(1,783)	—
Net interest income after intersegment transactions	13,766	13,712	—	8,233	16,849	386	52,946
Non-interest income	5,660	630	643	6,806	3,532	8,395	25,666
Revenue - net of interest expense	19,426	14,342	643	15,039	20,381	8,781	78,612
Non-interest expense	13,576	2,980	44	1,748	18,581	15,006	51,935
Income (loss) before share in net income of subsidiaries, associates and a JV	5,850	11,362	599	13,291	1,800	(6,225)	26,677
Share in net income of subsidiaries, associates and a JV	—	30	—	—	—	231	261
Provision for income tax	(1,358)	(303)	—	(2,903)	(40)	(2,018)	(6,622)
Non-controlling interest in net income of consolidated subsidiaries	—	—	—	—	—	(2,230)	(2,230)
Net income (loss)	₱4,492	₱11,089	₱599	₱10,388	₱1,760	(₱10,242)	₱18,086

(Forward)



	Consumer Banking	Corporate Banking	Investment Banking	Treasury	Branch Banking	Others	Total
Statement of Financial Position							
Total assets	₱166,374	₱788,813	₱—	₱466,711	₱144,026	₱310,085	₱1,876,009
Total liabilities	₱63,000	₱760,320	₱—	₱480,348	₱227,514	₱139,274	₱1,670,456
Other Segment Information							
Capital expenditures	₱1,000	₱58	₱—	₱130	₱95	₱3,045	₱4,328
Depreciation and amortization	₱499	₱170	₱—	₱12	₱1,249	₱1,834	₱3,764
Provision for credit and impairment losses	₱7,009	(₱233)	₱—	₱—	(₱603)	₱1,169	₱7,342

Non-interest income consists of service charges, fees and commissions, profit from assets sold, trading and securities gain (loss) - net, foreign exchange gain (loss) - net, income from trust operations, leasing, dividends and miscellaneous income. Non-interest expense consists of compensation and fringe benefits, taxes and licenses, provision for credit and impairment losses, depreciation and amortization, occupancy and equipment-related costs, amortization of software costs, and miscellaneous expenses.

Geographical Information

The Group operates in four geographic markets: Philippines, Asia other than Philippines, USA and Europe (Note 2).

The following tables show the distribution of Group's external net operating income and non-current assets allocated based on the location of the customers and assets, respectively, for the years ended December 31:

	Philippines	Asia (Other than Philippines)	USA	Europe	Total
2018					
Interest income	₱94,670	₱2,461	₱55	₱—	₱97,186
Interest expense	27,269	1,075	20	—	28,364
Net interest income	67,401	1,386	35	—	68,822
Non-interest income	21,189	1,065	602	54	22,910
Provision for credit and impairment losses	7,576	194	—	—	7,770
Total external net operating income	₱81,014	₱2,257	₱637	₱54	₱83,962
Non-current assets	₱31,635	₱653	₱15	₱5	₱32,308
2017					
Interest income	₱78,302	₱1,980	₱40	₱—	₱80,322
Interest expense	18,079	827	10	—	18,916
Net interest income	60,223	1,153	30	—	61,406
Non-interest income	20,768	819	505	55	22,147
Provision for credit and impairment losses	7,388	119	—	—	7,507
Total external net operating income	₱73,603	₱1,853	₱535	₱55	₱76,046
Non-current assets	₱32,233	₱652	₱10	₱5	₱32,900
2016					
Interest income	₱66,653	₱1,490	₱38	₱—	₱68,181
Interest expense	14,463	766	6	—	15,235
Net interest income	52,190	724	32	—	52,946
Non-interest income	23,908	1,012	669	77	25,666
Provision for credit and impairment losses	7,257	85	—	—	7,342
Total external net operating income	₱68,841	₱1,651	₱701	₱77	₱71,270
Non-current assets	₱32,543	₱603	₱13	₱5	₱33,164

Non-current assets consist of property and equipment, investment properties, chattel properties acquired in foreclosure, software costs and assets held under joint operations.



7. Interbank Loans Receivable and Securities Purchased Under Resale Agreements

This account consists of:

	Consolidated		Parent Company	
	2018	2017	2018	2017
Interbank loans receivable (Note 31)	₱42,664	₱43,859	₱24,724	₱27,208
SPURA	8,067	1,616	—	—
	50,731	45,475	24,724	27,208
Less allowance for credit losses (Note 15)	12	—	12	—
	₱50,719	₱45,475	₱24,712	₱27,208

The outstanding balance of SPURA represents overnight placements with the BSP where the underlying securities cannot be sold or repledged to parties other than the BSP.

In 2018, 2017 and 2016, the interest rates of the interbank loans receivables ranging from 0.00% to 5.40%, 0.00% to 5.90%, and 0.00% to 3.50%, respectively, for the Group and 0.00% to 3.54%, 0.00% to 3.50%, and 0.00% to 2.90%, respectively, for the Parent Company.

8. Trading and Investment Securities

This account consists of:

	Consolidated		Parent Company	
	2018	2017	2018	2017
Investment securities at:				
FVTPL	₱39,689	₱43,887	₱30,166	₱32,272
FVOCI (Note 29)	111,288	—	92,144	—
Amortized cost (Note 29)	265,376	—	212,607	—
AFS investments (Note 29)	—	343,910	—	270,445
	₱416,353	₱387,797	₱334,917	₱302,717

Investment securities at FVTPL consist of the following:

	Consolidated		Parent Company	
	2018	2017	2018	2017
HFT investments				
Debt securities				
Private	₱9,257	₱9,560	₱8,571	₱8,698
Government	6,247	5,310	6,063	5,240
Treasury notes and bonds	4,285	13,383	3,394	10,881
Treasury bills	2,642	1,401	1,460	1,156
BSP	2	2	2	2
	22,433	29,656	19,490	25,977
Equity securities	6,605	7,862	38	—
	29,038	37,518	19,528	25,977
Derivative assets	10,651	6,369	10,638	6,295
	₱39,689	₱43,887	₱30,166	₱32,272

The following are the fair values of the Parent Company's derivative financial instruments recorded as 'Derivative assets/liabilities', together with the notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value are measured. The notional amounts indicate the volume of transactions outstanding as of December 31, 2018 and 2017 and are not indicative of either market risk or credit risk.



	Derivative Assets	Derivative Liabilities	Notional Amount	Average Forward Rate (in every USD 1)
December 31, 2018				
Freestanding derivatives:				
Currency forwards				
BOUGHT:				
USD	₱68	₱1,152	USD 1,774	₱53.1275
CNY	—	28	CNY 515	CNY 0.1463
EUR	—	1	EUR 1	EUR 1.1746
THB	0	—	THB 5	THB 0.0307
TWD	4	7	TWD 67	TWD 436.96
SOLD:				
USD	1,009	133	USD 1,357	₱53.5023
CNY	110	11	CNY 871	CNY 0.1475
JPY	2	47	JPY 6,779	JPY 0.0195
EUR	6	—	EUR 2	EUR 49.1943
MXN	—	0	MXN 1	MXN 0.0487
THB	0	1	THB 60	THB 0.0306
CHF	—	3	CHF 7	CHF 1.0057
AUD	10	0	AUD 16	AUD 0.7168
HKD	1	0	HKD 40	HKD 0.1280
SGD	—	2	SGD 18	SGD 0.7292
TRY	—	0	TRY 1	TRY 0.1699
DKK	—	0	DKK 2	DKK 0.1530
Interest rate swaps - PHP	320	667	₱27,375	
Interest rate swaps - FX	885	623	USD 1,936	
Cross currency swaps - PHP	159	3,396	₱46,245	
Cross currency swaps - FX	7,577	109	USD 1,458	
Cross currency swaps - EUR	486	0	EUR 57	
Cross currency swaps - JPY	0	—	JPY 10	
Credit default swaps - USD	0	—	USD 1	
Over-the-counter FX options	1	2	USD 41	
	₱10,638	₱6,182		

December 31, 2017

Freestanding derivatives:

Currency forwards

BOUGHT:

USD	₱107	₱1,885	USD 2,257	₱50.8007
CNY	0	0	CNY 20	CNY 0.1530
EUR	27	—	EUR 32	EUR 1.1832
GBP	10	—	GBP 22	GBP 1.3408
THB	0	—	THB 28	THB 0.0304
KRW	6	—	KRW 5,468	KRW 0.0009
TWD	—	38	TWD 2,513	TWD 0.0334
JPY	0	54	JPY 11,178	JPY 0.0090
SGD	0	—	SGD 1	SGD 0.7471
NZD	1	—	NZD 1	NZD 0.7471

SOLD:

USD	1,358	28	USD 1,705	₱50.9803
CNY	0	27	CNY 360	CNY 0.1518
CAD	—	1	CAD 2	CAD 0.7901
JPY	85	7	JPY 15,575	JPY 0.0090
EUR	1	4	EUR 3	EUR 1.2045
MXN	—	0	MXN 1	MXN 0.0504
THB	1	0	THB 81	THB 0.0307
KRW	—	6	KRW 5,454	KRW 0.0009
CHF	—	3	CHF 6	CHF 1.0128
AUD	—	13	AUD 21	AUD 0.7679
HKD	0	—	HKD 43	HKD 0.1280
NZD	—	0	NZD 1	NZD 0.7090
SGD	—	1	SGD 10	SGD 0.7451

Put option purchased warrants

Interest rate swaps - PHP	158	—	USD 645	
Interest rate swaps - FX	98	196	₱35,583	
Cross currency swaps - PHP	538	305	USD 1,895	
Cross currency swaps - FX	244	2,605	₱34,058	
Cross currency swaps - EUR	3,501	154	USD 1,014	
Cross currency swaps - JPY	144	—	EUR 46	
Over-the-counter FX options	15	25	USD 171	
Embedded derivatives in non-financial contract*	1	—	USD 0	
	₱6,295	₱5,352		

*Non-financial host contracts include foreign currency derivatives with average notional amounts of USD 1,579 per month as of December 31, 2017.



As of December 31, 2018 and 2017, the Group's derivative assets include currency forwards entered into by the subsidiaries amounting to ₱13.0 million and ₱74.0 million, respectively. As of December 31, 2018, the Group's derivative liabilities include cross currency swaps entered into by the subsidiaries amounting to ₱354.4 million.

Investment securities at FVOCI as of December 31, 2018 consist of the following:

	Consolidated	Parent Company
Debt securities		
Private	₱42,369	₱33,073
Treasury notes and bonds (Note 17)	40,786	37,377
Government (Note 17)	27,004	21,221
	110,159	91,671
Equity securities	1,129	473
	₱111,288	₱92,144

The equity securities are irrevocably designated at FVOCI. In 2018, as part of risk management, the Group disposed equity securities at FVOCI with total carrying value of ₱771.4 million and with dividends of ₱14.9 million, and recognized loss of ₱121.8 million charged against 'Surplus'. Outstanding equity securities at FVOCI as of December 31, 2018 generated dividends in 2018 amounting to ₱126.5 million for the Group and ₱23.1 million for the Parent Company.

As of December 31, 2018, the ECL on debt securities at FVOCI (included in 'Net unrealized loss on investment securities at FVOCI') amounted to ₱247.7 million for the Group and ₱244.3 million for the Parent Company (Note 15).

AFS investments as of December 31, 2017 consist of the following:

	Consolidated	Parent Company
Debt securities		
Treasury notes and bonds (Note 17)	₱249,431	₱213,393
Private	53,754	36,065
Government (Notes 17, 19 and 31)	38,812	20,583
Treasury bills	115	—
	342,112	270,041
Equity securities		
Quoted	1,707	423
Unquoted	386	141
	2,093	564
	344,205	270,605
Less allowance for impairment losses (Note 15)	295	160
	₱343,910	₱270,445

As of December 31, 2018 and 2017, investments include floating and fixed rate private notes with total carrying value of USD10.9 million (with peso equivalent of ₱573.9 million classified as 'Investment securities at FVOCI' and ₱550.2 million classified as 'AFS investments', respectively) which are pledged by the Parent Company's New York Branch in compliance with the regulatory requirements of the Federal Deposit Insurance Corporation and the Office of the Controller of the Currency in New York.

Investments also include US Treasury notes with carrying value of USD1.0 million (with peso equivalent of ₱52.6 million classified as 'Investment securities at FVOCI' and ₱51.0 million classified as 'AFS investments' as of December 31, 2018 and 2017, respectively) which are pledged



by MR USA to the State Treasury Office pursuant to the California Financial Code and in accordance with the requirements of the California Department of Business Oversight relative to its license as a transmitter of money.

The movements in net unrealized losses, including share in net unrealized losses of subsidiaries (Note 11), presented under 'Equity' in the statements of financial position are as follows:

	Consolidated		Parent Company	
	2018	2017	2018	2017
Balance at beginning of the year, as previously reported	₱16,019	₱10,247	₱15,804	₱10,115
Effect of PFRS 9 adoption (Note 2)	(15,556)	—	(15,359)	—
Balance at beginning of the year, as restated	463	10,247	445	10,115
Unrealized loss recognized in OCI	2,469	5,126	2,294	5,130
Amounts realized in surplus	(123)	—	(122)	—
Amounts realized in profit or loss	(115)	641	(24)	554
	2,694	16,014	2,593	15,799
Tax (Note 28)	440	5	401	5
Balance at end of the year	₱3,134*	₱16,019*	₱2,994	₱15,804

* Includes share of non-controlling interest amounting to ₱139.4 million and ₱214.6 million as of December 31, 2018 and 2017, respectively.

Investment securities at amortized cost as of December 31, 2018 consist of the following:

	Consolidated	Parent Company
Treasury notes and bonds (Note 17)	₱237,476	₱204,176
Government (Notes 17 and 19)	21,859	8,479
Private	6,040	—
Treasury bills	49	—
	265,424	212,655
Less allowance for credit losses (Note 15)	48	48
	₱265,376	₱212,607

In 2016, the Parent Company partially disposed and reclassified the remaining HTM investments to AFS investments in accordance with the tainting rule under PAS 39. Total trading gains on disposal of certain HTM investments including portion of the reclassified portfolio amounted to USD86.7 million (peso equivalent of ₱4.1 billion) and included under 'Trading and securities gain (loss) - net' in 2016. Further, the entire HTM investments portfolio of the subsidiaries was reclassified to AFS investments and carried at fair value. As of December 31, 2017, the market value of the remaining reclassified investments amounted to ₱167.7 billion, respectively, for the Group, and ₱133.1 billion, respectively, for the Parent Company, with net unrealized loss amounting to ₱11.3 billion, respectively, for the Group, and ₱9.9 billion, respectively, for the Parent Company included in 'Net unrealized loss on AFS investments'.

Interest income on investment securities at FVOCI/AFS investments and at amortized cost consists of:

	Consolidated			Parent Company		
	2018	2017	2016	2018	2017	2016
Investment securities at amortized cost	₱11,147	₱—	₱—	₱8,916	₱—	₱—
Investment securities at FVOCI	3,463	—	—	2,676	—	—
AFS investments	—	13,480	6,875	—	10,655	5,634
HTM investments	—	—	7,386	—	—	6,258
	₱14,610	₱13,480	₱14,261	₱11,592	₱10,655	₱11,892



In 2018, 2017 and 2016, foreign currency-denominated trading and investment securities bear nominal annual interest rates ranging from 0.10% to 11.63%, 0.10% to 11.63% and 0.29% to 11.63%, respectively, for the Group and the Parent Company while peso-denominated trading and investment securities bear nominal annual interest rates ranging from 2.13% to 18.25%, 1.63% to 15.00% and 1.63% to 14.38%, respectively, for the Group and from 3.25% to 18.25%, 1.63% to 15.00% and 1.63% to 13.75%, respectively, for the Parent Company.

Trading and securities gain (loss) - net consists of:

	Consolidated			Parent Company		
	2018	2017	2016	2018	2017	2016
Investment securities at FVTPL, excluding derivatives	(P1,668)	P1,915	(P718)	(P570)	P73	(P260)
Derivative assets/liabilities - net	3,639	(1,706)	682	3,635	(1,706)	707
Debt securities at FVOCI	(115)	—	—	(24)	—	—
AFS investments	—	641	5,144	—	554	4,693
HTM investments	—	—	1,014	—	—	1,014
	1,856	850	6,122	P3,041	(P1,079)	P6,154
Income (loss) attributable to non-equity non-controlling interests (Note 21)	685	(1,252)	441			
	P2,541	(P402)	P6,563			

Trading gains (losses) on debt securities at FVOCI and AFS investments represent realized gains/losses previously reported in OCI.

9. Loans and Receivables

This account consists of:

	Consolidated		Parent Company	
	2018	2017	2018	2017
Receivables from customers (Note 31)				
Commercial loans	P987,186	P914,367	P947,916	P853,729
Auto loans	119,972	118,166	29,681	33,883
Residential mortgage loans	107,947	99,738	57,974	53,144
Trade loans	63,126	41,120	63,062	41,070
Others	114,849	88,724	12,571	12,834
	1,393,080	1,262,115	1,111,204	994,660
Less unearned discounts and capitalized interest	4,859	4,239	266	219
	1,388,221	1,257,876	1,110,938	994,441
Unquoted debt securities				
Private	1,018	1,250	386	409
Government	—	2	—	3
	1,018	1,252	386	412
Accounts receivable (Notes 30 and 31)	13,291	13,547	9,611	10,170
Accrued interest receivable (Note 31)	10,667	8,796	7,987	6,458
Sales contract receivable	190	127	119	20
Other receivables (Note 31)	335	278	13	9
	1,413,722	1,281,876	1,129,054	1,011,510
Less allowance for credit losses (Note 15)	22,688	16,407	12,797	8,589
	P1,391,034	P1,265,469	P1,116,257	P1,002,921



Receivables from customers consist of:

	Consolidated		Parent Company	
	2018	2017	2018	2017
Loans and discounts	₱1,319,442	₱1,209,737	₱1,037,424	₱942,165
Less unearned discounts and capitalized interest	4,859	4,239	266	219
	1,314,583	1,205,498	1,037,158	941,946
Customers' liabilities under letters of credit (LC)/trust receipts	61,590	40,048	61,526	39,998
Bills purchased (Note 21)	12,048	12,330	12,254	12,497
	₱1,388,221	₱1,257,876	₱1,110,938	₱994,441

Receivables from customers - others of the Group include credit card receivables, notes receivables financed and lease contract receivables amounting to ₱70.5 billion, ₱6.8 billion and ₱6.1 billion, respectively, as of December 31, 2018 and ₱60.8 billion, ₱6.0 billion and ₱5.8 billion, respectively, as of December 31, 2017 (Note 13).

Other receivables of the Group include dividends receivable of ₱4.4 million as of December 31, 2017.

Interest income on loans and receivables consists of:

	Consolidated			Parent Company		
	2018	2017	2016	2018	2017	2016
Receivables from customers	₱60,071	₱47,403	₱38,417	₱44,980	₱34,014	₱26,507
Receivables from cardholders	13,527	11,550	9,339	—	—	—
Lease contract receivables	4,162	3,299	2,493	—	—	—
Customers' liabilities under LC/trust receipts	1,711	979	769	1,711	979	769
Restructured loans	69	77	115	60	66	81
Unquoted debt securities and others	119	83	133	109	13	29
	₱79,659	₱63,391	₱51,266	₱46,860	₱35,072	₱27,386

As of December 31, 2018 and 2017, 83.21% and 83.15%, respectively, of the total receivables from customers of the Group, respectively, and 99.91% (for both years) of the total receivables from customers of the Parent Company are subject to periodic interest repricing. In 2018 and 2017, the remaining peso receivables from customers earn annual fixed interest rates ranging from 4.70% to 42.00% and from 3.00% to 42.00%, while foreign currency-denominated receivables from customers earn annual fixed interest rates ranging from 2.10% to 36.00% and from 2.05% to 36.00%, respectively.

BSP Reporting

The following table shows information relating to receivables from customers by collateral, gross of unearned discounts and capitalized interest:

	Consolidated				Parent Company			
	2018		2017		2018		2017	
	Amount	%	Amount	%	Amount	%	Amount	%
Secured by:								
Other securities	₱286,705	20.58	₱242,383	19.21	₱286,693	25.80	₱242,384	24.37
Chattel	157,259	11.29	150,451	11.92	28,801	2.59	32,841	3.30
Real estate	110,901	7.96	99,636	7.89	74,860	6.74	67,301	6.77
Deposit hold-out	19,096	1.37	25,294	2.00	18,181	1.64	24,513	2.46
Equity securities	18,525	1.33	18,146	1.44	5,161	0.46	5,033	0.51
Others	18,420	1.32	8,696	0.69	6,450	0.58	537	0.05
	610,906	43.85	544,606	43.15	420,146	37.81	372,609	37.46
Unsecured	782,174	56.15	717,509	56.85	691,058	62.19	622,051	62.54
	₱1,393,080	100.00	₱1,262,115	100.00	₱1,111,204	100.00	₱994,660	100.00



Information on the concentration of credit as to industry of receivables from customers, gross of unearned discount and capitalized interest, follows:

	Consolidated				Parent Company			
	2018		2017		2018		2017	
	Amount	%	Amount	%	Amount	%	Amount	%
Wholesale and retail trade, repair of motor vehicles, motorcycles	₱242,426	17.40	₱214,041	16.96	₱215,353	19.38	₱189,444	19.05
Manufacturing	215,125	15.44	193,693	15.35	212,451	19.12	189,255	19.03
Real estate activities	209,610	15.05	204,870	16.23	163,386	14.70	162,037	16.29
Activities of households as employers and undifferentiated goods and services - producing activities of households for own use	153,597	11.03	233,184	18.48	82,678	7.44	82,763	8.32
Financial and insurance activities	106,338	7.63	87,879	6.96	117,435	10.57	84,874	8.53
Transportation and storage, information and communication	106,139	7.62	96,988	7.68	98,405	8.86	89,510	9.00
Electricity, gas, steam and air-conditioning supply and water supply, sewerage, waste management and remediation activities	98,857	7.10	87,674	6.95	96,149	8.65	84,509	8.50
Construction	58,405	4.19	53,200	4.21	44,100	3.97	40,937	4.11
Agricultural, forestry and fishing	34,714	2.49	30,122	2.39	29,688	2.67	25,439	2.56
Accommodation and food service activities	32,005	2.30	28,399	2.25	31,657	2.85	28,030	2.82
Others	135,864	9.75	32,065	2.54	19,902	1.79	17,862	1.79
	₱1,393,080	100.00	₱1,262,115	100.00	₱1,111,204	100.00	₱994,660	100.00

The BSP considers that concentration of credit exists when total loan exposure to a particular industry or economic sector exceeds 30.00% of total loan portfolio except for thrift banks.

Non-performing loans (NPLs) included in the total loan portfolio of the Group and the Parent Company, as reported to the BSP, are presented below:

	Consolidated		Parent Company	
	2018	2017	2018	2017
Gross NPLs	₱16,866	₱12,716	₱8,041	₱6,020
Less allowance for credit losses	8,530	8,641	6,026	4,643
Net carrying amount	₱8,336	₱4,075	₱2,015	₱1,377

Under banking regulations, loan accounts shall be considered non-performing, even without any missed contractual payments, when they are considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal or interest is unlikely without foreclosure of collateral, if any. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than ninety (90) days from contractual due date, or accrued interests for more than ninety (90) days have been capitalized, refinanced, or delayed by agreement. Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained. Moreover, NPLs shall remain classified as such until (a) there is sufficient evidence to support that full collection of principal and interests is probable and payments of interest and/or principal are received for at least six (6) months; or (b) written-off. Microfinance and other small loans with similar credit characteristics shall be considered non-performing after contractual due date or after they have become past due.



10. Property and Equipment

The composition of and movements in this account follow:

	Consolidated					Total
	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold Improvements	BUC	
2018						
Cost						
Balance at beginning of year	₱5,908	₱9,647	₱20,817	₱4,309	₱4,846	₱45,527
Additions	—	20	1,862	147	860	2,889
Disposals	(84)	—	(5,166)	(11)	—	(5,261)
Reclassification/others	—	5,285	29	143	(5,445)	12
Balance at end of year	5,824	14,952	17,542	4,588	261	43,167
Accumulated depreciation and amortization						
Balance at beginning of year	—	5,264	14,867	3,010	—	23,141
Depreciation and amortization	—	530	2,244	383	—	3,157
Disposals	—	—	(5,082)	(11)	—	(5,093)
Reclassification/others	—	26	10	(36)	—	—
Balance at end of year	—	5,820	12,039	3,346	—	21,205
Allowance for impairment losses						
Balance at beginning of year	—	24	—	—	—	24
Reclassification/others	—	(16)	—	—	—	(16)
Balance at end of year	—	8	—	—	—	8
Net book value at end of year	₱5,824	₱9,124	₱5,503	₱1,242	₱261	₱21,954
2017						
Cost						
Balance at beginning of year	₱5,888	₱9,031	₱19,527	₱4,030	₱4,809	₱43,285
Additions	20	40	2,677	126	693	3,556
Disposals	—	—	(1,326)	—	—	(1,326)
Reclassification/others	—	576	(61)	153	(656)	12
Balance at end of year	5,908	9,647	20,817	4,309	4,846	45,527
Accumulated depreciation and amortization						
Balance at beginning of year	—	4,771	13,847	2,646	—	21,264
Depreciation and amortization	—	469	2,305	395	—	3,169
Disposals	—	—	(1,165)	—	—	(1,165)
Reclassification/others	—	24	(120)	(31)	—	(127)
Balance at end of year	—	5,264	14,867	3,010	—	23,141
Allowance for impairment losses (Note 15)	—	24	—	—	—	24
Net book value at end of year	₱5,908	₱4,359	₱5,950	₱1,299	₱4,846	₱22,362
	Parent Company					Total
	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold Improvements	BUC	
2018						
Cost						
Balance at beginning of year	₱4,465	₱7,955	₱10,855	₱2,627	₱4,846	₱30,748
Additions	—	—	609	4	860	1,473
Disposals	(84)	—	(4,162)	(1)	—	(4,247)
Reclassification/others	—	5,283	32	146	(5,445)	16
Balance at end of year	4,381	13,238	7,334	2,776	261	27,990
Accumulated depreciation and amortization						
Balance at beginning of year	—	4,579	8,662	1,726	—	14,967
Depreciation and amortization	—	470	813	223	—	1,506
Disposals	—	—	(4,126)	(1)	—	(4,127)
Reclassification/others	—	23	18	(37)	—	4
Balance at end of year	—	5,072	5,367	1,911	—	12,350
Allowance for impairment losses						
Balance at beginning of year	—	24	—	—	—	24
Reclassification/others	—	(16)	—	—	—	(16)
Balance at end of year	—	8	—	—	—	8
Net book value at end of year	₱4,381	₱8,158	₱1,967	₱865	₱261	₱15,632
2017						
Cost						
Balance at beginning of year	₱4,445	₱7,395	₱10,323	₱2,450	₱4,809	₱29,422
Additions	20	26	1,085	2	693	1,826
Disposals	—	—	(472)	—	—	(472)
Reclassification/others	—	534	(81)	175	(656)	(28)
Balance at end of year	4,465	7,955	10,855	2,627	4,846	30,748

(Forward)



	Parent Company					Total
	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold Improvements	BUC	
Accumulated depreciation and amortization						
Balance at beginning of year	P=	P4,171	P8,228	P1,493	P=	P13,892
Depreciation and amortization	—	412	871	244	—	1,527
Disposals	—	—	(447)	—	—	(447)
Reclassification/others	—	(4)	10	(11)	—	(5)
Balance at end of year	—	4,579	8,662	1,726	—	14,967
Allowance for impairment losses (Note 15)	—	24	—	—	—	24
Net book value at end of year	P4,465	P3,352	P2,193	P901	P4,846	P15,757

BUC pertains to bank premises yet to be completed and used by the Parent Company. As of December 31, 2017, this includes cost of properties amounting to P4.5 billion, consisting of commercial and office spaces located at Bonifacio Global City, Taguig City, purchased from Bonifacio Landmark Realty and Development Corp., a jointly controlled entity of GT Capital through Federal Land, Inc. (FLI), a related party, which was completed in 2018.

As of December 31, 2018 and 2017, the cost of fully depreciated property and equipment still in use amounted to P4.7 billion and P8.0 billion, respectively, for the Group and P2.2 billion and P5.7 billion, respectively, for the Parent Company.

11. Investments in Subsidiaries, Associates and a Joint Venture

Investments in subsidiaries consist of:

	2018	2017
Acquisition cost		
MCC	P15,149	P7,614
FMIC	11,751	11,751
MBCL	10,079	10,079
PSBank	5,237	5,237
Circa	837	837
ORIX Metro	265	265
MR USA	365	289
MTI	200	200
MR Japan	102	102
MR Italia	66	66
MR UK	31	31
MRHL	26	26
MRSPL	17	17
FMIIC	12	12
Metrobank Bahamas	8	8
PVCC	5	5
	44,150	36,539
Accumulated equity in net income		
Balance at beginning of year, as previously reported	32,039	28,731
Effects of PFRS 9 and 15 adoption	(1,072)	—
Balance at beginning of year, as restated	30,967	28,731
Share in net income	7,928	6,957
Share in realized loss on sale of equity securities at FVOCI	(122)	—
Dividends	(2,438)	(3,649)
Balance at end of year	36,335	32,039

(Forward)



	2018	2017
Equity in net unrealized loss on investment securities at FVOCI	(P1,074)	P-
Equity in net unrealized loss on AFS investments	-	(1,764)
Equity in net unrealized gain on remeasurement of retirement plan and translation adjustment and others	1,777	1,517
Excess of share in net losses of subsidiaries over cost included in 'Miscellaneous liabilities' (Note 21)	100	121
Carrying value		
MCC	26,166	15,533
FMIC	17,732	18,409
MBCL	12,488	12,221
PSBank	20,467	18,172
Circa	241	187
ORIX Metro	3,294	2,832
MR USA	122	55
MTI	14	14
MR Japan	73	63
MR Italia	-	-
MR UK	52	53
MRHL	156	159
MRSPL	158	162
FMIIC	240	232
Metrobank Bahamas	80	355
PVCC	5	5
	P81,288	P68,452

The following subsidiaries have material non-controlling interests as of December 31, 2018 and 2017:

	Country of Incorporation and Principal Place of Business	Principal Activities	Effective Ownership of Non-Controlling Interest	
			2018	2017
ORIX Metro	Philippines	Leasing, Financing	40.15%	40.15%
PSBank	Philippines	Banking	17.32%	17.32%
MCC	Philippines	Credit Card Services	-	20.00%*

*net of 20.00% interest acquired by the Group in December 2017.

The following table presents financial information of subsidiaries with material non-controlling interests as of December 31, 2018 and 2017.

	2018		2017		
	PSBank	ORIX Metro	PSBank	MCC	ORIX Metro
Statement of Financial Position					
Total assets	P237,894	P55,627	P223,324	P75,414	P47,757
Total liabilities	213,597	47,392	200,931	61,770	40,676
Non-controlling interest	4,240	3,319	3,772	2,729	2,853
Statement of Income					
Gross income	19,241	7,095	17,354	17,019	5,723
Operating income	14,199	5,121	13,889	15,369	4,763
Net income	2,652	1,230	2,654	5,108	1,279
Net income attributable to non-controlling interest	459	738	460	2,043	767
Total comprehensive income	2,271	1,304	2,209	1,260	5,156
Statement of Cash Flows					
Net cash provided by (used in) operating activities	223	(16,755)	16,776	3,539	(6,428)
Net cash provided by (used in) investing activities	287	(960)	(6,123)	72	(1,128)
Net cash provided by (used in) financing activities	787	16,894	(11,298)	(171)	9,271
Net increase (decrease) in cash and cash equivalents	1,297	(821)	(645)	3,440	1,715
Cash and cash equivalents at beginning of year	21,213	7,100	21,858	9,617	5,385
Cash and cash equivalents at end of year	22,510	6,279	21,213	13,057	7,100



Investment in MCC

On October 18, 2017, the Parent Company's BOD approved and the Parent Company has entered into an agreement with its JV partner ANZ Funds Pty. Ltd. (ANZ) to:

- a. purchase 20% of MCC for a consideration of ₱7.4 billion upon the approval of the BSP of the transaction, and
- b. grant ANZ the option to sell the remaining 20% of MCC to the Parent Company at the same consideration of ₱7.4 billion ("Put Option") which can be exercised at any time within the period beginning July 10, 2018 until September 2018 ("Option Exercise Period"). If in the ordinary course of business, MCC pays dividend to the stockholders during the Option Exercise Period, ANZ will exercise the Put Option by serving an exercise notice ("Exercise Notice") to the Parent Company within ten (10) banking days of receiving that dividend ("Dividend Exercise Period"). If ANZ fails to serve an Exercise Notice by the end of the Dividend Exercise Period, the Put Option is deemed exercised by ANZ on the end of the Dividend Exercise Period.

On December 28, 2017, the BSP approved the acquisition of 40% of MCC. With this BSP approval, the purchase of the 20% stake in MCC is deemed completed for accounting purposes in the financial statements as of December 31, 2017. In the parent company financial statements as of December 31, 2017, the Parent Company recognized the increase in its investment in MCC for ₱7.4 billion and the related liability (Note 21). This 20% acquisition was completed on January 8, 2018 ("first tranche"). In the 2017 parent company financial statements, the Put Option on the remaining 20% interest in MCC is a derivative with changes in value being recognized in profit or loss. As of December 31, 2017, the fair value of the Put Option is not material to the financial statements. In the 2017 consolidated financial statements, the Put Option on the 20% remaining interest in MCC is an obligation for the Group to purchase their own equity instruments for cash which gives rise to a financial liability and is reclassified from equity even if the obligation to acquire is conditional on ANZ exercising a right to sell. As of December 31, 2017, the Group recognized the consideration for the remaining 20% interest in MCC amounting to ₱7.4 billion as a liability and charged it to 'Other equity reserves' under 'Equity' in the consolidated financial statements. The acquisition of the remaining 20% interest in MCC was completed on September 4, 2018 ("second tranche"). In the consolidated financial statements, the Group recognized equity reserves (included in 'Translation adjustment and others') for the difference between the acquisition price and the acquired non-controlling interest amounting to ₱4.7 billion (for the first tranche) and ₱5.1 billion (for the second tranche).

Investment in MR USA

On August 17, 2017, the New York State Department of Financial Services has approved the merger of MR USA and Metro Remittance Center, Inc. (MRCI) with MR USA being the surviving entity. On December 22, 2017, MR USA and MRCI have executed a Certificate of Merger and an Agreement and Plan of Merger. Said certification and agreement were filed with the Secretary of State's Offices in Delaware and California on December 22 and December 27, 2017, respectively. Both offices have accepted and annotated such certification/agreement of merger.

Investment in Metrobank Bahamas

On April 17, 2018, Metrobank Bahamas has advised The Central Bank of The Bahamas (CBTB) of its intention to discontinue its operations effective June 30, 2018. On October 11 and October 12, 2018, it has surrendered its securities and banking licenses, respectively, to CBTB and has been placed into a voluntary liquidation.

As of December 31, 2018 and 2017, carrying amount of goodwill of the Group amounted to ₱5.2 billion, of which ₱5.0 billion pertains to the goodwill arising from the acquisition of the then Solidbank Corporation which was merged with FMIC.



Investments in associates and a JV consist of:

	Consolidated		Parent Company	
	2018	2017	2018	2017
Acquisition cost:				
Lepanto Consolidated Mining Company (LCMC) (13.35% effectively owned)	₱2,527	₱2,527		
SMFC (24.80% effectively owned)*	610	610		
Northpine Land, Inc. (NLI) (20.00% owned)	232	232	₱232	₱232
Taal Land Inc. (TLI) (35.00% owned)	178	178	178	178
Cathay International Resources Corporation (CIRC) (32.49% effectively owned)	175	175		
Philippine AXA Life Insurance Corporation (PALIC) (27.96% owned)	172	172		
SMBC Metro Investment Corporation (SMBC Metro) (30.00% owned)	180	180	180	180
Others	33	33		
	4,107	4,107	590	590
Accumulated equity in net income:				
Balance at beginning of year	1,710	1,309	130	98
Share in net income	874	689	39	38
Dividends	(462)	(288)	(10)	(6)
Balance at end of year	2,122	1,710	159	130
Equity in other comprehensive income (losses)	(27)	22	—	(1)
Return of investment - SMBC Metro	(180)	—	(180)	—
Allowance for impairment losses (Note 15)	(75)	(75)	(75)	(75)
Carrying value				
LCMC	2,107	2,246		
SMFC	685	608		
NLI	429	402	429	402
TLI	16	16	16	16
CIRC	199	208		
PALIC	2,419	2,026		
SMBC Metro	49	226	49	226
Others	43	32		
	₱5,947	₱5,764	₱494	₱644

* Represents investment in a JV of the Group and effective ownership interest of the Parent Company through PSBank.

Investment of FMIC in LCMC

FMIC has the ability to exercise significant influence through a 5-year agreement with Philex Mining Corporation to jointly vote their 18.6% ownership. On July 17, 2017, the BOD of LCMC approved to offer its stockholders the pre-emptive right to subscribe to one share for every 4.685 shares held. FMIC fully subscribed to such stock rights offer and still maintained its 14.33% ownership in LCMC.

As of December 31, 2018 and 2017, LCMC-A shares are trading at ₱0.112 per share and ₱0.151 per share, respectively, while LCMC-B shares are trading at ₱0.115 per share and ₱0.153 per share, respectively. As of December 31, 2018 and 2017, there has been a significant decline in the fair value of the shares compared to the acquisition cost. Based on management's assessment, the investment in LCMC is not impaired (Note 3).

Investment of PSBank in SMFC

In August 2017, PSBank sold its 10% ownership in SMFC to GT Capital for ₱189.96 million or ₱94.98 per share as approved by its BOD on July 27, 2017. The amount was based on an independent valuation report which was subjected to a third party fairness opinion. After the sale, PSBank maintains a 30% ownership in SMFC (Note 31).

Investment in SMBC Metro

On October 7, 2016, the BOD and stockholders of SMBC Metro in separate meetings approved the shortening of its corporate term until December 31, 2017 through an amendment of its AOI. On the same date, the BOD approved the closing of its business operations effective December 31, 2016. The amended AOI of SMBC Metro and its application for withdrawal of its secondary license as an Investment House was approved by the SEC on November 25, 2016 and January 31, 2017, respectively. On March 2, 2018, the Board of Liquidating Trustees of SMBC Metro declared the



liquidation of its entire paid-up capital to its stockholders on record as of December 31, 2017 due to the expiration of its corporate term on the same date. On March 28, 2018, the Parent Company received a total amount of ₱180.0 million representing partial liquidation.

The following tables present financial information of significant associates and a JV:

	Statements of Financial Position		Statements of Income and Other Comprehensive Income				Total Comprehensive Income
	Total Assets	Total Liabilities	Gross Income	Operating Income (Loss)	Net Income (Loss)	OCI	
December 31, 2018							
PALIC	₱126,794	₱117,559	₱14,120	₱4,310	₱3,084	₱—	₱3,084
LCMC	9,754	3,067	2,093	(702)	(687)	—	(687)
NLI	3,538	1,510	482	197	186	—	186
SMFC	5,054	2,749	1,267	390	262	6	268
CIRC	2,290	1,426	324	143	6	—	6
SMBC Metro	82	0	4	1	1	—	1
TLI	49	—	1	0	1	—	1
December 31, 2017							
PALIC	₱122,855	₱115,579	₱14,639	₱3,204	₱2,434	₱—	₱2,434
LCMC	9,932	3,648	1,378	(646)	(645)	—	(645)
NLI	3,170	1,271	429	132	155	3	158
SMFC	3,534	1,510	829	243	205	1	206
CIRC	2,274	1,669	336	145	(0)	—	(0)
SMBC Metro	677	—	42	—	20	(14)	6
TLI	49	—	1	1	1	—	1

Major assets of significant associates and a JV include the following:

	2018	2017
PALIC		
Cash and cash equivalents	₱4,392	₱4,617
Loans and receivables - net	912	966
Investment securities at FVTPL	1,454	1,383
Investment securities at FVOCI	12,744	—
AFS investments	—	11,693
Investment in unit-linked funds	56	62
Property and equipment	726	522
LCMC		
Inventories	415	453
Investments and advances	997	961
Mine exploration cost	9	249
Property, plant and equipment - net	6,879	6,522
NLI		
Cash and cash equivalents	241	160
Real estate properties	1,933	1,819
Receivables - net	1,151	959
SMFC		
Cash and cash equivalents	109	97
Receivables - net	4,776	3,305
CIRC		
Cash and cash equivalents	162	121
Receivables - net	441	358
Property, plant and equipment - net	1,370	1,360
Condominium units for sale/inventories	213	326
SMBC Metro		
Cash and cash equivalents	77	502
AFS investments	1	1
Receivables - net	—	168
TLI		
Cash and cash equivalents	49	49



Dividends declared by investee companies of the Parent Company follow:

Subsidiary/Associate	Date of Declaration	Per Share	Total Amount	Record Date	Payment Date
2018					
Subsidiaries					
Cash Dividend					
PSBank	January 18, 2018	₱0.75	₱180	February 2, 2018	February 19, 2018
PSBank	April 23, 2018	0.75	180	May 9, 2018	May 23, 2018
PSBank	July 20, 2018	0.75	180	August 6, 2018	August 20, 2018
PSBank	October 15, 2018	0.75	180	October 30, 2018	November 14, 2018
MCC	June 29, 2018	1.98	1,975	August 26, 2018	August 29, 2018
Metrobank Bahamas	July 16, 2018	USD 0.30	USD 1.5	July 16, 2018	December 4, 2018
Stock Dividend					
ORIX Metro	October 24, 2018	₱100.00	₱647	November 29, 2018	November 29, 2018
Associates					
Cash Dividend					
NLI	March 21, 2018	₱4.35	₱53	December 31, 2017	April 5, 2018
2017					
Subsidiaries					
Cash Dividend					
FMIC	May 25, 2017	₱7.65	₱2,850	June 9, 2017	June 23, 2017
PSBank	January 24, 2017	0.75	180	February 10, 2017	February 24, 2017
PSBank	April 24, 2017	0.75	180	May 10, 2017	May 24, 2017
PSBank	July 27, 2017	0.75	180	August 11, 2017	August 29, 2017
PSBank	October 26, 2017	0.75	180	November 14, 2017	November 24, 2017
Metrobank Bahamas	October 26, 2017	USD 0.30	USD 1.5	October 31, 2017	December 21, 2017
MRSPL	December 21, 2017	SGD 8.00	SGD 4	December 21, 2017	December 21, 2017
Stock Dividend					
ORIX Metro	October 25, 2017	₱100.00	₱719	October 25, 2017	January 31, 2018
Associates					
Cash Dividend					
NLI	March 16, 2017	₱2.85	₱33	December 31, 2016	March 21, 2017

Dividends declared by significant investee companies of FMIC follow:

Subsidiary/Associate	Date of Declaration	Per Share	Total Amount	Record Date	Payment Date
2018					
Subsidiaries					
Cash Dividend					
FAMI	December 12, 2018	₱18.00	₱27	December 14, 2018	December 21, 2018
FMSBC	February 1, 2018	29.59	50	February 15, 2018	March 15, 2018
Associates					
Cash Dividend					
PALIC	November 26, 2018	159.50	1,595	November 23, 2018	December 18, 2018
Stock Dividend					
ORIX Metro	October 24, 2018	100.00	647	October 24, 2018	January 31, 2019
2017					
Subsidiaries					
Cash Dividend					
FAMI	August 18, 2017	27.59	30	August 31, 2017	September 15, 2017
Stock Dividend					
FAMI	August 18, 2017	100.00	41	August 31, 2017	November 20, 2017
Associates					
Cash Dividend					
PALIC	November 24, 2017	100.00	1,000	November 24, 2017	December 15, 2017
Stock Dividend					
ORIX Metro	October 25, 2017	100.00	719	October 25, 2017	January 31, 2018



12. Investment Properties

This account consists of foreclosed real estate properties and investments in real estate:

	Consolidated					
	2018			2017		
	Land	Buildings and Improvements	Total	Land	Buildings and Improvements	Total
Cost						
Balance at beginning of year	₱5,997	₱4,577	₱10,574	₱6,712	₱5,059	₱11,771
Additions	327	660	987	360	767	1,127
Disposals	(685)	(683)	(1,368)	(1,357)	(975)	(2,332)
Reclassification/others	(258)	282	24	282	(274)	8
Balance at end of year	5,381	4,836	10,217	5,997	4,577	10,574
Accumulated depreciation and amortization						
Balance at beginning of year	—	1,174	1,174	—	1,492	1,492
Depreciation and amortization	—	148	148	—	147	147
Disposals	—	(167)	(167)	—	(439)	(439)
Reclassification/others	—	(7)	(7)	—	(26)	(26)
Balance at end of year	—	1,148	1,148	—	1,174	1,174
Allowance for impairment losses (Note 15)						
Balance at beginning of year	1,490	193	1,683	1,642	163	1,805
Provision for (reversal of) impairment loss	1	26	27	(32)	—	(32)
Disposals	(131)	(2)	(133)	(53)	(17)	(70)
Reclassification/others	(47)	39	(8)	(67)	47	(20)
Balance at end of year	1,313	256	1,569	1,490	193	1,683
Net book value at end of year	₱4,068	₱3,432	₱7,500	₱4,507	₱3,210	₱7,717

	Parent Company					
	2018			2017		
	Land	Buildings and Improvements	Total	Land	Buildings and Improvements	Total
Cost						
Balance at beginning of year	₱3,317	₱1,617	₱4,934	₱4,043	₱2,015	₱6,058
Additions	67	92	159	77	146	223
Disposals	(288)	(277)	(565)	(803)	(544)	(1,347)
Reclassification/others	24	—	24	—	—	—
Balance at end of year	3,120	1,432	4,552	3,317	1,617	4,934
Accumulated depreciation and amortization						
Balance at beginning of year	—	726	726	—	1,044	1,044
Depreciation and amortization	—	43	43	—	47	47
Disposals	—	(104)	(104)	—	(365)	(365)
Balance at end of year	—	665	665	—	726	726
Allowance for impairment losses (Note 15)						
Balance at beginning of year	1,143	52	1,195	1,209	56	1,265
Disposals	(131)	(2)	(133)	(53)	(17)	(70)
Reclassification/others	10	(10)	—	(13)	13	—
Balance at end of year	1,022	40	1,062	1,143	52	1,195
Net book value at end of year	₱2,098	₱727	₱2,825	₱2,174	₱839	₱3,013

As of December 31, 2018 and 2017, foreclosed investment properties still subject to redemption period by the borrowers amounted to ₱1.1 billion and ₱1.2 billion, respectively, for the Group and ₱121.5 million and ₱206.6 million, respectively, for the Parent Company.

As of December 31, 2018 and 2017, aggregate market value of investment properties amounted to ₱14.2 billion and ₱12.2 billion, respectively, for the Group and ₱6.2 billion for the Parent Company, of which the aggregate market value of investment properties determined by independent external appraisers amounted to ₱7.6 billion for the Group and ₱6.1 billion for the Parent Company. Information about the fair value measurement of investment properties are also presented in Note 5.



Rental income on investment properties (included in 'Leasing income' in the statements of income) in 2018, 2017 and 2016 amounted to ₱67.3 million, ₱59.9 million and ₱69.8 million, respectively, for the Group and ₱1.0 million, ₱1.4 million and ₱4.4 million, respectively, for the Parent Company.

Direct operating expenses on investment properties that generated rental income (included under 'Litigation expenses') in 2018, 2017 and 2016 amounted to ₱0.4 million, ₱1.0 million and ₱4.7 million, respectively, for the Group and ₱0.3 million, ₱1.0 million and ₱1.1 million, respectively, for the Parent Company. Direct operating expenses on investment properties that did not generate rental income (included under 'Litigation expenses') in 2018, 2017 and 2016 amounted to ₱257.9 million, ₱219.4 million and ₱128.4 million, respectively, for the Group and ₱102.5 million, ₱66.9 million and ₱91.3 million, respectively, for the Parent Company (Note 25).

Net gains from sale of investment properties (included in 'Profit from assets sold' in the statements of income) in 2018, 2017 and 2016 amounted to ₱883.3 million, ₱960.0 million and ₱613.4 million, respectively, for the Group and ₱322.4 million, ₱497.0 million and ₱345.6 million, respectively, for the Parent Company (Note 31).

13. Long-term Leases

Finance Leases

Lease contract receivables under finance leases, which are solely accounts of ORIX Metro, are due in monthly installments with terms ranging from one to five years. These are broken down as follows:

	2018	2017
Within one year	₱607	₱684
After one year but not more than five years	5,476	5,087
	₱6,083	₱5,771

Operating Leases

The Parent Company leases the premises occupied by some of its branches (40.45% and 40.40% of the branch sites as of December 31, 2018 and 2017, respectively, are Parent Company-owned). Also, some of its subsidiaries lease the premises occupied by their Head Offices and most of their branches. The lease contracts are for periods ranging from one (1) to 25 years and are renewable at the Group's option under certain terms and conditions. Various lease contracts include escalation clauses, most of which bear an annual rent increase of 5.00% to 10.00%. As of December 31, 2018 and 2017, the Group has no contingent rent payable.

Rent expense (included in 'Occupancy and equipment-related cost' in the statement of income) in 2018, 2017 and 2016 amounted to ₱2.4 billion, ₱2.2 billion and ₱2.2 billion, respectively, for the Group and ₱1.3 billion, ₱1.2 billion and ₱1.2 billion, respectively, for the Parent Company.

Future minimum rentals payable under non-cancelable operating leases follows:

	Consolidated		Parent Company	
	2018	2017	2018	2017
Within one year	₱1,474	₱1,277	₱741	₱584
After one year but not more than five years	3,405	3,042	1,838	1,531
More than five years	1,110	666	762	205
	₱5,989	₱4,985	₱3,341	₱2,320



The Group has entered into commercial property leases on its investment property portfolio, consisting of the Group's available office spaces and investment properties and lease agreements over various items of machinery and equipment which are non-cancelable and have remaining non-cancelable lease terms between 1 and 20 years. In 2018, 2017 and 2016, leasing income amounted to ₱2.3 billion, ₱2.1 billion and ₱2.0 billion, respectively, for the Group and ₱223.6 million, ₱215.2 million and ₱220.5 million, respectively, for the Parent Company.

Future minimum rentals receivable under non-cancelable operating leases follows:

	Consolidated		Parent Company	
	2018	2017	2018	2017
Within one year	₱1,655	₱1,958	₱114	₱106
After one year but not more than five years	1,638	2,404	184	145
More than five years	1	3	1	3
	₱3,294	₱4,365	₱299	₱254

14. Other Assets

This account consists of:

	Consolidated		Parent Company	
	2018	2017	2018	2017
Investment in SPVs	₱8,857	₱8,857	₱8,857	₱8,857
Interoffice float items	2,536	1,698	2,619	1,752
Software costs - net	1,800	1,747	665	572
Customized system development cost	1,753	1,504	1,753	1,504
Creditable withholding tax	1,505	1,459	956	927
Residual value of leased assets	1,130	1,054	—	—
Chattel properties acquired in foreclosure - net	835	815	24	33
Prepaid expenses	832	536	165	153
Documentary and postage stamps on hand	491	334	355	231
Returned checks and other cash items	417	295	397	284
Assets held under joint operations	219	259	219	259
Miscellaneous (Note 27)	5,654	2,200	4,258	865
	26,029	20,758	20,268	15,437
Less allowance for impairment losses (Note 15)	10,308	10,292	10,285	10,276
	₱15,721	₱10,466	₱9,983	₱5,161

Investment in SPVs represents subordinated notes issued by Cameron Granville 3 Asset Management, Inc. and LNC 3 Asset Management, Inc. with face amount of ₱9.4 billion and ₱2.6 billion, respectively. These notes are non-interest bearing and payable over five (5) years starting April 1, 2006, with rollover of two (2) years at the option of the note issuers. These were received by the Parent Company on April 1, 2006 in exchange for the subordinated note issued by Asia Recovery Corporation (ARC) in 2003 with face amount of ₱11.9 billion. The subordinated note issued by ARC represents payment on the non-performing assets (NPAs) sold by the Parent Company to ARC in 2003. The related deed of absolute sale was formalized on September 17, 2003 and approved by the BSP on November 28, 2003, having qualified as a true sale. As of December 31, 2018 and 2017, the estimated fair value of the subordinated notes, which is the present value of the estimated cash flows from such notes (derived from the sale of the underlying collaterals of the NPAs, net of the payment to senior notes by the SPV) amounted to nil, after deducting allowance for impairment losses of ₱8.9 billion.



Movements in software costs account follow:

	Consolidated		Parent Company	
	2018	2017	2018	2017
Cost				
Balance at beginning of year	₱4,653	₱4,125	₱1,925	₱1,773
Additions	636	978	233	144
Others	(125)	(450)	7	8
Balance at end of year	5,164	4,653	2,165	1,925
Accumulated amortization				
Balance at beginning of year	2,906	2,485	1,353	1,213
Amortization	512	494	131	123
Others	(54)	(73)	16	17
Balance at end of year	3,364	2,906	1,500	1,353
Net book value at end of year	₱1,800	₱1,747	₱665	₱572

Movements in chattel properties acquired in foreclosure follow:

	Consolidated		Parent Company	
	2018	2017	2018	2017
Cost				
Balance at beginning of year	₱979	₱821	₱61	₱51
Additions	2,824	2,742	19	24
Disposals/others	(2,767)	(2,584)	(31)	(14)
Balance at end of year	1,036	979	49	61
Accumulated depreciation and amortization				
Balance at beginning of year	155	125	25	21
Depreciation and amortization	267	208	10	11
Disposals/others	(230)	(178)	(13)	(7)
Balance at end of year	192	155	22	25
Allowance for impairment losses				
(Note 15)				
Balance at beginning of year	9	9	3	3
Provision for impairment loss	—	2	—	—
Disposals	—	(2)	—	—
Balance at end of year	9	9	3	3
Net book value at end of year	₱835	₱815	₱24	₱33

Assets held under joint operations are parcels of land and former branch sites of the Parent Company which were contributed to separate joint operations with FLI and Federal Land Orix Corporation (Notes 26 and 31). These are carried at costs which are lower than the net realizable values.

15. Allowance for Credit and Impairment Losses

An analysis of changes in the ECL allowances in 2018 is as follows:

	Consolidated					
	Due from Other Banks			Interbank Loans Receivable and SPURA		
	Individual	Collective	Total	Individual	Collective	Total
ECL allowance, January 1, 2018	₱18	₱—	₱18	₱25	₱—	₱25
New assets originated or purchased	6	—	6	12	—	12
Assets derecognized or repaid	—	—	—	(25)	—	(25)
Changes in assumptions	(18)	—	(18)	—	—	—
ECL allowance, December 31, 2018	₱6	₱—	₱6	₱12	₱—	₱12



	Consolidated					
	Investment Securities at FVOCI			Investment Securities at Amortized Cost		
	Individual	Collective	Total	Individual	Collective	Total
ECL allowance, January 1, 2018	₱140	₱–	₱140	₱2	₱–	₱2
New assets originated or purchased	69	–	69	46	–	46
Assets derecognized or repaid	(20)	–	(20)	–	–	–
Changes in assumptions	59	–	59	–	–	–
ECL allowance, December 31, 2018	₱248	₱–	₱248	₱48	₱–	₱48

	Consolidated					
	Receivables from Customers					
	Stage 1		Stage 2		Stage 3	Total
	Individual	Collective	Individual	Collective		
Commercial loans						
ECL allowance, January 1, 2018	₱1,520	₱475	₱829	₱23	₱4,745	₱7,592
New assets originated or purchased	1,321	97	–	–	–	1,418
Assets derecognized or repaid	(737)	(248)	(316)	(7)	(258)	(1,566)
Amounts written off	–	–	–	–	(52)	(52)
Transfers to/(from) Stage 1	(385)	(37)	–	–	–	(422)
Transfers to/(from) Stage 2	–	–	215	36	–	251
Transfers to/(from) Stage 3	–	–	–	–	1,060	1,060
Changes in assumptions	86	1	1	–	144	232
ECL allowance, December 31, 2018	1,805	288	729	52	5,639	8,513
Auto loans						
ECL allowance, January 1, 2018	125	395	387	845	1,218	2,970
New assets originated or purchased	33	848	–	–	–	881
Assets derecognized or repaid	(84)	(222)	(56)	(232)	(278)	(872)
Amounts written off	–	–	–	(12)	(447)	(459)
Transfers to/(from) Stage 1	3	(261)	–	–	–	(258)
Transfers to/(from) Stage 2	–	–	(255)	210	–	(45)
Transfers to/(from) Stage 3	–	–	–	–	191	191
Changes in assumptions	(10)	(289)	10	180	364	255
ECL allowance, December 31, 2018	67	471	86	991	1,048	2,663
Residential mortgage loans						
ECL allowance, January 1, 2018	57	72	319	261	449	1,158
New assets originated or purchased	39	43	–	–	–	82
Assets derecognized or repaid	(15)	(31)	(40)	(107)	(76)	(269)
Transfers to/(from) Stage 1	5	(30)	–	–	–	(25)
Transfers to/(from) Stage 2	–	–	(185)	20	–	(165)
Transfers to/(from) Stage 3	–	–	–	–	85	85
Changes in assumptions	(18)	–	12	–	8	2
ECL allowance, December 31, 2018	68	54	106	174	466	868
Trade loans						
ECL allowance, January 1, 2018	145	–	56	–	88	289
New assets originated or purchased	280	–	–	–	–	280
Assets derecognized or repaid	(145)	–	(41)	–	(7)	(193)
Transfers to/(from) Stage 1	(10)	–	–	–	–	(10)
Transfers to/(from) Stage 2	–	–	10	–	–	10
Transfers to/(from) Stage 3	–	–	–	–	(3)	(3)
Changes in assumptions	(46)	–	(4)	–	17	(33)
ECL allowance, December 31, 2018	224	–	21	–	95	340
Other loans						
ECL allowance, January 1, 2018	842	112	1,762	122	1,684	4,522
New assets originated or purchased	4,712	237	–	–	–	4,949
Assets derecognized or repaid	(3)	(56)	(6)	(9)	(16)	(90)
Amounts written off	(1)	(2)	–	(66)	(4,153)	(4,222)
Transfers to/(from) Stage 1	(4,631)	(129)	–	–	–	(4,760)
Transfers to/(from) Stage 2	–	–	168	159	–	327
Transfers to/(from) Stage 3	–	–	–	–	4,536	4,536
Changes in assumptions	(1)	(15)	–	–	(1)	(17)
ECL allowance, December 31, 2018	918	147	1,924	206	2,050	5,245
Total receivables from customers						
ECL allowance, January 1, 2018	2,689	1,054	3,353	1,251	8,184	16,531
New assets originated or purchased	6,385	1,225	–	–	–	7,610
Assets derecognized or repaid	(984)	(557)	(459)	(355)	(635)	(2,990)
Amounts written off	(1)	(2)	–	(78)	(4,652)	(4,733)
Transfers to/(from) Stage 1	(5,018)	(457)	–	–	–	(5,475)
Transfers to/(from) Stage 2	–	–	(47)	425	–	378
Transfers to/(from) Stage 3	–	–	–	–	5,869	5,869
Changes in assumptions	11	(303)	19	180	532	439
ECL allowance, December 31, 2018	₱3,082	₱960	₱2,866	₱1,423	₱9,298	₱17,629



	Consolidated					
	Other Receivables					
	Stage 1		Stage 2		Stage 3	Total
	Individual	Collective	Individual	Collective		
ECL allowance, January 1, 2018	₱6	₱37	₱26	₱16	₱716	₱801
New assets originated or purchased	373	17	—	—	—	390
Assets derecognized or repaid	(1)	(17)	(10)	—	(158)	(186)
Transfers to/(from) Stage 1	(368)	(29)	—	—	—	(397)
Transfers to/(from) Stage 2	—	—	10	13	—	23
Transfers to/(from) Stage 3	—	—	—	—	378	378
Changes in assumptions	175	1	26	(1)	103	304
ECL allowance, December 31, 2018	₱185	₱9	₱52	₱28	₱1,039	₱1,313

	Consolidated					
	Loan Commitments and Financial Guarantees					
	Stage 1		Stage 2		Stage 3	Total
	Individual	Collective	Individual	Collective		
ECL allowance, January 1, 2018	₱874	₱—	₱13	₱—	₱—	₱887
New assets originated or purchased	97	—	—	—	—	97
Assets derecognized or repaid	(19)	—	(4)	—	—	(23)
Transfers to/(from) Stage 1	—	—	—	—	—	—
Transfers to/(from) Stage 2	—	—	(6)	—	—	(6)
Changes in assumptions	(9)	—	—	—	—	(9)
ECL allowance, December 31, 2018	₱943	₱—	₱3	₱—	₱—	₱946

	Parent Company					
	Due from Other Banks			Interbank Loans Receivable and SPURA		
	Individual	Collective	Total	Individual	Collective	Total
ECL allowance, January 1, 2018	₱18	₱—	₱18	₱25	₱—	₱25
New assets originated or purchased	—	—	—	12	—	12
Assets derecognized or repaid	—	—	—	(25)	—	(25)
Changes in assumptions	(18)	—	(18)	—	—	—
ECL allowance, December 31, 2018	₱—	₱—	₱—	₱12	₱—	₱12

	Parent Company					
	Investment Securities at FVOCI			Investment Securities at Amortized Cost		
	Individual	Collective	Total	Individual	Collective	Total
ECL allowance, January 1, 2018	₱140	₱—	₱140	₱2	₱—	₱2
New assets originated or purchased	69	—	69	46	—	46
Assets derecognized or repaid	(20)	—	(20)	—	—	—
Changes in assumptions	55	—	55	—	—	—
ECL allowance, December 31, 2018	₱244	₱—	₱244	₱48	₱—	₱48

	Parent Company						
	Receivable from Customers						
	Stage 1		Stage 2		Stage 3	POCI	Total
	Individual	Collective	Individual	Collective			
Commercial loans							
ECL allowance, January 1, 2018	₱1,292	₱—	₱813	₱—	₱1,563	₱2,775	₱6,443
New assets originated or purchased	1,180	—	—	—	—	—	1,180
Assets derecognized or repaid	(693)	—	(311)	—	(155)	(60)	(1,219)
Transfers to/(from) Stage 1	(302)	—	—	—	—	—	(302)
Transfers to/(from) Stage 2	—	—	197	—	—	—	197
Transfers to/(from) Stage 3	—	—	—	—	993	—	993
Changes in assumptions	86	—	1	—	203	(59)	231
ECL allowance, December 31, 2018	1,563	—	700	—	2,604	2,656	7,523
Auto loans							
ECL allowance, January 1, 2018	124	—	387	—	65	—	576
New assets originated or purchased	33	—	—	—	—	—	33
Assets derecognized or repaid	(84)	—	(56)	—	(21)	—	(161)
Transfers to/(from) Stage 1	3	—	—	—	—	—	3
Transfers to/(from) Stage 2	—	—	(255)	—	—	—	(255)
Transfers to/(from) Stage 3	—	—	—	—	40	—	40
Changes in assumptions	(10)	—	10	—	1	—	1
ECL allowance, December 31, 2018	66	—	86	—	85	—	237

(Forward)



	Parent Company						
	Receivable from Customers						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Residential mortgage loans							
ECL allowance, January 1, 2018	₱57	₱–	₱319	₱–	₱277	₱–	₱653
New assets originated or purchased	39	–	–	–	–	–	39
Assets derecognized or repaid	(16)	–	(40)	–	(26)	–	(82)
Transfers to/(from) Stage 1	5	–	–	–	–	–	5
Transfers to/(from) Stage 2	–	–	(185)	–	–	–	(185)
Transfers to/(from) Stage 3	–	–	–	–	42	–	42
Changes in assumptions	(17)	–	12	–	7	–	2
ECL allowance, December 31, 2018	68	–	106	–	300	–	474
Trade loans							
ECL allowance, January 1, 2018	145	–	56	–	88	–	289
New assets originated or purchased	280	–	–	–	–	–	280
Assets derecognized or repaid	(145)	–	(41)	–	(7)	–	(193)
Transfers to/(from) Stage 1	(10)	–	–	–	–	–	(10)
Transfers to/(from) Stage 2	–	–	11	–	–	–	11
Transfers to/(from) Stage 3	–	–	–	–	(2)	–	(2)
Changes in assumptions	(47)	–	(4)	–	16	–	(35)
ECL allowance, December 31, 2018	223	–	22	–	95	–	340
Other loans							
ECL allowance, January 1, 2018	4	–	–	–	42	–	46
New assets originated or purchased	1	–	–	–	–	–	1
Assets derecognized or repaid	(3)	–	–	–	(1)	–	(4)
Changes in assumptions	(1)	–	–	–	(1)	–	(2)
ECL allowance, December 31, 2018	1	–	–	–	40	–	41
Total receivables from customers							
ECL allowance, January 1, 2018	1,622	–	1,575	–	2,035	2,775	8,007
New assets originated or purchased	1,533	–	–	–	–	–	1,533
Assets derecognized or repaid	(941)	–	(448)	–	(210)	(60)	(1,659)
Transfers to/(from) Stage 1	(304)	–	–	–	–	–	(304)
Transfers to/(from) Stage 2	–	–	(232)	–	–	–	(232)
Transfers to/(from) Stage 3	–	–	–	–	1,073	–	1,073
Changes in assumptions	11	–	19	–	226	(59)	197
ECL allowance, December 31, 2018	₱1,921	₱–	₱914	₱–	₱3,124	₱2,656	₱8,615

	Parent Company						Total
	Other Receivables						
	Stage1		Stage 2		Stage 3		
	Individual	Collective	Individual	Collective			
ECL allowance, January 1, 2018	₱5	₱2	₱26	₱2	₱704	₱739	
New assets originated or purchased	20	1	—	—	—	21	
Assets derecognized or repaid	(1)	—	(10)	—	(45)	(56)	
Transfers to/(from) Stage 1	(15)	—	—	—	—	(15)	
Transfers to/(from) Stage 2	—	—	10	—	—	10	
Transfers to/(from) Stage 3	—	—	—	—	8	8	
Changes in assumptions	175	1	27	(1)	5	207	
ECL allowance, December 31, 2018	₱184	₱4	₱53	₱1	₱672	₱914	

	Parent Company					
	Loan Commitments and Financial Guarantees					
	Stage 1		Stage 2		Stage 3	Total
	Individual	Collective	Individual	Collective		
ECL allowance, January 1, 2018	₱43	₱–	₱13	₱–	₱–	₱56
New assets originated or purchased	13	–	–	–	–	13
Assets derecognized or repaid	(19)	–	(4)	–	–	(23)
Transfers to/(from) Stage 1	0	–	–	–	–	0
Transfers to/(from) Stage 2	–	–	(6)	–	–	(6)
Changes in assumptions	(9)	–	(1)	–	–	(10)
ECL allowance, December 31, 2018	₱28	₱–	₱2	₱–	₱–	₱30

The amounts of “transfers to/(from)” include the changes in the ECL on the exposures transferred from one stage to another during the year.

As of December 31, 2018, the ECL allowances on loan commitments and financial guarantees are included in ‘Miscellaneous liabilities’ under ‘Other liabilities’ (Note 21).



The increase in the ECL allowances was driven by an increase in the gross size of the portfolio and movements between stages as a result of increase in credit risk and improvement in economic conditions.

The ECL on the accounts receivables of the Group and the Parent Company based on their aging as of December 31, 2018 follows:

	Age of accounts receivables				Total ECL
	Up to 1 month	> 1 to 2 months	> 2 to 3 months	More than 3 months	
Consolidated	₱19	₱1	₱1	₱3,725	₱3,746
Parent Company	₱—	₱—	₱0	₱3,269	₱3,269

Changes in the allowance for credit and impairment losses as of December 31, 2017 follow:

	Consolidated	Parent Company
Balance at beginning of year:		
Due from other banks	₱7	₱—
AFS investments (Note 8)		
Equity securities		
Quoted	82	79
Unquoted	212	81
Loans and receivables (Note 9)	14,426	6,697
Investments in associates (Note 11)	75	75
Property and equipment (Note 10)	26	24
Investment properties (Note 12)	1,805	1,265
Other assets* (Note 14)	10,723	10,703
	27,356	18,924
Provisions for credit and impairment losses	7,507	1,395
Accounts written off/others	(6,078)	3
Balance at end of year:		
Due from other banks	—	—
AFS investments (Note 8)		
Debt securities		
Private	1	—
Equity securities		
Quoted	82	80
Unquoted	212	80
Loans and receivables (Note 9)	16,407	8,589
Investments in associates (Note 11)	75	75
Property and equipment (Note 10)	24	24
Investment properties (Note 12)	1,683	1,195
Other assets* (Note 14)	10,301	10,279
	₱28,785	₱20,322

* Allowance for credit and impairment losses of other assets include allowance on investments in SPVs, chattel mortgage properties and miscellaneous assets.

Below is the breakdown of provision for (reversal of) credit and impairment losses:

	Consolidated			Parent Company		
	2018	2017	2016	2018	2017	2016
Financial assets and other credit-related exposures:						
Loans and receivables	₱7,676	₱7,969	₱7,295	₱748	₱1,821	₱1,174
Investment securities at FVOCI	94	—	—	92	—	—
Investment securities at amortized cost	49	—	—	49	—	—
Interbank loans receivable	(17)	—	(3)	(17)	—	—
Due from other banks	4	(7)	(1)	—	—	—
AFS investments	—	1	(5)	—	—	—
Loan commitments and financial guarantees	(65)	—	—	(65)	—	—
	7,741	7,963	7,286	807	1,821	1,174

(Forward)



	Consolidated			Parent Company		
	2018	2017	2016	2018	2017	2016
Non-financial assets:						
Investment properties	₱27	(₱32)	₱83	₱—	₱—	₱—
Chattel properties acquired in foreclosure	—	2	1	—	—	—
Investments in associates and a joint venture	—	—	(28)	—	—	—
Other assets	2	(426)	—	—	(426)	—
	29	(456)	56	—	(426)	—
	₱7,770	₱7,507	₱7,342	₱807	₱1,395	₱1,174

With the foregoing level of allowance for credit and impairment losses, management believes that the Group has sufficient allowance to take care of any losses that the Group may incur from the non-collection or non-realization of its receivables and other risk assets.

The reconciliation of the allowance for credit losses by class of loans and receivables in 2017 is as follows:

	Consolidated							
	Commercial Loans	Residential Mortgage Loans	Auto Loans	Trade Loans	Others	Subtotal	Other Receivables*	Total
Balance at January 1, 2017	₱5,281	₱934	₱2,026	₱270	₱2,713	₱11,224	₱3,202	₱14,426
Provisions during the year	165	127	1,951	—	3,884	6,127	1,842	7,969
Accounts written off/others	83	(180)	(2,019)	(24)	(3,855)	(5,995)	7	(5,988)
Balance at December 31, 2017	₱5,529	₱881	₱1,958	₱246	₱2,742	₱11,356	₱5,051	₱16,407
Individual impairment	₱4,009	₱471	₱—	₱99	₱189	₱4,768	₱3,161	₱7,929
Collective impairment	1,520	410	1,958	147	2,553	6,588	1,890	8,478
	₱5,529	₱881	₱1,958	₱246	₱2,742	₱11,356	₱5,051	₱16,407
Gross amount of loans individually determined to be impaired	₱7,288	₱679	₱—	₱104	₱1,618	₱9,689	₱4,647	₱14,336

	Parent Company							
	Commercial Loans	Residential Mortgage Loans	Auto Loans	Trade Loans	Others	Subtotal	Other Receivables*	Total
Balance at January 1, 2017	₱3,502	₱428	₱1	₱271	₱39	₱4,241	₱2,456	₱6,697
Provisions during the year	66	—	—	—	—	66	1,755	1,821
Accounts written off/others	155	(179)	—	(25)	38	(11)	82	71
Balance at December 31, 2017	₱3,723	₱249	₱1	₱246	₱77	₱4,296	₱4,293	₱8,589
Individual impairment	₱3,546	₱247	₱1	₱99	₱36	₱3,929	₱2,857	₱6,786
Collective impairment	177	2	—	147	41	367	1,436	1,803
	₱3,723	₱249	₱1	₱246	₱77	₱4,296	₱4,293	₱8,589
Gross amount of loans individually determined to be impaired	₱5,620	₱314	₱—	₱104	₱41	₱6,079	₱4,247	₱10,326

* Allowance for credit losses on other receivables include allowance on unquoted debt securities, accounts receivables, accrued interest receivable, sales contract receivable and deficiency judgment receivable.

The movements in the allowance for impairment losses on AFS investments and other assets in 2017 follow:

	Consolidated				Parent Company			
	AFS Investments		Other Assets**	Total	AFS Investments		Other Assets**	Total
	Debt Securities	Equity Securities			Debt Securities	Equity Securities		
Balance at January 1, 2017	₱—	₱294	₱10,723	₱11,017	₱—	₱160	₱10,703	₱10,863
Provisions for (reversals of) impairment losses	1	—	(424)	(423)	—	—	(426)	(426)
Others	—	—	2	2	—	—	2	2
Balance at December 31, 2017	₱1	₱294	₱10,301	₱10,596	₱—	₱160	₱10,279	₱10,439

** Allowance for impairment losses of other assets include allowance on investments in SPVs, chattel mortgage properties and miscellaneous assets.



16. Deposit Liabilities

The LTNCDs of the Group and the Parent Company consist of the following:

BSP Approval	Interest Rate	Issue Date	Maturity Date	2018	2017
Parent Company					
September 18, 2014	4.00%	October 24, 2014	April 24, 2020	₱8,000	₱8,000
September 18, 2014	4.25%	November 21, 2014	November 22, 2021	6,250	6,250
August 12, 2016	3.50%	September 19, 2016	September 19, 2023	8,650	8,650
August 12, 2016	3.88%	July 20, 2017	July 20, 2024	3,750	3,750
July 19, 2018	5.38%	October 4, 2018	April 4, 2024	8,680	–
				35,330	26,650
PSBank					
December 8, 2016	3.50%	January 30, 2017	April 30, 2022	3,375	3,375
July 13, 2018	5.00%	August 9, 2018	February 9, 2024	5,085	–
				8,460	3,375
				₱43,790	₱30,025

As of December 31, 2018 and 2017, 33.51% and 35.32%, respectively, of the total interest-bearing deposit liabilities of the Group and 30.69% and 30.81%, respectively, of the total interest-bearing deposit liabilities of the Parent Company are subject to periodic interest repricing. In 2018, 2017 and 2016, the remaining peso deposit liabilities earn annual fixed interest rates ranging from 0.00% to 6.59%, while the remaining foreign currency-denominated deposit liabilities earn annual fixed interest rates ranging from 0.00% to 7.56%, from 0.00% to 3.80%, and from 0.00% to 2.75%, respectively.

Interest expense on deposit liabilities consists of:

	Consolidated			Parent Company		
	2018	2017	2016	2018	2017	2016
Demand	₱946	₱840	₱661	₱692	₱617	₱495
Savings	1,405	1,315	1,167	1,256	1,178	1,050
Time	15,240	9,389	7,389	10,353	6,029	4,595
LTNCD	1,377	1,069	671	1,146	953	671
	₱18,968	₱12,613	₱9,888	₱13,447	₱8,777	₱6,811

Reserve Requirement

In 2018, BSP Circular Nos. 997 and 1004 were issued reducing the reserve requirements against deposit and deposit substitute liabilities. As of December 31, 2018, non-FCDU deposit liabilities of the Parent Company and deposit substitutes of FMIC, ORIX Metro and MCC are subject to required reserves of 18% from 20.00% in 2017 while required reserves for non-FCDU deposit liabilities of PSBank remained at 8.00%. Peso-denominated LTNCDs are subject to reserves equivalent to 7.00%. The required reserves can be kept in the form of deposits maintained in the demand deposit accounts with the BSP and any government securities used as compliance until they mature. The Parent Company, PSBank, FMIC, MCC and ORIX Metro were in compliance with such regulations as of December 31, 2018 and 2017.

The total statutory and liquidity reserves (under ‘Due from BSP’ account), as reported to the BSP are as follows:

	2018	2017
Parent Company	₱206,289	₱224,723
PSBank	15,178	13,915
MCC	9,527	10,948
ORIX Metro	5,669	6,623
FMIC	3,490	4,400
	₱240,153	₱260,609



17. Bills Payable and Securities Sold Under Repurchase Agreements

This account consists of borrowings from:

	Consolidated		Parent Company	
	2018	2017	2018	2017
SSURA	₱95,247	₱64,575	₱95,247	₱61,249
Local banks	53,740	49,668	8,497	9,431
Deposit substitutes	53,225	68,177	—	—
Foreign banks	35,895	17,415	27,335	10,802
BSP	21,500	28,000	20,000	25,000
	₱259,607	₱227,835	₱151,079	₱106,482

Interbank borrowings with foreign and local banks are mainly short-term borrowings. Deposit substitutes pertain to borrowings from the public of PSBank, FMIC, ORIX Metro and MCC.

The following are the carrying values of government debt securities (Note 8) pledged and transferred under SSURA transactions of the Group and the Parent Company:

	Consolidated				Parent Company			
	2018		2017		2018		2017	
	Transferred Securities	SSURA	Transferred Securities	SSURA	Transferred Securities	SSURA	Transferred Securities	SSURA
Investment securities at amortized cost	₱111,504	₱70,217	₱—	₱—	₱111,504	₱70,217	₱—	₱—
Investment securities at FVOCI	32,166	25,030	—	—	32,166	25,030	—	—
AFS investments	—	—	85,003	64,575	—	—	81,899	61,249
	₱143,670	₱95,247	₱85,003	₱64,575	₱143,670	₱95,247	₱81,899	₱61,249

The Group's peso borrowings are subject to annual fixed interest rates ranging from 0.88% to 7.45%, from 0.06% to 6.45% and from 0.06% to 6.34% in 2018, 2017 and 2016, respectively, while the Group's foreign currency-denominated borrowings are subject to annual fixed interest rates ranging from 1.38% to 8.00%, from 0.05% to 3.76% and from 0.32% to 3.25% in 2018, 2017 and 2016, respectively.

Interest expense on bills payable (included in the 'Interest expense on bills payable and SSURA, bonds payable, subordinated debts and others' in the statements of income) in 2018, 2017 and 2016 amounted to ₱7.2 billion, ₱4.2 billion and ₱2.9 billion, respectively, for the Group and ₱2.8 billion, ₱1.4 billion and ₱645.6 million, respectively, for the Parent Company.

18. Accrued Interest and Other Expenses

This account consists of:

	Consolidated		Parent Company	
	2018	2017	2018	2017
Accrued interest (Note 31)	₱4,288	₱2,066	₱2,375	₱923
Accrued other expenses	5,331	4,907	3,250	2,982
	₱9,619	₱6,973	₱5,625	₱3,905

Accrued other expenses include accruals for compensation and fringe benefits, rentals, percentage and other taxes, professional fees, advertising and information technology expenses and other expenses.



19. Bonds Payable

This account consists of the following scripless fixed rate bonds:

Issue Date	Maturity Date	Interest Rate	Face Value	Carrying Value	
				2018	2017
Parent Company					
November 9, 2018	November 9, 2020	7.15%	₱10,000	₱9,922	₱-
December 17, 2018	November 9, 2020	7.15%	18,000	17,904	-
			28,000	27,826	-
FMIC					
August 10, 2012	August 10, 2019	5.75%	2,920	2,917	2,910
			₱30,920	₱30,743	₱2,910

Parent Company Fixed Rate Bonds due 2020

On November 9, 2018, the Parent Company issued ₱10.0 billion fixed rate bonds with issue price at 100% face value, which bear an interest rate of 7.15% per annum and will mature on November 9, 2020 and further issued ₱18.0 billion fixed rate bonds (Additional Bonds) on December 17, 2018 at an issue price of 100.26% plus an amount corresponding to accrued interest from, and including, November 9, 2018, but excluding the new issue date. The Additional Bonds have the same terms and conditions as the ₱10.0 billion bond. The interest of the bonds for the entire term are payable quarterly in arrears on February 9, May 9, August 9 and November 9 of each year, commencing on February 9, 2019. Total bond issuance costs, net of bonds premium, amounted to ₱184.9 million.

FMIC Fixed Rate Corporate Bonds due 2019

These bonds were issued in principal amounts of ₱50,000 and in multiples of ₱5,000 in excess of ₱50,000 with an option to redeem in whole, but not in part, on any quarterly interest payment after the fourth or fifth anniversary of the issue date at 102.00% of its face value plus accrued interest. These are exempt securities pursuant to certain provisions of the Securities Regulation Code (SRC) and are covered by deeds of assignment on government securities held in trust by a collateral agent which shall have aggregate market value of 100.00% of the issued amount, otherwise, additional government securities shall be offered to increase and maintain the cover at 100.00%. The carrying amount of government securities assigned as collateral amounted to ₱3.9 billion classified under 'Investment securities at amortized cost' as of December 31, 2018 and ₱3.4 billion classified under 'AFS investments' as of December 31, 2017.

As of December 31, 2018 and 2017, FMIC has complied with the terms of the issuance.

Interest expense on bonds payable (included in 'Interest expense on bills payable and SSURA, bonds payable, subordinated debts and others') in 2018, 2017 and 2016 amounted to ₱336.7 million, ₱399.9 million and ₱661.3 million, respectively for the Group and ₱163.9 million in 2018 for the Parent Company.

20. Subordinated Debts

This account consists of the following Peso Notes:

	Maturity Date	Face Value	Carrying Value		Market Value	
			2018	2017	2018	2017
Parent Company						
2024	June 27, 2024	₱16,000	₱15,987	₱15,962	₱15,813	₱15,985
2025	August 8, 2025	6,500	6,484	6,475	6,234	6,269
		22,500	22,471	22,437	22,047	22,254
MCC – 2023	December 20, 2023	1,170	1,165	1,164	1,113	1,204
PSBank – 2024	August 23, 2024	3,000	2,982	2,979	2,243	2,353
		₱26,670	₱26,618	₱26,580	₱25,403	₱25,811



On April 15, 2013, the BOD of the Parent Company approved the issuance of Basel III-compliant Tier 2 capital notes up to USD500 million in one or more tranches, issued as part of its regulatory capital compliance and to proactively manage its capital base for growth and refinancing of maturing capital securities which was also approved by the BSP on July 26, 2013 and the amendment to the terms and conditions on January 30, 2014. Specifically, the BSP approved the issuance of up to USD500 million equivalent in either USD or PHP or combination in one or more tranches over the course of one (1) year. The Peso Notes issued by the Parent Company are unsecured and subordinated obligations and will rank *pari passu* and without any preference among themselves and at least equally with all its other present and future unsecured and subordinated obligations. These Peso Notes have a term of 10.25 and 11 years and are redeemable at the option of the Parent Company (but not the holders) on the call option date in whole but not in part at redemption price equal to 100.00% of the principal amount together with accrued and unpaid interest on the call option date, upon prior approval of the BSP and at least 30-banking day prior written notice to the Noteholders of record, subject to the following conditions: (1) the capital adequacy of the Issuer is at least equal to the required minimum ratio; (2) the note is simultaneously replaced with the issues of new capital which are neither smaller in size nor lower in quality than the original issue. Furthermore, upon the occurrence of a Tax Redemption Event or a Regulatory Redemption Event, the Parent Company may, upon prior approval of the BSP and at least a 30-banking day prior written notice to the Noteholders on record, redeem all and not less than all of the outstanding Notes prior to the stated maturity by paying the Noteholder the Redemption Option Amount which, (a) in the case of a Tax Redemption Event is an amount equal to 100.00% of the face value of the Note plus accrued Interest at the Interest Rate relating to the then current Interest Period up to but excluding the date of such redemption, and (b) in the case of a Regulatory Redemption Event is an amount equal to 101.00% of the face value of the Note plus accrued Interest at the Interest Rate relating to the then current Interest Period up to but excluding the date of such redemption. The Notes have a loss absorption feature which are subject to a Non-Viability Write-Down in case of the occurrence of a Non-Viability Trigger Event, subject to certain conditions as set out in “Terms and Conditions of the Notes - Loss Absorption Measure”, when the Issuer is considered non-viable as determined by the BSP. Non-Viability is a deviation from a certain level of CET1 Ratio or the inability of the Issuer to continue business (closure) or any other event as determined by the BSP, whichever comes earlier. A Non-Viability Trigger Event shall be deemed to have occurred if the BSP notifies the Issuer in writing that it has determined that a: (i) a Write-Down (as defined in “Terms and Conditions of the Notes”) of the Notes and other capital instruments of the Issuer is necessary because, without such Write-Down, the Issuer would become non-viable, (ii) public sector injection of capital, or equivalent support, is necessary because, without such injection or support, the Issuer would become non-viable, or (iii) Write-Down of the Notes and other capital instruments of the Issuer is necessary because, as a result of the closure of the Issuer, the Issuer has become non-viable.

Each Noteholder may not exercise or claim any right of set-off in respect of any amount owed to it by the Parent Company arising under or in connection with the Peso Notes and to the fullest extent permitted by applicable law, waive and be deemed to have waived all such rights of set-off. These Notes are not deposits and are not insured by the Philippine Deposit Insurance Corporation.

Specific terms of these Basel III-compliant Peso Notes follow:

Parent Company

2024 Peso Notes - issued on March 27, 2014 at 100.00% of the principal amount of ₱16.0 billion

- Bear interest at 5.375% per annum from March 27, 2014 to but excluding June 27, 2019. Interest will be payable quarterly in arrears on March 27, June 27, September 27 and December 27 of each year, commencing on June 27, 2014. Unless the Notes are previously redeemed, the initial interest rate will be reset at the equivalent of the five-year PDST-F as of reset date plus a spread



of 1.51% per annum and such interest will be payable commencing on June 27, 2019 (call option date) up to and including June 27, 2024.

2025 Peso Notes - issued on August 8, 2014 at 100.00% of the principal amount of ₱6.5 billion

- Bear interest at 5.25% per annum from August 8, 2014 to but excluding August 8, 2020. Interest will be payable quarterly in arrears on February 8, May 8, August 8 and November 8 of each year, commencing on November 8, 2014. Unless the Notes are previously redeemed, the initial interest rate will be reset at equivalent of the five-year PDST-R2 as of reset date plus a spread of 1.67% per annum and such interest will be payable commencing on August 8, 2020 (call option date) up to and including August 8, 2025.

MCC

2023 Peso Notes - issued on December 20, 2013 at 100.00% of the principal amount of ₱1.2 billion

- Bear interest at 6.21% per annum payable quarterly in arrears every 20th of March, June, September and December each year, commencing on March 20, 2014.
- Basel III - compliant unsecured subordinated notes qualified as Tier 2 capital as approved by the BSP on February 17, 2013.
- In case of insolvency or liquidation of MCC, the notes will be subordinated in the right of payment of principal and interest to all depositors and other creditors of MCC, except those creditors expressed to rank equally with, or behind holders of the notes.
- If a non-viability trigger event occurs, MCC shall immediately write down some or all of the notes in accordance with the BSP's determination.
- Subject to the written approval of the BSP, MCC may redeem all and not less than the entire outstanding 2023 Notes, at a redemption price equal to the face value together with the accrued and unpaid interest based on the interest rate.

PSBank

2024 Peso Notes - issued on May 23, 2014 at 100.00% of the face value of ₱3.0 billion

- Bear interest at the rate 5.50% per annum for the first 5 years and 3 months. Interest will be payable quarterly in arrears on August 23, November 23, February 23 and May 23 of each year, commencing on August 23, 2014. Unless the Notes are previously redeemed, the initial interest rate will be reset at the equivalent of the five-year PDST-F as of reset date plus a spread of 1.4438% per annum.
- Basel III - compliant unsecured subordinated notes qualified as Tier 2 capital as approved by the BSP on April 14, 2014.
- May be redeemed by PSBank in full, but not in part, on the call option date upon prior approval of the BSP and subject to certain conditions.
- May be redeemed by PSBank in full, but not in part, upon the occurrence of a Tax Redemption or Regulatory Redemption Event prior to maturity by paying the Holders the following:
 - a) In the case of a Tax Redemption Event, 100.00% of the face value of the Note plus accrued interest
 - b) In the case of a Regulatory Redemption Event, 101.00% of the face value of the Note plus accrued interest.
- Have a loss absorption feature which means the Notes are subject to a Non-Viability Write-Down in case of the occurrence of a Non-Viability Trigger Event, subject to certain conditions.



As of December 31, 2018 and 2017, the Parent Company, PSBank and MCC are in compliance with the terms and conditions upon which these subordinated notes have been issued.

In 2018, 2017 and 2016, interest expense on subordinated debts included in 'Interest expense on bills payable and SSURA, bonds payable, subordinated debts and others' amounted to ₱1.5 billion, ₱1.5 billion and ₱1.7 billion (including amortization of debt issue cost and premium of ₱38.2 million, ₱35.3 million and ₱37.4 million), respectively, for the Group, and ₱1.2 billion (including amortization of debt issue cost and premium of ₱34.4 million, ₱32.6 million and ₱30.9 million, respectively) for the Parent Company.

21. Non-equity Non-controlling Interest and Other Liabilities

Non-equity Non-controlling Interest

This account arises when mutual funds are consolidated and where the Group holds less than 100.00% of the investment in these funds. When this occurs, the Group acquires a liability in respect of non-controlling interests in the funds of which the Group has control. Such non-controlling interests are distinguished from equity non-controlling interests in that the Group does not hold an equity stake in such funds. Further, income (loss) attributable to non-equity non-controlling interests amounting to ₱0.7 billion, (₱1.3 billion), and ₱0.4 billion in 2018, 2017 and 2016, respectively, is included under 'Trading and securities gain (loss) - net' in the statements of income (Note 8).

Other Liabilities

This account consists of:

	Consolidated		Parent Company	
	2018	2017	2018	2017
Accounts payable	₱15,629	₱16,083	₱7,104	₱7,488
Bills purchased - contra (Note 9)	12,171	12,333	12,158	12,323
Notes payable	2,600	—	—	—
Marginal deposits	4,232	3,229	166	682
Other credits	1,887	1,306	726	607
Outstanding acceptances	1,793	1,741	1,793	1,741
Deposits on lease contracts	1,643	1,472	—	—
Deferred revenues (Note 25)	1,398	1,357	64	54
Withholding taxes payable	897	603	564	341
Retirement liability (Note 27)	277	3,675	—	2,818
Miscellaneous (Notes 11 and 15)	3,086	17,077	1,532	8,665
	₱45,613	₱58,876	₱24,107	₱34,719

Notes payable represent unsecured notes issued by ORIX Metro on October 29, 2018 maturing on April 29, 2020 and October 29, 2020 with annual interest rates of 7.02% and 7.45%, respectively, payable quarterly in arrears every January 29, April 29, July 29 and October 29 until their maturity. In 2018, interest expense on notes payable included in 'Interest expense on bills payable and SSURA, bonds payable, subordinated debts and others' amounted to ₱32.6 million.

Deferred revenues include deferral and release of MCC's loyalty points program transactions and membership fees and dues.

As of December 31, 2018 and 2017, miscellaneous liabilities of the Group include dividends payable amounting to ₱90.4 million and ₱90.7 million, respectively.



22. Maturity Profile of Assets and Liabilities

The following tables present the assets and liabilities by contractual maturity and settlement dates:

	Consolidated					
	2018			2017		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
Financial Assets - at gross						
Cash and other cash items	₱33,091	₱–	₱33,091	₱27,631	₱–	₱27,631
Due from BSP	240,134	–	240,134	261,959	–	261,959
Due from other banks	45,808	–	45,808	31,291	–	31,291
Interbank loans receivable and SPURA (Note 7)	50,731	–	50,731	45,048	427	45,475
Investment securities at FVTPL (Note 8)	39,689	–	39,689	43,887	–	43,887
Investment securities at FVOCI (Note 8)	25,167	86,121	111,288	–	–	–
Investment securities at amortized cost (Note 8)	2,684	262,740	265,424	–	–	–
AFS investments (Note 8)	–	–	–	24,740	319,465	344,205
Loans and receivables (Note 9)						
Receivables from customers	633,469	759,611	1,393,080	577,561	684,554	1,262,115
Unquoted debt securities	–	1,018	1,018	541	711	1,252
Accrued interest receivable	10,661	6	10,667	8,795	1	8,796
Accounts receivable	9,574	81	9,655	9,036	18	9,054
Sales contract receivable	119	71	190	18	109	127
Other receivables	335	–	335	278	–	278
Other assets (Note 14)						
Investments in SPVs	8,857	–	8,857	8,857	–	8,857
Interoffice float items	2,536	–	2,536	1,698	–	1,698
Returned checks and other cash items	417	–	417	295	–	295
Residual value of leased asset	354	776	1,130	348	706	1,054
Other investments	–	26	26	–	26	26
	1,103,626	1,110,450	2,214,076	1,041,983	1,006,017	2,048,000
Non-Financial Assets - at gross						
Investments in associates and a JV (Note 11)	–	6,022	6,022	–	5,839	5,839
Property and equipment (Note 10)	–	43,167	43,167	–	45,527	45,527
Investment properties (Note 12)	–	10,217	10,217	–	10,574	10,574
Deferred tax assets (Note 28)	–	10,238	10,238	–	9,161	9,161
Goodwill (Note 11)	–	5,200	5,200	–	5,200	5,200
Assets held under joint operations (Note 14)	–	219	219	–	259	259
Accounts receivable (Note 9)	–	3,636	3,636	–	4,493	4,493
Other assets (Note 14)	2,828	13,581	16,409	2,329	9,310	11,639
	2,828	92,280	95,108	2,329	90,363	92,692
	₱1,106,454	₱1,202,730	2,309,184	₱1,044,312	₱1,096,380	2,140,692
Less:						
Unearned discounts and capitalized interest (Note 9)			4,859			4,239
Accumulated depreciation and amortization (Notes 10, 12 and 14)			25,909			27,376
Allowance for credit and impairment losses (Note 15)			34,723			28,785
			₱2,243,693			₱2,080,292
Financial Liabilities						
Deposit liabilities						
Demand	₱355,473	₱–	₱355,473	₱344,708	₱–	₱344,708
Savings	609,471	–	609,471	605,508	–	605,508
Time	527,635	20,384	548,019	502,794	44,927	547,721
LTNCD (Note 16)	–	43,790	43,790	–	30,025	30,025
	1,492,579	64,174	1,556,753	1,453,010	74,952	1,527,962
Bills payable and SSURA (Note 17)	208,989	50,618	259,607	197,228	30,607	227,835
Derivative liabilities (Note 8)	6,537	–	6,537	5,352	–	5,352
Manager's checks and demand drafts outstanding	7,565	–	7,565	8,054	–	8,054
Accrued interest and other expenses	8,155	95	8,250	5,709	45	5,754
Bonds payable (Note 19)	2,917	27,826	30,743	–	2,910	2,910
Subordinated debts (Note 20)	15,987	10,631	26,618	–	26,580	26,580
Non-equity non-controlling interest (Note 21)	6,747	–	6,747	8,002	–	8,002
Other liabilities (Note 21)						
Bills purchased - contra	12,171	–	12,171	12,333	–	12,333
Accounts payable	15,629	–	15,629	16,083	–	16,083
Marginal deposits	4,232	–	4,232	3,229	–	3,229
Notes payable	–	2,600	2,600	–	–	–
Outstanding acceptances	1,793	–	1,793	1,730	11	1,741
Deposits on lease contracts	540	1,103	1,643	978	494	1,472
Dividends payable	90	–	90	91	–	91
Miscellaneous	–	–	–	14,800	–	14,800
	1,783,931	157,047	1,940,978	1,726,599	135,599	1,862,198

(Forward)



	Consolidated					
	2018			2017		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
Non-Financial Liabilities						
Retirement liability (Note 27)	P–	P277	P277	P–	P3,675	P3,675
Income taxes payable	2,830	–	2,830	3,381	–	3,381
Accrued other expenses	1,369	–	1,369	1,219	–	1,219
Withholding taxes payable (Note 21)	897	–	897	603	–	603
Deferred tax and other liabilities (Notes 21 and 28)	4,394	2,244	6,638	3,531	1,595	5,126
	9,490	2,521	12,011	8,734	5,270	14,004
	P1,793,421	P159,568	P1,952,989	P1,735,333	P140,869	P1,876,202
	Parent Company					
	2018			2017		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
Financial Assets - at gross						
Cash and other cash items	P29,280	P–	P29,280	P24,975	P–	P24,975
Due from BSP	206,289	–	206,289	224,723	–	224,723
Due from other banks	35,218	–	35,218	19,286	–	19,286
Interbank loans receivable and SPURA (Note 7)	24,724	–	24,724	27,208	–	27,208
Investment securities at FVTPL (Note 8)	30,166	–	30,166	32,272	–	32,272
Investment securities at FVOCI (Note 8)	16,647	75,497	92,144	–	–	–
Investment securities at amortized cost (Note 8)	471	212,184	212,655	–	–	–
AFS investments (Note 8)	–	–	–	14,500	256,105	270,605
Loans and receivables (Note 9)						
Receivables from customers	547,558	563,646	1,111,204	498,342	496,318	994,660
Unquoted debt securities	–	386	386	386	26	412
Accrued interest receivable	7,981	6	7,987	6,457	1	6,458
Accounts receivable	5,975	–	5,975	5,677	–	5,677
Sales contract receivable	47	72	119	14	6	20
Other receivables	13	–	13	9	–	9
Other assets (Note 14)						
Investments in SPVs	8,857	–	8,857	8,857	–	8,857
Interoffice float items	2,619	–	2,619	1,752	–	1,752
Returned checks and other cash items	397	–	397	284	–	284
	916,242	851,791	1,768,033	864,742	752,456	1,617,198
Non-Financial Assets - at gross						
Investments in subsidiaries (Note 11)	–	81,288	81,288	–	68,452	68,452
Investments in associates (Note 11)	–	569	569	–	719	719
Property and equipment (Note 10)	–	27,990	27,990	–	30,748	30,748
Investment properties (Note 12)	–	4,552	4,552	–	4,934	4,934
Deferred tax assets (Note 28)	–	6,769	6,769	–	6,528	6,528
Assets held under joint operations (Note 14)	–	219	219	–	259	259
Accounts receivable (Note 9)	–	3,636	3,636	–	4,493	4,493
Other assets (Note 14)	1,477	8,224	9,701	1,311	4,355	5,666
	1,477	133,247	134,724	1,311	120,488	121,799
	P917,719	P985,038	1,902,757	P866,053	P872,944	1,738,997
Less:						
Unearned discounts and capitalized interest (Note 9)			266			219
Accumulated depreciation and amortization (Notes 10, 12 and 14)			14,537			17,071
Allowance for credit and impairment losses (Note 15)			24,290			20,322
			P1,863,664			P1,701,385
Financial Liabilities						
Deposit liabilities						
Demand	P322,371	P–	P322,371	P314,542	P–	P314,542
Savings	577,815	–	577,815	576,807	–	576,807
Time	389,008	1,467	390,475	393,489	2,459	395,948
LTNCD (Note 16)	–	35,330	35,330	–	26,650	26,650
	1,289,194	36,797	1,325,991	1,284,838	29,109	1,313,947
Bills payable and SSURA (Note 17)	131,870	19,209	151,079	93,992	12,490	106,482
Derivative liabilities (Note 8)	6,182	–	6,182	5,352	–	5,352
Manager's checks and demand drafts outstanding	5,950	–	5,950	5,840	–	5,840
Accrued interest and other expenses	3,863	93	3,956	2,656	45	2,701
Bonds payable (Note 19)	–	27,826	27,826	–	–	–
Subordinated debts (Note 20)	15,987	6,484	22,471	–	22,437	22,437
Other liabilities (Note 21)						
Bills purchased - contra	12,158	–	12,158	12,323	–	12,323
Accounts payable	7,104	–	7,104	7,488	–	7,488
Marginal deposits	166	–	166	682	–	682
Outstanding acceptances	1,793	–	1,793	1,730	11	1,741
Other liabilities	–	–	–	7,400	–	7,400
	1,474,267	90,409	1,564,676	1,422,301	64,092	1,486,393

(Forward)



	Parent Company					
	2018			2017		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
Non-Financial Liabilities						
Retirement liability (Note 27)	P=	P=	P=	P=	P2,818	P2,818
Income taxes payable	1,670	—	1,670	2,077	—	2,077
Accrued other expenses	1,669	—	1,669	1,204	—	1,204
Withholding taxes payable (Note 21)	564	—	564	341	—	341
Other liabilities (Note 21)	1,596	726	2,322	1,319	607	1,926
	5,499	726	6,225	4,941	3,425	8,366
	P1,479,766	P91,135	P1,570,901	P1,427,242	P67,517	P1,494,759

23. Capital Stock

As of December 31, 2018 and 2017, this account consists of (amounts in millions, except par value and number of shares):

	Shares		Amount	
	2018	2017	2018	2017
Authorized				
Common stock – P20.00 par value	4,000,000,000	4,000,000,000		
Preferred stock – P20.00 par value	1,000,000,000	1,000,000,000		
Common stock issued and outstanding				
Balance at beginning of year	3,180,172,786	3,180,172,786	P63,603	P63,603
Issuance of stock rights	799,842,250	—	15,997	—
Balance at the end of year	3,980,015,036	3,180,172,786	P79,600	P63,603

As of December 31, 2018 and 2017, treasury shares totaling 825,000 and 560,100, respectively, represent shares of the Parent Company held by FMIC's mutual fund subsidiaries (Notes 2 and 31).

On March 15, 2013, the BOD of the Parent Company approved (a) the amendment of the AOI for the purpose of increasing the authorized capital stock and (b) the declaration of 30.00% stock dividend, which were ratified by the stockholders representing at least 2/3 of the outstanding capital stock on April 15, 2013. These were subsequently approved by the BSP on May 15, 2013 while the SEC approved the amended AOI on August 13, 2013. Following this, the authorized capital stock of the Parent Company increased from P50.0 billion to P100.0 billion consisting of 4.0 billion Common Shares and 1.0 billion Preferred Shares, both with par value of P20.00 per share. The 30.00% stock dividend equivalent to 633,415,049 common shares amounting to P12.7 billion represents at least the minimum 25.00% subscribed and paid-up capital for the increase in the authorized capital stock referred to above which was issued/paid on September 16, 2013 with record date on September 3, 2013. On September 10, 2013, the PSE approved the listing of such additional common shares.

Preferred shares are non-voting except as provided by law; have preference over Common Shares in the distribution of dividends; subject to such terms and conditions as may be determined by the BOD and to the extent permitted by applicable law, may or may not be redeemable; and shall have such other features as may be determined by the BOD at the time of issuance.

On January 21, 2015, the Parent Company's BOD approved the Stock Rights Offer (SRO) by way of issuance from the unissued portion of the authorized capital stock which was noted by BSP with the issuance of a letter of no objection to the Rights Issue on February 17, 2015. On February 24, 2015, the SEC confirmed the exemption of this issuance of P32.0 billion worth of common shares from the registration requirements under Section 8 of the SRC. On February 25, 2015, the PSE approved the listing of up to 500.0 million common shares to cover the SRO to all stockholders of record as of March 18, 2015. On April 7, 2015, following regulatory approvals, the Parent Company concluded



the ₱32.0 billion SRO, involving 435,371,720 common shares with par value of ₱20.00 priced at ₱73.50 per share and listed with the PSE on the same date. The difference between the issued price and the par value is recognized as ‘Capital paid in excess of par value’.

On February 16, 2016, the Parent Company redeemed its USD125.0 million HT1 Capital Securities. Prior to redemption, the HT1 Capital Securities represent USD125.0 cumulative step-up callable perpetual hybrid capital securities issued on February 15, 2006, with interest of 9.00% payable semi-annually in arrears until February 15, 2016. In 2016, the coupon payment amounting to USD 5.6 million (or ₱267.0 million) was treated as dividends and deducted from equity when due.

On January 17, 2018, the Parent Company’s BOD approved the SRO by way of issuance of up to a maximum of 819,827,214 common shares to raise additional capital of up to ₱60.0 billion. This was noted by the BSP with the issuance of a letter of no objection to the rights issue on January 29, 2018. On April 4, 2018, following the regulatory approvals, the Parent Company concluded the ₱60.0 billion SRO, involving 799,842,250 common shares with par value of ₱20.00 priced at ₱75.00 per share and listed on the PSE on April 12, 2018. Transaction costs on SRO amounting to ₱87.2 million were charged against ‘Capital paid in excess of par value’.

All issued and outstanding shares of the Parent Company are listed with the PSE (Note 1). As of December 31, 2018 and 2017, there are 3,031 and 3,068 holders, respectively, of the listed shares of the Parent Company, with share price closed at ₱80.95 and ₱101.40 a share, respectively.

The history of share issuances during the last ten years follows:

Year	Issuance	Listing Date	Number of Shares Issued
2018	Stock rights	April 12, 2018	799,842,250
2015	Stock rights	April 7, 2015	435,371,720
2013	Stock dividend	September 16, 2013	633,415,049
2011	Stock rights	January 24, 2011	200,000,000

Details of the Parent Company’s cash dividend distributions from 2016 to 2018 follow:

Date of Declaration	Per Share	Total Amount	Record Date	Payment Date
February 21, 2018	₱1.00	₱3,180	March 8, 2018	March 16, 2018
February 22, 2017	1.00	3,180	March 9, 2017	March 23, 2017
March 16, 2016	1.00	3,180	April 1, 2016	April 8, 2016

The computation of surplus available for dividend declaration in accordance with SEC Memorandum Circular No. 11 issued in December 2008 differs to a certain extent from the computation following BSP guidelines.

24. Surplus Reserves

This account consists of:

	2018	2017
Reserve for trust business (Note 29)	₱1,475	₱1,350
Reserve for self-insurance	481	460
	₱1,956	₱1,810

In compliance with existing BSP regulations, 10.0% of the Parent Company’s income from trust business is appropriated to surplus reserves. This yearly appropriation is required until the surplus reserve for trust business equals 20.0% of the Parent Company’s regulatory net worth.



Reserve for self-insurance represents the amount set aside to cover losses due to fire, defalcation by and other unlawful acts of the Parent Company's personnel or third parties.

25. Other Operating Income and Expenses

Service Charges, Fees and Commissions

The table below presents the disaggregation of service charges, fees and commission by business segment:

	Consolidated			Parent Company		
	2018	2017	2016	2018	2017	2016
Consumer banking	₱5,694	₱5,094	₱4,629	₱125	₱93	₱77
Branch banking	3,418	2,711	2,514	2,482	1,957	1,911
Corporate banking	791	585	418	812	635	437
Investment banking	347	307	643	—	—	—
Treasury	333	292	190	297	267	139
Others	2,112	2,056	1,935	1,238	1,219	1,204
	₱12,695	₱11,045	₱10,329	₱4,954	₱4,171	₱3,768

Others include the remittance business of the Group and the Parent Company.

The remaining performance obligations on revenue contracts with customers of the Group under PFRS 15, which are expected to be recognized beyond one year amounting to ₱722.1 million (included in 'Deferred revenues' under 'Other liabilities') as of December 31, 2018 relate to the customer loyalty program of MCC. The customer loyalty points have no expiration and redemptions can go beyond one year.

Miscellaneous Income and Expenses

In 2018, 2017 and 2016, miscellaneous income includes gain on initial recognition of investment properties and other non-financial assets amounting to ₱638.5 million, ₱1.1 billion and ₱834.4 million, respectively, for the Group and ₱22.8 million, ₱25.5 million and ₱24.2 million, respectively, for the Parent Company; recovery on charged-off assets amounting to ₱874.9 million, ₱1.1 billion and ₱774.0 million, respectively, for the Group and ₱8.8 million, ₱28.9 million and ₱28.3 million, respectively, for the Parent Company; and information technology and other fees amounting to ₱212.3 million, ₱338.5 million and ₱354.0 million, respectively, for the Parent Company (Note 31).

Miscellaneous expenses consist of:

	Consolidated			Parent Company		
	2018	2017	2016	2018	2017	2016
Insurance	₱3,422	₱3,220	₱2,832	₱2,684	₱2,457	₱2,203
Security, messengerial and janitorial	2,433	2,359	2,265	1,837	1,779	1,830
Information technology (Note 31)	1,066	769	809	684	520	581
Advertising	986	895	1,499	221	284	803
Management and professional fees	792	652	600	538	397	351
Litigation (Note 12)	781	794	644	276	309	249
Supervision fees	738	650	616	613	539	516
Communications	647	616	600	115	96	84
Repairs and maintenance	538	608	557	190	292	286
Transportation and travel	527	497	501	382	344	344
Stationery and supplies used	446	403	426	261	240	264
Entertainment, amusement and representation (EAR) (Note 28)	340	302	505	295	261	461
Others (Note 31)	2,519	1,965	1,785	1,477	1,035	909
	₱15,235	₱13,730	₱13,639	₱9,573	₱8,553	₱8,881



26. Notes to Statements of Cash Flows

The amounts of interbank loans receivable and SPURA, gross of allowance for credit losses, considered as cash and cash equivalents follow:

	Consolidated			Parent Company		
	2018	2017	2016	2018	2017	2016
Interbank loans receivable and SPURA	₱50,731	₱45,475	₱91,646	₱24,724	₱27,208	₱73,094
Interbank loans receivable and SPURA not considered as cash and cash equivalents	(11,351)	(12,739)	(15,778)	(1,982)	(7,966)	(7,644)
	₱39,380	₱32,736	₱75,868	₱22,742	₱19,242	₱65,450

Significant non-cash transactions of the Group and the Parent Company (other than the impact of PFRS 9 adoption as discussed in Note 2) include reclassification of remaining HTM investments to AFS investments in 2016 as discussed in Note 8; foreclosures of properties or additions to investment and chattel properties as disclosed in Notes 12 and 14, respectively; accrual of cash dividends from subsidiaries and SMBC Metro as disclosed in Notes 11 and 31; and reclassifications of BUC (Note 10).

The table below provides for the changes in liabilities arising from financing activities in 2018 and 2017:

	Consolidated		
	January 1, 2018	Net cash flows	December 31, 2018
Bills payable and SSURA (Note 17)	₱227,835	₱46,724	(₱14,952)
Bonds payable (Note 19)	2,910	27,826	7
Subordinated debts (Note 20)	26,580	—	38
Notes payable (Note 21)	—	2,600	—
Dividends payable (Note 21)	91	(3,180)	3,179
Total liabilities from financing activities	₱257,416	₱73,970	(₱11,728)

	Consolidated		
	January 1, 2017	Net cash flows	December 31, 2017
Bills payable and SSURA (Note 17)	₱161,376	₱64,034	₱2,425
Bonds payable (Note 19)	11,498	(8,599)	11
Subordinated debts (Note 20)	29,524	(3,000)	56
Dividends payable (Note 21)	84	(3,180)	3,187
Total liabilities from financing activities	₱202,482	₱49,255	₱5,679

	Parent Company		
	January 1, 2018	Net cash flows	December 31, 2018
Bills payable and SSURA (Note 17)	₱106,482	₱44,597	₱—
Bonds payable (Note 19)	—	27,826	—
Subordinated debts (Note 20)	22,437	—	34
Dividends payable (Note 21)	—	(3,180)	3,180
Total liabilities from financing activities	₱128,919	₱69,243	₱3,214

	Parent Company		
	January 1, 2017	Net cash flows	December 31, 2017
Bills payable and SSURA (Note 17)	₱68,865	₱37,617	₱—
Subordinated debts (Note 20)	22,404	—	33
Dividends payable (Note 21)	—	(3,180)	3,180
Total liabilities from financing activities	₱91,269	₱34,437	₱3,213



Others include the effect of cash flows of liabilities arising from operating activities, declaration of dividends, and effect of amortization of transaction costs.

27. Retirement Plan and Other Employee Benefits

The Parent Company and most of its subsidiaries have funded non-contributory defined benefit retirement plan covering all their respective permanent and full-time employees. Benefits are based on the employee's years of service and final plan salary.

For employees of the Parent Company, retirement from service is compulsory upon the attainment of the 55th birthday or 30th year of service, whichever comes first.

Under the existing regulatory framework, Republic Act (RA) 7641 (Retirement Pay Law) requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan. The Parent Company and most of its subsidiaries meet the minimum retirement benefit specified under RA 7641.

The principal actuarial assumptions used in determining retirement liability of the Parent Company and significant subsidiaries are shown below:

	Parent Company	MCC	FMIC	PSBank	ORIX Metro
As of January 1, 2018					
Average remaining working life	9 years	12 years	7 to 10 years	11 years	12 to 27 years
Discount rate	5.39%	5.74%	5.62% to 5.77%	5.73%	4.84% to 5.40%
Future salary increases	7.00%	8.00%	5.00%	5.00%	7.00% to 8.00%
As of January 1, 2017					
Average remaining working life	8 years	12 years	9 to 10 years	12 years	12 to 27 years
Discount rate	5.11%	4.84%	5.11% to 5.49%	5.31%	3.89% to 5.36%
Future salary increases	7.00%	8.50%	5.00%	5.00%	8.00%

Discount rates used in computing for the present value of the DBO of the Parent Company and significant subsidiaries as of December 31, 2018 and 2017 follow:

	Parent Company	MCC	FMIC	PSBank	ORIX Metro
2018	7.29%	8.37%	7.16% to 7.32%	7.33%	6.80% to 7.83%
2017	5.39%	5.74%	5.62% to 5.77%	5.73%	4.84% to 5.40%

The net retirement liability (asset) of the Group and the Parent Company is presented in the following accounts in the statement of financial position:

	Consolidated		Parent Company	
	2018	2017	2018	2017
Other assets (Note 14)	(P3,654)	(P68)	(P3,606)	P-
Other liabilities (Note 21)	277	3,675	-	2,818
	(P3,377)	P3,607	(P3,606)	P2,818

The defined benefit plan exposes the Group and the Parent Company to actuarial risk, such as longevity risk, interest rate risk and market (investment risk).



The fair value of plan assets by each class as at the end of the reporting year are as follows:

	Consolidated		Parent Company	
	2018	2017	2018	2017
Cash	P—	P555	P—	P—
Due from BSP	13	—	—	—
Deposit in banks	1,487	904	417	707
	1,500	1,459	417	707
Investment securities at FVTPL				
Equity securities	97	16	—	—
Debt securities (Note 31)	2,653	812	2,653	735
Unit investment trust fund and others (Note 31)	112	232	112	100
Total investment securities at FVTPL	2,862	1,060	2,765	835
Investment securities at FVOCI				
Debt securities				
Private (Note 31)	663	—	612	—
Government	10,052	—	9,053	—
Equity securities				
Quoted (Note 31)	3,968	—	3,798	—
Unquoted	13	—	13	—
Investment funds (Note 31)	1,848	—	1,726	—
Total investment securities at FVOCI	16,544	—	15,202	—
AFS investments				
Debt securities				
Private (Note 31)	—	1,193	—	660
Government	—	9,028	—	7,562
Equity securities				
Quoted (Note 31)	—	2,851	—	2,691
Unquoted	—	13	—	13
Investment funds	—	636	—	600
Total AFS investments	—	13,721	—	11,526
Investment securities at amortized cost -				
Government	1,280	—	—	—
HTM investments - Government	—	16	—	—
Loans and discounts - net	264	265	258	259
Other receivables - net	189	161	165	140
Liabilities	(8)	(8)	(6)	(6)
Fair value of net plan assets	P22,631	P16,674	P18,801	P13,461

Changes in net defined benefit liability (asset) in 2018 are as follows:

Consolidated	Present Value of DBO	Fair Value of Plan Assets	Net retirement liability/(asset)
January 1, 2018	P20,281	(P16,674)	P3,607
Net benefit cost			
Current service cost	1,641	—	1,641
Past service cost	55	—	55
Net interest	1,048	(927)	121
Sub-total	2,744	(927)	1,817
Benefits paid	(1,498)	1,502	4
Remeasurement in OCI			
Return on plan assets (excluding amount included in net interest)	—	1,559	1,559
Actuarial changes arising from experience adjustments	(70)	—	(70)
Actuarial changes arising from changes in financial/demographic assumptions	(2,203)	—	(2,203)
Sub-total	(2,273)	1,559	(714)
Contributions paid	—	(8,091)	(8,091)
December 31, 2018	P19,254	(P22,631)	(P3,377)



Parent Company	Present Value of DBO	Fair Value of Plan Assets	Net retirement liability/(asset)
January 1, 2018	₱16,279	(₱13,461)	₱2,818
Net benefit cost			
Current service cost	1,225	—	1,225
Net interest	830	(735)	95
Sub-total	2,055	(735)	1,320
Benefits paid	(1,273)	1,273	—
Remeasurement in OCI			
Return on plan assets (excluding amount included in net interest)	—	1,414	1,414
Actuarial changes arising from experience adjustments	(97)	—	(97)
Actuarial changes arising from changes in financial/demographic assumptions	(1,769)	—	(1,769)
Sub-total	(1,866)	1,414	(452)
Contributions paid	—	(7,292)	(7,292)
December 31, 2018	₱15,195	(₱18,801)	(₱3,606)

Changes in net defined benefit liability in 2017 are as follows:

Consolidated	Present Value of DBO	Fair Value of Plan Assets	Net retirement liability/(asset)
January 1, 2017	₱19,188	(₱14,531)	₱4,657
Net benefit cost			
Current service cost	1,588	—	1,588
Past service cost	1	—	1
Net interest	932	(755)	177
Sub-total	2,521	(755)	1,766
Benefits paid	(1,182)	1,184	2
Remeasurement in OCI			
Return on plan assets (excluding amount included in net interest)	—	199	199
Actuarial changes arising from experience adjustments	393	—	393
Actuarial changes arising from changes in financial/demographic assumptions	(639)	—	(639)
Sub-total	(246)	199	(47)
Contributions paid	—	(2,771)	(2,771)
December 31, 2017	₱20,281	(₱16,674)	₱3,607

Parent Company	Present Value of DBO	Fair Value of Plan Assets	Net retirement liability/(asset)
January 1, 2017	₱15,427	(₱11,871)	₱3,556
Net benefit cost			
Current service cost	1,176	—	1,176
Net interest	744	(614)	130
Sub-total	1,920	(614)	1,306
Benefits paid	(1,034)	1,034	—
Remeasurement in OCI			
Return on plan assets (excluding amount included in net interest)	—	33	33
Actuarial changes arising from experience adjustments	295	—	295
Actuarial changes arising from changes in financial/demographic assumptions	(329)	—	(329)
Sub-total	(34)	33	(1)
Contributions paid	—	(2,043)	(2,043)
December 31, 2017	₱16,279	(₱13,461)	₱2,818

In 2018, 2017 and 2016, deferred tax on remeasurements on retirement plans credited (charged) to OCI amounted to ₱213.5 million, ₱11.1 million, and (₱209.7 million), respectively, for the Group, and ₱185.8 million, (₱7.6 million) and (₱204.4 million), respectively, for the Parent Company (Note 28).



The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of December 31, 2018 and 2017, assuming all other assumptions were held constant:

	Parent Company	MCC	FMIC	PSBank	ORIX Metro
As of December 31, 2018					
Discount rate					
+100 basis points (bps)	₱14,368	₱890	₱231	₱2,240	₱295
- 100 bps	16,117	1,069	259	2,699	367
Salary increase rate					
+100 bps	16,082	1,052	261	2,717	364
- 100 bps	14,380	901	229	2,220	297
Turnover rate					
+300 bps	14,930	—	—	—	—
+100 bps	—	—	—	2,448	—
+ 25 bps	—	952	239	—	—
- 300 bps	15,494	—	—	—	—
- 100 bps	—	—	—	2,457	—
- 25 bps	—	998	250	—	—
As of December 31, 2017					
Discount rate					
+100 bps	₱15,321	₱843	₱237	₱2,222	₱347
- 100 bps	17,352	1,052	270	2,639	450
Salary increase rate					
+100 bps	17,296	1,025	271	2,654	444
- 100 bps	15,348	865	236	2,206	351
Turnover rate					
+300 bps	—	889	—	—	—
- 25 bps	15,893	—	10	2,405	—
- 300 bps	—	968	—	—	—

The Group and the Parent Company expect to contribute to the defined benefit retirement plans the required funding for normal cost in 2019 amounting to ₱2.4 billion and ₱1.8 billion, respectively.

The average duration of the DBO of the Group as of December 31, 2018 and 2017 are as follows:

	Parent Company	FMIC	PSBank	MCC	ORIX Metro
2018	12.55 years	10.14 to 15.90 years	16.69 years	14.81 years	9.00 to 11.50 years
2017	11.56 years	10.82 to 18.26 years	16.13 years	16.25 years	10.20 to 13.50 years

Shown below is the maturity analysis of the undiscounted benefit payments:

	Parent Company	FMIC	PSBank	MCC	ORIX Metro
As of December 31, 2018					
Less than 1 year	₱1,877	₱28	₱130	₱33	₱4
More than 1 year to 5 years	8,425	123	788	274	120
More than 5 years to 10 years	11,363	292	1,699	867	265
More than 10 years to 15 years	7,631	161	2,396	1,204	—
More than 15 years to 20 years	9,664	134	3,547	1,918	—
More than 20 years	11,954	125	5,280	1,124	—
As of December 31, 2017					
Less than 1 year	₱1,749	₱34	₱261	₱33	₱4
More than 1 year to 5 years	7,555	103	728	162	103
More than 5 years to 10 years	12,559	213	1,673	619	266
More than 10 years to 15 years	7,716	212	1,991	1,100	—
More than 15 years to 20 years	6,526	170	2,002	2,059	—
More than 20 years	8,881	171	4,280	1,482	—



In addition, the Parent Company has a Provident Plan which is a supplementary contributory retirement plan to and forms part of the main plan, the Retirement Plan, for the exclusive benefit of eligible employees of the Parent Company in the Philippines. Based on the provisions of the plan, upon retirement or resignation, a member shall be entitled to receive as retirement or resignation benefits 100.00% of the accumulated value of the personal contribution plus a percentage of the accumulated value arising from the Parent Company's contributions in accordance with the completed number of years serviced. The Parent Company's contribution to the Provident Fund in 2018 and 2017 amounted to ₱273.1 million and ₱263.9 million, respectively.

As of December 31, 2018 and 2017, the retirement funds of the Group's employees amounting to ₱22.6 billion and ₱16.7 billion, respectively, are being managed by its trust banking units. The Parent Company has a Trust Committee that is mandated to approve, the plan, trust agreement, investment plan, including any amendments or modifications thereto, and other activities of the retirement plan. Certain members of the BOD of the Parent Company are represented in the Trust Committee. Directors' fees and bonuses of the Parent Company in 2018, 2017 and 2016 amounted to ₱57.8 million, ₱65.7 million and ₱59.4 million, respectively, while, officers' compensation and benefits of the Parent Company aggregated to ₱7.8 billion, ₱7.3 billion and ₱6.8 billion, respectively.

28. Income and Other Taxes

Under Philippine tax laws, the RBU of the Parent Company and its domestic subsidiaries are subject to percentage and other taxes (presented as 'Taxes and licenses' in the statement of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax (GRT) and documentary stamp tax (DST). Income taxes include 30.00% regular corporate income tax (RCIT) and 20.00% final taxes paid, which is a final withholding tax on gross interest income from government securities and other deposit substitutes. Interest allowed as a deductible expense is reduced by an amount equivalent to 33.00% of interest income subjected to final tax.

Current tax regulations also provide for the ceiling on the amount of EAR expense (Note 25) that can be claimed as a deduction against taxable income. Under the regulation, EAR expense allowed as a deductible expense for a service company like the Parent Company and some of its subsidiaries is limited to the actual EAR paid or incurred but not to exceed 1.00% of net revenue. The regulations also provide for MCIT of 2.00% on modified gross income and allow a NOLCO. The MCIT and NOLCO may be applied against the Group's income tax liability and taxable income, respectively, over a three-year period from the year of inception.

FCDU offshore income (income from non-residents) is tax-exempt while gross onshore income (income from residents) is subject to 10.00% income tax. In addition, interest income on deposit placements with other FCDUs and offshore banking units (OBUs) is taxed at 15.00%. Income derived by the FCDU from foreign currency-denominated transactions with non-residents, OBUs, local commercial banks including branches of foreign banks is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10.00% income tax.



Following are the applicable taxes and tax rates for the foreign branches of the Parent Company:

Foreign Branches	Tax Rates
USA - New York Branch	2018 - 21.00% federal income tax; 7.10% state tax; 6.50% city tax 2017 - 34.00% federal income tax; 7.10% state tax; 8.85% city tax
Japan - Tokyo and Osaka Branches	23.40% income tax; various rates for business taxes - income tax, local business, sheet value and sheet capital allocations
Korea - Seoul and Pusan Branches	Various rates; 0.50% education tax
Taiwan - Taipei Branch	20.00% income tax; 5.00% gross business receipts tax; 5.0% value-added tax

The provision for income tax consists of:

	Consolidated			Parent Company		
	2018	2017	2016	2018	2017	2016
Current:						
Final tax	¥2,928	¥2,875	¥3,235	¥2,389	¥2,286	¥2,509
RCIT*	5,010	5,374	3,779	2,090	2,318	1,382
	7,938	8,249	7,014	4,479	4,604	3,891
Deferred*	(193)	(259)	(392)	5	(89)	(1)
	¥7,745	¥7,990	¥6,622	¥4,484	¥4,515	¥3,890

* Includes income taxes of foreign subsidiaries.

Components of net deferred tax assets of the Group and the Parent Company follow:

	Consolidated		Parent Company	
	2018	2017	2018	2017
Deferred tax asset on:				
Allowance for credit and impairment losses	¥8,804	¥7,165	¥5,928	¥5,167
Unamortized past service cost	2,629	1,170	2,382	956
Unrealized foreign exchange losses	366	4	341	-
Deferred membership/awards	340	167	-	-
Accumulated depreciation of investment properties	284	295	169	190
Retirement liability	70	1,076	-	845
Fair value loss on securities	39	-	-	-
Others	468	471	104	108
	13,000	10,348	8,924	7,266
Deferred tax liability on:				
Retirement asset	1,069	22	1,055	-
Fair value gain on securities	993	294	942	235
Unrealized gain on initial measurement of investment properties	546	523	158	169
Unrealized foreign exchange gains	-	334	-	334
Others	154	14	-	-
	2,762	1,187	2,155	738
Net deferred tax assets	¥10,238	¥9,161	¥6,769	¥6,528

Components of net deferred tax liabilities of the Group follow:

	2018	2017
Deferred tax asset on:		
Allowance for credit and impairment losses	¥231	¥194
Unamortized past service cost	3	2
Retirement liability	-	24
Others	49	16
	283	236
Deferred tax liability on:		
Leasing income differential on lease accounting methods	559	500
Fair value gain on securities	5	-
Retirement asset	2	-
Others	74	13
	640	513
Net deferred tax liabilities	¥357	¥277



In 2018 and 2017, deferred tax charged (credited) to OCI amounted to (P225.7 million) and P51.4 million for the Group, respectively, and (P259.7 million) and P0.2 million for the Parent Company, respectively.

As of December 31, 2018 and 2017, no deferred tax asset was recognized on the following temporary differences: (a) allowance for credit and impairment losses amounting to P341.9 million and P198.0 million, respectively, for the Group; (b) NOLCO of P816.5 million and P855.1 million, respectively, for the Group, and P55.0 million in 2017 for the Parent Company; (c) MCIT of P8.5 million and P8.1 million, respectively, for the Group, and P8.0 million in 2017 for the Parent Company. The Group believes that it is not reasonably probable that the tax benefits of these temporary differences will be realized in the future.

There are no income tax consequences attaching to the payment of dividends by the Group to the shareholders of the Group. There are no temporary differences arising from undistributed profits of subsidiaries, branches, associates and a JV.

Details of the excess MCIT credits follow:

Inception Year	Consolidated				Parent Company			
	Amount	Used/Expired	Balance	Expiry Year	Amount	Used/Expired	Balance	Expiry Year
2015	P1	P1	P-	2018	P1	P1	P-	2018
2016	3	3	-	2019	3	3	-	2019
2017	4	4	-	2020	4	4	-	2020
2018	9	-	9	2021	-	-	-	2021
	P17	P8	P9		P8	P8	P-	

Details of the NOLCO follow:

Inception Year	Consolidated				Parent Company			
	Amount	Used/Expired	Balance	Expiry Year	Amount	Used/Expired	Balance	Expiry Year
2015	P565	P565	P-	2018	P234	P234	P-	2018
2016	302	-	302	2019	-	-	-	2019
2017	245	-	245	2020	-	-	-	2020
2018	270	-	270	2021	-	-	-	2021
	P1,382	P565	P817		P234	P234	P-	

A reconciliation of the statutory income tax rates and the effective income tax rates follows:

	Consolidated			Parent Company		
	2018	2017	2016	2018	2017	2016
Statutory income tax rate	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%
Tax effect of:						
Tax-paid, tax-exempt and other non-taxable income	(12.13)	(14.52)	(13.15)	(12.02)	(14.23)	(11.84)
Non-deductible interest expense	4.94	3.33	4.90	4.08	3.04	3.39
FCDU income	(1.89)	(2.29)	(3.30)	(1.94)	(2.52)	(3.10)
Others - net	3.92	10.79	6.13	(3.19)	3.57	(0.75)
Effective income tax rate	24.84%	27.31%	24.58%	16.93%	19.86%	17.70%

29. Trust Operations

Properties held by the Parent Company and PSBank in fiduciary or agency capacity for their customers are not included in the accompanying statements of financial position since these are not their resources (Note 30).



In compliance with current banking regulations relative to the Parent Company and PSBank's trust functions, the following are government securities deposited with the BSP.

	Consolidated		Parent Company	
	2018	2017	2018	2017
Investment securities at amortized cost	₱5,000	₱—	₱5,000	₱—
Investment securities at FVOCI	65	—	—	—
AFS investments	—	5,017	—	₱4,952
	₱5,065	₱5,017	₱5,000	₱4,952

30. Commitments and Contingent Liabilities

In the normal course of the Group's operations, there are various outstanding commitments and contingent liabilities which are not reflected in the accompanying financial statements. No material losses are anticipated as a result of these transactions.

BSP Reporting

The following is a summary of contingencies and commitments at their peso-equivalent contractual amounts arising from off-balance sheet items:

	Consolidated		Parent Company	
	2018	2017	2018	2017
Trust Banking Group accounts (Note 29)	₱429,162	₱450,492	₱422,761	₱443,989
Credit card lines	188,211	160,057	—	—
Unused commercial letters of credit (Note 31)	43,051	44,759	42,123	43,423
Bank guaranty with indemnity agreement (Note 31)	11,708	13,555	11,708	13,555
Undrawn commitments - facilities to lend	6,890	1,965	6,890	1,965
Outstanding shipside bonds/airway bills	6,350	5,248	6,350	5,248
Credit line certificate with bank commission	5,509	6,351	5,492	6,351
Late deposits/payments received	1,376	472	1,366	467
Inward bills for collection	1,141	2,824	1,141	2,823
Outward bills for collection	747	682	746	681
Confirmed export letters of credits	235	246	83	57
Outstanding guarantees	209	92	209	88
Others	9,080	6,076	612	382
	₱703,669	₱692,819	₱499,481	₱519,029

On October 17, 2011, a consortium of eight banks including the Parent Company filed a Petition for Certiorari, Prohibition and/or Mandamus (with Urgent Application for a Temporary Restraining Order (TRO) and/or Writ of preliminary Injunction) with the Supreme Court (SC) against respondents the ROP, Bureau of Internal Revenue (BIR) and its Commissioner, the Department of Finance and its Secretary and the Bureau of Treasury (BTr) and the National Treasurer, asking the Court to annul BIR Ruling No. 370-2011 which imposes a 20-percent FWT on the 10-year Zero-Coupon Government Bonds (also known as the PEACe bonds) that matured on October 18, 2011 and command the respondents to pay the full amount of the face value of the PEACe Bonds. The Parent Company recognized a receivable from a third party of ₱425.7 million representing the 20% FWT. On November 22, 2016, the Court issued a Resolution denying the said Motion, considering that a second motion for reconsideration is a prohibited pleading under the Rules of Civil Procedure and also stated that no further pleadings or motions will be entertained. The case was settled on April 11, 2017 by way of issuance of retail treasury bonds.

Upon its own discovery, the Parent Company immediately caused the arrest of its Corporate Service Management Division Head, Ma. Victoria S. Lopez on July 17, 2017 for qualified theft through falsification of commercial documents. Both the Motion to Fix Bail and Motion for Reconsideration were denied. She is currently detained at the Makati City Jail. On July 24, 2017, another criminal



complaint for qualified theft through falsification of commercial documents and violation of Section 55 of the General Banking Law (GBL) was filed against her and her cohorts for the abstraction of ₱900.0 million before the RTC of Makati City. On December 5, 2017, a third criminal case for the qualified theft through falsification of commercial documents and violation of Section 55 of GBL was filed against her, her cohorts and family members relative to the abstraction of ₱850.0 million. These criminal cases are pending trial with the RTC of Makati City. On the civil case, the RTC of Makati City granted the preliminary writ of attachment filed by the Parent Company against her, her family, cohorts and corporations, for the collection of the said sum of money, interests and penalties, damages and other costs. This case is likewise pending trial. In addition, foreign proceedings are ongoing on the cases which were filed in the USA and in Singapore to preserve and recover their identified properties. Accounts receivable classified under 'Loans and receivables' includes total identified claims of ₱1.75 billion with full provisioning (Notes 9 and 15). Relative to this incident, the MB approved the imposition of certain sanctions to the Parent Company (Note 4) and added that the MB took into consideration the strong financial condition and immediate corrective actions of the Parent Company as well as its safety and soundness given the medium to long-term initiatives that improve governance, controls and compliance. The Parent Company does not expect this isolated incident to have long-term material impact on its financial statements. Further, the Parent Company is reinforcing its commitment to the highest standards of integrity and upholds the protection of its customers as its main priority.

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

31. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions or if they are subjected to common control or common significant influence such as subsidiaries and associates of subsidiaries or other related parties. Related parties may be individuals or corporate entities and are classified as entities with significant influence, subsidiaries, associates, other related parties and key personnel (Notes 2 and 11).

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

The Parent Company has a Related Party Transactions Committee (RPTC) and a Related Party Transactions Management Committee (RPTMC), both of which are created to assist the BOD in ensuring that transactions with related parties are reviewed to assess risks and are subjected to appropriate restrictions to ensure that these are conducted at arm's-length terms and that corporate or business resources of the Parent Company are not misappropriated or misapplied. After appropriate review, RPTC and RPTMC disclose all information and endorses to the BOD with recommendations, the proposed related party transactions. The members of the RPTC are appointed annually by the BOD, composed of at least three (3) Board non-executive members, two (2) of whom should be independent directors, including the Chairperson. Currently, RPTC is composed of three (3) independent directors (including the Committee's Chairman); the head of Internal Audit Group (as Resource Person); and the Compliance Officer (as the Committee Secretary) and meets monthly or as



the need arises. On the other hand, RPTMC members are appointed annually by the President, composed of four (4) members. RPTC's and RPTMC's review of the proposed related party transactions considers the following: (a) identity of the parties involved in the transaction or relationship; (b) terms of the transaction or relationship and whether these are no less favorable than terms generally available to an unrelated third party under the same circumstances; (c) business purpose, timing, rationale and benefits of the transaction or relationship; (d) approximate monetary value of the transaction and the approximate monetary value of the related party's interest in the transaction; (e) valuation methodology used and alternative approaches to valuation of the transaction; (f) information concerning potential counterparties in the transaction; (g) description of provisions or limitations imposed as a result of entering into the transaction; (h) whether the proposed transaction includes any potential reputational risk issues that may arise as a result of or in connection with the transaction; (i) impact to a director's independence; (j) extent that such transaction or relationship would present an improper conflict of interest; and (k) the availability of other sources of comparable products or services. Further, no director or officer participates in any discussion of a related party transaction for which he, she, or any member of his or her immediate family is a related party, except in order to provide material information on the related party transaction to RPTC.

Major subsidiaries, which include FMIC, PSBank, MCC and MBCL, have their own respective RPTCs which assist their respective BODs in ensuring that transactions with related parties are reviewed to assess risks and are subjected to appropriate restrictions to ensure that these are conducted at arm's-length terms and that their corporate or business resources are not misappropriated or misapplied.

In the ordinary course of business, the Group has loan transactions with investees and with certain directors, officers, stockholders and related interests (DOSRI) based on BSP Circular No. 423 dated March 15, 2004, as amended. Existing banking regulations limit the amount of individual loans to DOSRI, 70.00% of which must be secured, to the total of their respective deposits and book value of their respective investments in the lending company within the Group. In the aggregate, loans to DOSRI generally should not exceed the respective total equity or 15.00% of the respective total loan portfolio, whichever is lower, of the Parent Company, PSBank, FMIC and ORIX Metro.

The following table shows information relating to the loans, other credit accommodations and guarantees classified as DOSRI accounts:

	Consolidated		Parent Company	
	2018	2017	2018	2017
Total outstanding DOSRI accounts	₱8,244	₱4,879	₱7,872	₱3,442
Percent of DOSRI accounts granted prior to effectivity of BSP Circular No. 423 to total loans	0.00%	0.00%	0.00%	0.00%
Percent of DOSRI accounts granted after effectivity of BSP Circular No. 423 to total loans	0.59%	0.39%	0.71%	0.35%
Percent of DOSRI accounts to total loans	0.59%	0.39%	0.71%	0.35%
Percent of unsecured DOSRI accounts to total DOSRI accounts	31.58%	13.11%	28.68%	5.54%
Percent of past due DOSRI accounts to total DOSRI accounts	0.00%	0.00%	0.00%	0.00%
Percent of non-accruing DOSRI accounts to total DOSRI accounts	0.00%	0.00%	0.00%	0.00%

BSP Circular No. 560 provides the rules and regulations that govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. and requires that the total outstanding loans, other credit accommodations and guarantees to each of the



bank's/quasi-bank's subsidiaries and affiliates shall not exceed 10.00% of the net worth of the lending bank/quasi-bank, provided that the unsecured portion of which shall not exceed 5.00% of such net worth. Further, the total outstanding loans, credit accommodations and guarantees to all subsidiaries and affiliates shall not exceed 20.00% of the net worth of the lending bank/quasi-bank; and the subsidiaries and affiliates of the lending bank/quasi-bank are not related interest of any director, officer and/or stockholder of the lending institution, except where such director, officer or stockholder sits in the BOD or is appointed officer of such corporation as representative of the bank/quasi-bank as reported to the BSP. As of December 31, 2018 and 2017, the total outstanding loans, other credit accommodations and guarantees to each of the Parent Company's subsidiaries and affiliates did not exceed 10.00% of the Parent Company's net worth, as reported to the BSP, and the unsecured portion did not exceed 5.00% of such net worth wherein the total outstanding loans, other credit accommodations and guarantees to all such subsidiaries and affiliates represent 17.61% and 10.14%, respectively, of the Parent Company's net worth.

Further, BSP Circular No. 654 allows a separate individual limit to loans of banks/quasi-banks to their subsidiaries and affiliates engaged in energy and power generation, i.e., a separate individual limit of twenty-five (25.00%) of the net worth of the lending bank/quasi-bank: provided, that the unsecured portion thereof shall not exceed twelve and one-half percent (12.50%) of such net worth: provided further, that these subsidiaries and affiliates are not related interests of any of the director, officer and/or stockholder of the lending bank/quasi-bank; except where such director, officer or stockholder sits in the BOD or is appointed officer of such corporation as representative of the bank/quasi-bank. As of December 31, 2018 and 2017, the Parent Company has no outstanding loans, other credit accommodations and guarantees to subsidiaries and affiliates engaged in energy and power generation.

Total interest income on the DOSRI loans in 2018, 2017 and 2016 amounted to ₱276.5 million, ₱52.3 million and ₱124.3 million, respectively, for the Group and ₱262.8 million, ₱37.2 million and ₱88.6 million, respectively, for the Parent Company.

Details on significant related party transactions of the Group and the Parent Company follow (transactions with subsidiaries have been eliminated in the consolidated financial statements):

Category	Consolidated	
	December 31, 2018	
	Amount	Terms and Conditions/Nature
Entity with Significant Influence Over the Group		
<u>Outstanding Balance:</u>		
Deposit liabilities*	₱480	With annual fixed interest rates ranging from 0.00% to 4.00% including time deposits with maturity terms from 21 to 30 days (Note 16)
Bills payable*	204	Peso borrowings subject to annual fixed interest rates ranging from 4.25% to 4.38% with maturity term of 45 days (Note 17)
<u>Amount/Volume:</u>		
Deposit liabilities	464	Generally similar to terms and conditions above
Bills payable	204	Generally similar to terms and conditions above
Interest expense	40	Interest expense on deposit liabilities and bills payable (Notes 16 and 17)
Subsidiaries		
<u>Outstanding Balance:</u>		
Interbank loans receivable*	₱4,634	Foreign currency-denominated lending which earn annual fixed interest rates ranging from 2.61% to 3.54% with maturity terms from 32 to 184 days with minimal ECL (Note 7)
Receivables from customers*	13,685	Unsecured, with ECL of ₱3.0 million; with annual fixed interest rates ranging from 3.43% to 5.45% and maturity terms from 5 days to 3 years
Accounts receivable	333	Non-interest bearing receivables on service fees, underwriting fees, remittance, rental fees and common use service area fees
Derivative assets	118	Fair value of forward and swaps bought with various terms



Consolidated		
December 31, 2018		
Category	Amount	Terms and Conditions/Nature
Deposit liabilities*	₱3,275	With annual fixed interest rates ranging from 0.00% to 1.25% including time deposits with maturity terms from 5 to 31 days (Note 16)
Bills payable*	127	Peso borrowings subject to annual fixed interest rates ranging from 4.00% to 6.25% with maturity terms from 30 to 185 days (Note 17)
Bonds payable*	81	Issued by FMIC with interest rate of 5.75% and maturity term of 5 years (Note 19)
Treasury stock	67	Parent Company's shares held by FMIC's mutual fund subsidiary (Note 23)
Dividends declared	2,255	Dividend declared by PSBank, MCC and Metrobank Bahamas
<u>Amount/Volume:</u>		
Interbank loans receivable	1,195	Generally similar to terms and conditions above
Receivables from customers	13,450	Generally similar to terms and conditions above
Accounts receivable	(167)	Generally similar to terms and conditions above
Deposit liabilities	(3,936)	Generally similar to terms and conditions above
Bills payable	(761)	Generally similar to terms and conditions above
Treasury stock	10	Proceeds from disposal of Parent Company's shares held by FMIC's mutual fund subsidiaries
Interest income	406	Interest income on receivables from customers and interbank loan receivables
Service charges, fees and commissions	323	Income on transactional fees, including underwriting fees
Trading and securities loss - net	(6)	Net loss from securities transactions (Note 11)
Foreign exchange gain - net	7	Net gain from foreign exchange transactions
Leasing income	77	Income from leasing agreements with various lease terms
Miscellaneous income	248	Information technology and other fees
Interest expense	29	Interest expense on deposit liabilities, bills payable and bonds payable (Notes 16, 17 and 19)
Miscellaneous expense	45	Other fees (Note 25)
Contingent - derivatives	989	Swap bought with various terms
Securities transactions		
Purchases	7,040	Outright purchases of investment securities at FVTPL and FVOCI
Sales	13,715	Outright sale of investment securities at FVTPL and FVOCI
Foreign currency		
Buy	43,162	Outright purchases of foreign currency
Sell	37,744	Outright sale of foreign currency
Associates		
<u>Outstanding Balance:</u>		
Receivables from customers*	₱703	Unsecured with ECL of ₱0.01 million; with annual fixed interest rates ranging from 4.33% to 6.18% and maturity terms from 346 to 360 days
Accounts receivable	2	Non-interest bearing receivable on rental fees
Investments in associates	180	Liquidating dividends from SMBC Metro
Deposit liabilities*	836	With annual fixed interest rates ranging from 0.00% to 3.38% including time deposits with maturity terms from 31 to 36 days (Note 16)
Dividends declared	10	Dividend declared by NLI
<u>Amount/Volume:</u>		
Receivables from customers	703	Generally similar to terms and conditions above
Deposit liabilities	(289)	Generally similar to terms and conditions above (Note 16)
Interest Income	19	Interest income on receivables from customers
Foreign exchange loss - net	1	Net loss from foreign exchange transactions
Leasing income	33	Income from leasing agreements with various lease terms
Interest expense	1	Interest expense on deposit liabilities (Note 16)
Securities transactions		
Outright sales	1,561	Outright sale of investment securities at FVTPL and FVOCI
Foreign currency		
Buy	1,924	Outright purchases of foreign currency
Sell	1,054	Outright sale of foreign currency
Other Related Parties		
<u>Outstanding Balance:</u>		
Receivables from customers*	₱29,472	Secured - ₱5.2 billion and unsecured - ₱24.2 billion, with ECL of ₱3.1 million; with annual fixed interest rates ranging from 3.88% to 6.00% and maturity terms from 14 days to 5 years (Note 9)
Accounts receivable	3	Credit card receivables, current and non-revolving



Consolidated		
December 31, 2018		
Category	Amount	Terms and Conditions/Nature
Assets held under joint operations	₱219	Parcels of land and former branch sites of the Parent Company contributed to joint operations (Note 14)
Deposit liabilities*	13,821	With annual fixed interest rates ranging from 0.00% to 4.00% including time deposits with maturity terms from 6 to 359 days (Note 16)
Bills payable*	51	Peso-denominated borrowings subject to annual fixed interest rates ranging from 2.25% to 4.00% with maturity terms from 90 to 122 days (Note 17)
<u>Amount/Volume:</u>		
Receivables from customers	9,769	Generally similar to terms and conditions above
Accounts receivable	(1)	Generally similar to terms and conditions above
Deposit liabilities	(13,149)	Generally similar to terms and conditions above
Bills payable	(146)	Generally similar to terms and conditions above
Interest income	713	Interest income on receivables from customers (Note 9)
Foreign exchange gain - net	1	Net gain from foreign exchange transactions
Leasing income	22	Income from leasing agreements with various lease terms
Interest expense	678	Interest expense on deposit liabilities and bills payable (Notes 16 and 17)
Contingent - others	3	Bank guaranty with indemnity agreement (Note 30)
Securities transactions		
Outright sales	219	Outright sale of investment securities at FVTPL and FVOCI
Foreign currency		
Buy	422	Outright purchases of foreign currency
Sell	967	Outright sale of foreign currency

Key Personnel

Outstanding Balance:

Receivables from customers	₱85	Secured - ₱59.5 million unsecured - ₱25.1 million, no impairment; with annual fixed interest rates ranging from 0.00% to 10.00% and maturity terms from 1 year to 15 years (Note 9)
Deposit liabilities	166	With various terms and with annual interest rates ranging from 0.00% to 6.00%; with interest of ₱0.7 million (Note 16)

Amount/Volume:

Receivables from customers	9	Generally similar to terms and conditions above
Deposit liabilities	2	Generally similar to terms and conditions above
Interest income	4	Interest income on receivables from customers (Note 9)

*including accrued interest

Consolidated		
December 31, 2017		
Category	Amount	Terms and Conditions/Nature
Entities with Significant Influence		
<u>Outstanding Balance:</u>		
Deposit liabilities*	₱16	With annual fixed interest rates ranging from 0.00% to 0.25% (Note 16)
<u>Amount/Volume:</u>		
Deposit liabilities	(2,119)	Generally similar to terms and conditions above
Bills payable	(303)	Peso borrowing in 2016 subject to annual fixed interest rate of 2.00% with maturity term of 17 days (Note 17)
Investments in associates and a JV	190	Proceeds from sale of 10% ownership of PSBank in SMFC (Note 11)
Interest expense	11	Interest expense on deposit liabilities and bills payable (Notes 16 and 17)
Foreign currency - sell	7	Outright sale of foreign currency

Subsidiaries

Outstanding Balance:

Interbank loans receivable*	₱3,439	Peso and foreign currency-denominated lending which earn annual fixed interest rates ranging from 1.72% to 3.50% with maturity terms from 5 to 94 days no impairment (Note 7)
Receivables from customers*	235	Secured and unsecured amounted to ₱140.0 million and ₱94.6 million, respectively; no impairment. With annual fixed interest rates ranging from 2.90% to 4.00% and maturity terms from 48 to 359 days (Note 9)
Accounts receivable	500	Non-interest bearing receivables on service fees, remittance, rental fees and common use service area fees
Deposit liabilities*	7,211	With annual fixed interest rates ranging from 0.00% to 1.50% including time deposits with maturity terms from 4 to 360 days (Note 16)



Category	Consolidated	
	December 31, 2017	
	Amount	Terms and Conditions/Nature
Bills payable	₱888	Peso borrowings subject to annual fixed interest rates ranging from 1.13% to 4.63% with maturity terms from 15 to 33 days (Note 17)
Bonds payable*	81	Issued by FMIC with interest rate ranging from 5.75% and maturity term of 5 years (Note 19)
Treasury stock	46	Parent Company's shares held by FMPETF (Note 23)
<u>Amount/Volume:</u>		
Interbank loans receivable	(2,655)	Generally similar to terms and conditions above
Receivables from customers	(2,129)	Generally similar to terms and conditions above
Accounts receivable	163	Generally similar to terms and conditions above
Deposit liabilities	2,433	Generally similar to terms and conditions above
Bills payable	881	Generally similar to terms and conditions above
Bonds payable	(439)	Generally similar to terms and conditions above
Treasury stock	455	Proceeds from disposal of Parent Company's shares held by FMIC's mutual fund subsidiaries
Interest income	133	Income on receivables from customers (Note 9) and interbank loans receivables (Note 7)
Service charges, fees and commissions	125	Income from transactional fees
Trading and securities loss - net	(21)	Net loss from securities transactions (Note 11)
Foreign exchange gain - net	165	Net gain from foreign exchange transactions
Leasing income	90	Income from leasing agreements with various lease terms
Miscellaneous income	347	Information technology and other fees
Interest expense	51	Interest expense on deposit liabilities, bills payable and bonds payable (Notes 16, 17 and 19)
Miscellaneous expense	73	Other fees (Note 25)
Dividends declared	3,649	Dividends declared by PSBank, FMIC, Metrobank Bahamas, MRSPL (Note 11)
Contingent - derivatives	75	Outright forward exchange bought with various terms
Securities transactions		
Purchases	24,503	Outright purchases of HFT securities and AFS investments
Sales	28,765	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	1,063,463	Outright purchases of foreign currency
Sell	1,037,786	Outright sale of foreign currency
<u>Associates</u>		
<u>Outstanding Balance:</u>		
Accounts receivable	₱2	Non-interest bearing receivable on rental fees
Deposit liabilities*	1,125	With annual fixed interest rates ranging from 0.00% to 1.25% including time deposits with maturity terms from 4 to 90 days (Note 16)
<u>Amount/Volume:</u>		
Accounts receivable	1	Generally similar to terms and conditions above
Deposit liabilities	374	Generally similar to terms and conditions above (Note 16)
Leasing income	20	Income from leasing agreements with various lease terms
Interest expense	2	Interest expense on deposit liabilities (Note 16)
Dividends declared	6	Dividends declared by NLI (Note 11)
Securities transactions		
Outright purchases	299	Outright purchases of HFT securities and AFS investments
Outright sales	200	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	174	Outright purchases of foreign currency
Sell	25,804	Outright sale of foreign currency
<u>Other Related Parties</u>		
<u>Outstanding Balance:</u>		
Receivables from customers*	₱19,703	Secured - ₱4.4 billion and unsecured - ₱15.3 billion, no impairment; with annual fixed interest rates ranging from 1.80% to 8.50% and maturity terms from 30 days to 5 years (Note 9)
Accounts receivable	4	Credit card receivables, current and non-revolving
Assets held under joint operations	259	Parcels of land and former branch sites of the Parent Company contributed to joint operations (Note 14)
Deposit liabilities*	26,970	With annual fixed interest rates ranging from 0.00% to 3.75% including time deposits with maturity terms from 4 days to 360 days (Note 16)
Bills payable*	197	Peso-denominated borrowings subject to annual fixed interest rates ranging from 2.00% to 2.75% with maturity terms from 30 to 122 days (Note 17)



Consolidated		
December 31, 2017		
Category	Amount	Terms and Conditions/Nature
<u>Amount/Volume:</u>		
Receivables from customers	₱11,525	Generally similar to terms and conditions above
Accounts receivable	1	Generally similar to terms and conditions above
Deposit liabilities	6,564	Generally similar to terms and conditions above
Bills payable	(517)	Generally similar to terms and conditions above
Interest income	375	Interest income on receivables from customers (Note 9)
Foreign exchange gain - net	1	Net gain from foreign exchange transactions
Leasing income	20	Income from leasing agreements with various lease terms
Profit from assets sold	56	Gain on sale of condominium units and parking spaces
Interest expense	392	Interest expense on deposit liabilities and bills payable (Notes 16 and 17)
Contingent - unused commercial LCs	102	LC transactions with various terms (Note 30)
Securities transactions		
Outright purchases	249	Outright purchases of HFT securities and AFS investments
Outright sales	686	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	11,626	Outright purchases of foreign currency
Sell	83,219	Outright sale of foreign currency
Key Personnel		
<u>Outstanding Balance:</u>		
Receivables from customers	₱76	Secured and unsecured amounted to ₱51.9 million and ₱23.8 million, respectively; no impairment. With annual fixed interest rates ranging from 0.00% to 10.00% and maturity terms from 1.5 years to 15 years (Note 9)
Deposit liabilities	164	With various terms and with annual interest rates ranging from 0.00% to 1.38%; with interest expense of ₱0.5 million (Note 16)
<u>Amount/Volume:</u>		
Receivables from customers	(4)	Generally similar to terms and conditions above
Deposit liabilities	(9)	Generally similar to terms and conditions above
Interest income	3	Interest income on receivables from customers (Note 9)
*including accrued interest		

Parent Company		
December 31, 2018		
Category	Amount	Terms and Conditions/Nature
Entities with Significant Influence		
<u>Outstanding Balance:</u>		
Deposit liabilities*	₱480	With annual fixed interest rate ranging from 0.00% to 4.00% including time deposits with maturity terms from 21 to 30 days (Note 16)
<u>Amount/Volume:</u>		
Deposit liabilities	464	Generally similar to terms and conditions above
Interest expense	36	Interest expense on deposit liabilities (Note 16)
Subsidiaries		
<u>Outstanding Balance:</u>		
Interbank loans receivable*	₱4,634	Foreign currency-denominated lending which earn annual fixed interest rates ranging from 2.61% to 3.54% with maturity terms from 32 to 184 days with minimal ECL (Note 7)
Receivables from customers*	13,685	Unsecured, with ECL of ₱3.0 million; with annual fixed interest rates ranging from 3.43% to 5.45% and maturity terms from 5 days to 3 years (Note 9)
Accounts receivable	274	Non-interest bearing receivables on service fees, underwriting fees, remittance, rental fees and common use service area fees
Derivative assets	118	Fair value of forward and swaps bought with various terms
Deposit liabilities*	3,093	With annual fixed interest rates ranging from 0.00% to 0.50% including time deposits with maturity terms from 3 days to 357 days (Note 16)
Treasury stock	67	Parent Company's shares held by FMIC's mutual fund subsidiary (Note 23)
Dividend declared	2,255	Dividend declared by PSBank, MCC and MB Bahamas
<u>Amount/Volume:</u>		
Interbank loans receivable	2,496	Generally similar to terms and conditions above
Receivables from customers	13,450	Generally similar to terms and conditions above
Accounts receivable	(171)	Generally similar to terms and conditions above
Deposit liabilities	(2,661)	Generally similar to terms and conditions above
Treasury stock	10	Proceeds from disposal of Parent Company's shares held by FMIC's mutual fund subsidiaries



Parent Company		
December 31, 2018		
Category	Amount	Terms and Conditions/Nature
Interest income	₱365	Interest income on receivables from customers and interbank loans receivables
Service charges, fees and commissions	35	Income from transactional fees
Trading and securities loss - net	(17)	Net loss from securities transactions
Foreign exchange gain - net	7	Net gain from foreign exchange transactions
Leasing income	36	Income from leasing agreements with various lease terms
Miscellaneous income	212	Information technology and other fees (Note 25)
Interest expense	16	Interest expense on deposit liabilities and bills payable (Notes 16 and 17)
Miscellaneous expense	45	Other fees (Note 25)
Contingent - derivatives	989	Swap bought with various terms
Securities transactions		
Purchases	6,907	Outright purchases of investment securities at FVTPL and FVOCI
Sales	13,566	Outright sale of investment securities at FVTPL and FVOCI
Foreign currency		
Buy	43,162	Outright purchases of foreign currency
Sell	37,744	Outright sale of foreign currency
Associates		
<u>Outstanding Balance:</u>		
Receivables from customers*	₱703	Unsecured with ECL of ₱0.01 million; with annual fixed rates ranging from 4.33% to 6.18% and maturity terms from 346 to 360 days
Investment in associates	180	Liquidating dividends from SMBC Metro
Deposit liabilities*	821	With annual fixed interest rates ranging from 0.00% to 3.38% including time deposits with maturity terms from 31 to 36 days (Note 16)
Dividends declared	10	Dividend declared by NLI
<u>Amount/Volume:</u>		
Receivables from customers	703	Generally similar to terms and conditions above
Deposit liabilities	(290)	Generally similar to terms and conditions above
Interest Income	19	Interest income on receivables from customers
Foreign exchange gain - net	1	Net gain from foreign exchange transactions
Leasing income	8	Income from leasing agreements with various lease terms
Interest expense	1	Interest expense on deposit liabilities (Note 16)
Outright sale of securities	340	Outright sale of investment securities at FVTPL and FVOCI
Foreign currency		
Buy	1,924	Outright purchases of foreign currency
Sell	1,054	Outright sale of foreign currency
Other Related Parties		
<u>Outstanding Balance:</u>		
Receivables from customers*	₱29,472	Secured - ₱5.2 billion and unsecured - ₱24.2 billion, with ECL of ₱3.1 million; with annual fixed interest rates ranging from 3.88% to 6.00% and maturity terms from 14 days to 5 years (Note 9)
Assets held under joint operations	219	Parcels of land and former branch sites of the Parent Company contributed to joint operations (Note 14)
Deposit liabilities*	13,183	With annual fixed interest rates ranging from 0.00% to 4.00% including time deposits with maturity terms from 6 to 359 days (Note 16)
<u>Amount/Volume:</u>		
Receivables from customers	9,770	Generally similar to terms and conditions above
Deposit liabilities	(12,237)	Generally similar to terms and conditions above
Interest income	713	Interest income on receivables from customers
Foreign exchange gain - net	1	Net gain from foreign exchange transactions
Leasing income	22	Income from leasing agreements with various lease terms
Interest expense	636	Interest expense on deposit liabilities (Note 16)
Contingent		
Others	3	Bank guaranty with indemnity agreement (Note 30)
Securities transactions		
Sales	70	Outright sale of FVTPL and AFS investments
Foreign currency		
Buy	422	Outright purchases of foreign currency
Sell	967	Outright sale of foreign currency



Category	Parent Company	
	December 31, 2018	
	Amount	Terms and Conditions/Nature
Key Personnel		
<u>Outstanding Balance:</u>		
Receivables from customers	₱68	Secured - ₱55.9 million and unsecured - ₱11.9 million, no impairment; with annual fixed interest rates ranging from 0.00% to 10.00% and maturity terms from 5 to 15 years (Note 9)
Deposit liabilities	166	With various terms and with annual interest rates ranging from 0.00% to 6.00%; with interest expense of ₱0.7 million (Note 16)
<u>Amount/Volume:</u>		
Receivables from customers	8	Generally similar to terms and conditions above
Deposit liabilities	2	Generally similar to terms and conditions above
Interest income	2	Interest income on receivables from customers (Note 9)

*including accrued interest

Category	Parent Company	
	December 31, 2017	
	Amount	Terms and Conditions/Nature
Entities with Significant Influence		
<u>Outstanding Balance:</u>		
Deposit liabilities*	₱16	With annual fixed interest rate ranging from 0.00% to 0.25% (Note 16)
<u>Amount/Volume:</u>		
Deposit liabilities	(2,119)	Generally similar to terms and conditions above
Interest expense	10	Interest expense on deposit liabilities (Note 16)
Foreign currency - sell	7	Outright sale of foreign currency
Subsidiaries		
<u>Outstanding Balance:</u>		
Interbank loans receivable*	₱2,138	Peso foreign currency-denominated lending which earn annual fixed interest rates ranging from 1.72% to 3.50% with maturity terms from 5 to 94 days, no impairment (Note 7)
Receivables from customers*	235	Secured - ₱140.0 million and unsecured - ₱94.6 million, no impairment; with annual fixed interest rates ranging from 2.90% to 4.00% and maturity terms from 48 to 359 days (Note 9)
Accounts receivable	445	Non-interest bearing receivables on service fees, remittance, rental fees and common use service area fees
Deposit liabilities*	5,754	With annual fixed interest rates ranging from 0.00% to 1.50% including time deposits with maturity terms from 4 days to 360 days (Note 16)
Treasury stock	46	Parent Company's shares held by FMPETF (Note 23)
<u>Amount/Volume:</u>		
Interbank loans receivable	(3,956)	Generally similar to terms and conditions above
Receivables from customers	(2,129)	Generally similar to terms and conditions above
Accounts receivable	151	Generally similar to terms and conditions above
Deposit liabilities	2,082	Generally similar to terms and conditions above
Treasury stock	455	Proceeds from disposal of Parent Company's shares held by FMIC's mutual fund subsidiaries
Interest income	123	Income on receivables from customers and interbank loans receivables
Service charges, fees and commissions	75	Income from transactional fees
Trading and securities loss - net	(5)	Net loss from securities transactions
Foreign exchange gain - net	165	Net gain from foreign exchange transactions
Leasing income	35	Income from leasing agreements with various lease terms
Miscellaneous income	339	Information technology and other fees (Note 25)
Interest expense	13	Interest expense on deposit liabilities and bills payable (Notes 16 and 17)
Miscellaneous expense	73	Other fees (Note 25)
Dividends declared	3,649	Dividends declared by PSBank, FMIC, MB Bahamas and MR Singapore (Note 11)
Contingent - derivatives	75	Outright forward exchange sold and swap bought with various terms
Securities transactions		
Purchases	19,388	Outright purchases of HFT securities and AFS investments
Sales	25,117	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	1,063,463	Outright purchases of foreign currency
Sell	1,037,786	Outright sale of foreign currency



Category	Parent Company	
	December 31, 2017	
	Amount	Terms and Conditions/Nature
Associates		
<u>Outstanding Balance:</u>		
Deposit liabilities*	¥1,111	With annual fixed interest rates ranging from 0.00% to 1.25% including time deposits with maturity terms from 4 days to 90 days (Note 16)
<u>Amount/Volume:</u>		
Deposit liabilities	372	Generally similar to terms and conditions above
Leasing income	9	Income from leasing agreements with various lease terms
Interest expense	2	Interest expense on deposit liabilities (Note 16)
Dividends declared	6	Dividends received from NLI (Note 11)
Outright sale of securities	200	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	174	Outright purchases of foreign currency
Sell	25,804	Outright sale of foreign currency
Other Related Parties		
<u>Outstanding Balance:</u>		
Receivables from customers*	¥19,702	Secured - ¥4.4 billion and unsecured - ¥15.3 billion, no impairment; with annual fixed interest rates ranging from 1.80% to 5.29% and maturity terms from 30 days to 5 years (Note 9)
Assets held under joint operations	259	Parcels of land and former branch sites of the Parent Company contributed to joint operations (Note 14)
Deposit liabilities*	25,420	With annual fixed interest rates ranging from 0.00% to 3.75% including time deposits with maturity terms from 4 days to 360 days (Note 16)
<u>Amount/Volume:</u>		
Receivables from customers	11,527	Generally similar to terms and conditions above
Deposit liabilities	11,643	Generally similar to terms and conditions above
Interest income	375	Interest income on receivables from customers
Foreign exchange gain - net	1	Net gain from foreign exchange transactions
Leasing income	20	Income from leasing agreements with various lease terms
Profit from assets sold	24	Gain on sale of condominium units and parking spaces
Interest expense	303	Interest expense on deposit liabilities (Note 16)
Contingent		
Unused commercial LCs	102	LC transactions with various terms (Note 30)
Securities transactions		
Outright purchases	70	Outright purchases of HFT securities and AFS investments
Sales	150	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	11,626	Outright purchases of foreign currency
Sell	83,219	Outright sale of foreign currency
Key Personnel		
<u>Outstanding Balance:</u>		
Receivables from customers	¥60	Secured - ¥48.9 million and unsecured - ¥10.7 million, no impairment; with annual fixed interest rates ranging from 0.00% to 10.00% and maturity terms from 5 to 15 years (Note 9)
Deposit liabilities	164	With various terms and with annual interest rates ranging from 0.00% to 1.38%; with interest expense of ¥0.5 million (Note 16)
<u>Amount/Volume:</u>		
Receivables from customers	(2)	Generally similar to terms and conditions above
Deposit liabilities	(9)	Generally similar to terms and conditions above
Interest income	2	Interest income on receivables from customers (Note 9)

*including accrued interest

On September 5, 2017 and December 23, 2016, the Parent Company purchased selected loans from MBCL totaling RMB443.3 million (equivalent to ¥3.4 billion) in two tranches through separate biddings held on August 31, 2017 and October 24, 2016, respectively, in Nanjing, China. These transactions have been reviewed and endorsed by the Overseas Banking Committee and RPTC in separate meetings and approved by the Parent Company's BOD on September 26, 2016 and August 16, 2017 for the first tranche and second tranche, respectively. The BSP noted the purchase on October 27, 2016 and this transaction has also been approved by the required regulators in China. As of December 31, 2018 and 2017, the Parent Company recognized allowance for credit losses of ¥2.7 billion and ¥1.9 billion, respectively (Notes 9 and 15).



As of December 31, 2018 and 2017, government bonds with total face value of ₱60.0 million (classified as 'Investment securities at amortized cost') and ₱50.0 million (classified as 'AFS investments'), respectively, are pledged by PSBank to the Parent Company to secure the latter's payroll account with PSBank. Also, the Parent Company has assigned to PSBank government securities with total face value of ₱4.0 billion (classified as 'Investment securities at amortized cost') and ₱3.1 billion (classified as 'AFS investments'), respectively, to secure the PSBank deposits to the Parent Company.

As of December 31, 2018 and 2017, government securities classified as 'Investment securities at amortized cost' and 'AFS investments', respectively, amounting to ₱40.9 billion and ₱41.3 billion, respectively, for the Group and ₱40.9 billion and ₱28.5 billion, respectively, for the Parent Company are pledged to various funds managed by the Trust Banking Group of the Parent Company to secure borrowings from these funds.

Receivables from customers and deposit liabilities and their related statement of financial position and statement of income accounts resulted from the lending and deposit-taking activities of the Group and the Parent Company. Together with the sale of investment properties, borrowings, contingent accounts including derivative transactions, outright purchases and sales of securities and foreign currency buy and sell, leasing of office premises, securing of insurance coverage on loans and property risk, and other management services rendered, these are conducted in the normal course of business, at arm's-length transactions and are generally settled in cash. The amounts and related volumes and changes are presented in the summary above. Terms of receivables from customers, deposit liabilities and borrowings are also disclosed in Notes 9, 16 and 17, respectively, while other related party transactions above have been referred to their respective note disclosures.

The compensation of the key management personnel of the Group and the Parent Company follows:

	Consolidated			Parent Company		
	2018	2017	2016	2018	2017	2016
Short-term employee benefits	₱3,222	₱2,910	₱2,572	₱2,334	₱2,165	₱1,865
Post-employment benefits	173	132	129	56	46	42
	₱3,395	₱3,042	₱2,701	₱2,390	₱2,211	₱1,907

Transactions with Retirement Plans

Under PFRS, certain post-employment benefit plans are considered as related parties. The Parent Company has business relationships with a number of related party retirement plans pursuant to which it provides trust and management services to these plans. Certain trustees of the plans are either officers or directors of the Parent Company and/or the subsidiaries. Income earned by the Parent Company from such services amounted to ₱69.1 million, ₱65.2 million and ₱58.5 million in 2018, 2017 and 2016, respectively. As of December 31, 2018 and 2017, the Parent Company sold securities totaling ₱2.2 billion and ₱2.0 billion, respectively, to its related party retirement plans and recognized net trading loss of ₱94 thousand and ₱0.2 million in 2018 and 2017, respectively, and has also purchased securities totaling ₱266.9 million and ₱171.3 million, respectively. Further, as of December 31, 2018 and 2017, the total outstanding deposit liabilities of Group to these related party retirement funds amounted to ₱433.6 million and ₱855.6 million, respectively. Interest expense on deposit liabilities amounted to ₱17.7 million, ₱13.8 million and ₱1.3 million in 2018, 2017 and 2016, respectively.



As of December 31, 2018 and 2017, the related party retirement plans also hold investments in the equity shares of various companies within the Group amounting to ₱196.3 million and ₱218.9 million, respectively, with unrealized trading loss of ₱14.3 million and unrealized trading gain of ₱32.2 million, respectively, and investments in mutual funds and trust funds of various companies within the Group amounting to ₱2.0 billion and ₱745.0 million, respectively, with unrealized trading gains of ₱48.7 million and ₱19.4 million, respectively. Further, as of December 31, 2018, investments in the corporate bonds of the Parent Company by the related party retirement plans amounted to ₱2.1 billion with minimal unrealized trading loss. As of December 31, 2018, 2017 and 2016, realized trading gains amounted to ₱48.6 million, ₱7.8 million and ₱262.8 million, respectively. The related party retirement plans also recognized dividend income in 2016 amounting to ₱6.9 million (Note 11).

32. Financial Performance

The basis of calculation for earnings per share attributable to equity holdings of the Parent Company follows (amounts in millions except for earnings per share):

	2018	2017	2016
a. Net income attributable to equity holders of the Parent Company	₱22,008	₱18,223	₱18,086
b. Share of hybrid capital securities holders	—	—	(267)
c. Net income attributable to common shareholders	22,008	18,223	17,819
d. Weighted average number of outstanding common shares of the Parent Company	3,776	3,243	3,240
e. Basic/diluted earnings per share (c/d)	₱5.83	₱5.62*	₱5.50*

*Restated to show the effect of stock rights issued in 2018

The following basic ratios measure the financial performance of the Group and the Parent Company:

	Consolidated			Parent Company		
	2018	2017	2016	2018	2017	2016
Return on average equity ⁽¹⁾	9.08%	9.16%	9.28%	8.81%	9.05%	9.28%
Return on average assets ⁽²⁾	1.02%	0.92%	0.99%	1.23%	1.12%	1.20%
Net interest margin on average earning assets ⁽³⁾	3.82%	3.75%	3.54%	2.98%	2.85%	2.72%

⁽¹⁾ Net income attributable to equity holders of the Parent Company for the year divided by average total equity attributable to the Parent Company.

⁽²⁾ Net income attributable to equity holders of the Parent Company for the year divided by average total assets.

⁽³⁾ Net interest income for the year divided by average interest-earning assets.

33. Foreign Exchange

Closing rates as of December 31 and WAR for each of the year ended December 31 are as follows:

	BAP	PDS	
	2018	2017	2016
Closing	₱52.58	₱49.93	₱49.72
WAR	52.68	50.41	47.48



34. Other Matters

The Group has no significant matters to report in 2018 on the following:

- a. Known trends, events or uncertainties that would have material impact on liquidity and on the sales or revenues.
- b. Explanatory comments about the seasonality or cyclicalities of operations.
- c. Issuances, repurchases and repayments of debt and equity securities except for the issuances of ₱8.7 billion LTNCD, ₱28.0 billion fixed rate bonds and ₱60.0 billion stock rights for the Parent Company and the issuance of LTNCD amounting to ₱5.1 billion for PSBank as discussed in Notes 16, 19 and 23.
- d. Unusual items as to nature, size or incidents affecting assets, liabilities, equity, net income or cash flows except for the payments of cash dividends by the Parent Company as discussed in Note 23; and
- e. Effect of changes in the composition of the Group during the year, including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinuing operations (except as discussed in Notes 2 and 11).

35. Subsequent Events

- a. On January 11, 2019, PSBank concluded its ₱8.0 billion SRO, involving 142,856,925 common shares priced at ₱56.00 per share and listed at the PSE on January 18, 2019. This was approved by the BOD of PSBank on October 15, 2018 and noted by the BSP on October 19, 2018. The Parent Company exercised its rights to purchase thus increasing its ownership in PSBank to 88.38%.
- b. On January 17, 2019, the BOD of PSBank declared a 7.50% regular cash dividend for the fourth quarter of 2018 amounting to ₱180.2 million or ₱0.75 per share, payable not later than February 18, 2019 to all common stockholders as of record date of February 1, 2019.
- c. On February 13, 2019, the BOD of the Parent Company approved the following:
 - i. declaration of 5% regular cash dividend payable on March 14, 2019 to all stockholders of record as of March 1, 2019;
 - ii. exercise of the call option on the Parent Company's ₱16.0 billion 2024 Peso Notes described in Note 20 on June 27, 2019 in accordance with its terms and conditions; and
 - iii. increase in the authorized capital stock of the Parent Company from ₱100.0 billion to ₱140.0 billion and the declaration of a 13% stock dividend equivalent to 517,401,955 shares amounting to ₱10.3 billion representing the minimum 25% subscription and paid-up capital for the increase in the authorized capital stock. These shall be subject to receipt of regulatory approvals and stockholders' approval during the Annual Stockholders' Meeting scheduled on April 24, 2019.



36. Approval of the Release of the Financial Statements

The accompanying financial statements of the Group and of the Parent Company were authorized for issue by the BOD on February 13, 2019.

37. Report on the Supplementary Information Required Under Revenue Regulations (RR) No. 15-2010

Supplementary Information Under RR No. 15-2010

On November 25, 2010, the BIR issued RR No. 15-2010 to amend certain provisions of RR No. 21-2002 which provides that starting 2010, the notes to financial statements shall include information on taxes, duties and license fees paid or accrued during the taxable year.

The Parent Company reported the following types of taxes for the year ended December 31, 2018 included under 'Taxes and licenses' account in the statements of income:

DST	₱2,539
GRT	2,285
Local taxes	153
Real estate tax	99
Others	177
	₱5,253

Details of total withholding taxes remitted for the taxable year December 31, 2018 follow:

FWT	₱3,176
Taxes withheld on compensation	2,102
Expanded withholding taxes	225
	₱5,503



FINANCIAL STATEMENTS

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE
GROUP AS OF 31 DECEMBER 2019 AND 2018 AND FOR THE YEARS
ENDED 31 DECEMBER 2019, 2018, AND 2017**

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Metropolitan Bank & Trust Company
Metrobank Plaza, Sen. Gil Puyat Avenue
Urdaneta Village, Makati City
Metro Manila, Philippines

Report on the Consolidated and Parent Company Financial Statements

Opinion

We have audited the consolidated financial statements of Metropolitan Bank & Trust Company and its subsidiaries (the Group) and the parent company financial statements of Metropolitan Bank & Trust Company (the Parent Company), which comprise the consolidated and parent company statements of financial position as at December 31, 2019 and 2018, and the consolidated and parent company statements of income, consolidated and parent company statements of comprehensive income, consolidated and parent company statements of changes in equity and consolidated and parent company statements of cash flows for each of the three years in the period ended December 31, 2019, and notes to the consolidated and parent company financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated and parent company financial statements present fairly, in all material respects, the financial position of the Group and the Parent Company as at December 31, 2019 and 2018, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2019, in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

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



Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and parent company financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and parent company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated and Parent Company Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated and parent company financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated and parent company financial statements.

Applicable to the audit of the consolidated and parent company financial statements

Adoption of PFRS 16, Leases

Effective January 1, 2019, the Group and the Parent Company adopted PFRS 16, *Leases*, under the modified retrospective approach which resulted in significant changes in the Group's and the Parent Company's accounting policy for leases. The Group's and the Parent Company's adoption of PFRS 16 is significant to our audit because the Group and the Parent Company have high volume of lease agreements; the recorded amounts are material to the consolidated and parent company financial statements; and adoption involves application of significant judgment and estimation in determining the lease term, including evaluating whether the Group and the Parent Company are reasonably certain to exercise options to extend or terminate the lease, and in determining the incremental borrowing rate. This resulted in the recognition of right-of-use assets amounting to ₱4.2 billion and ₱2.2 billion for the Group and Parent Company, respectively, and lease liability amounting to ₱4.5 billion and ₱2.4 billion for the Group and Parent Company, respectively, as of January 1, 2019, and the recognition of depreciation expense of ₱1.3 billion and ₱687.0 million for the Group and Parent Company, respectively, and interest expense of ₱319.3 million and ₱169.9 million for the Group and Parent Company, respectively, for the year ended December 31, 2019.

The disclosures related to the adoption of PFRS 16 are included in Notes 2, 10 and 13 to the financial statements.

Audit response

We obtained an understanding of the Group's and the Parent Company's process in implementing the new standard, including the determination of the population of the lease contracts covered by PFRS 16, the application of the short-term and low value assets exemptions, the selection of the transition approach and any election of available practical expedients. We tested the completeness of the population of lease agreements by comparing the number of leases per operational report against the master lease schedule. On a test basis, we inspected lease agreements (i.e., lease agreements existing prior to the adoption of PFRS 16 and new lease agreements) from the master lease schedule, identified their contractual terms and conditions, and traced these contractual terms and conditions to the lease calculation prepared by management, which covers the calculation of the financial impact of PFRS 16, including the transition adjustments.



For selected lease contracts with renewal and/or termination option, we reviewed the management's assessment of whether it is reasonably certain that the Group and the Parent Company will exercise the option to renew or not exercise the option to terminate. We tested the parameters used in the determination of the incremental borrowing rate by reference to market data. We test computed the lease calculation prepared by management on a sample basis, including the transition adjustments.

We reviewed the disclosures related to the transition adjustments based on the requirements of PFRS 16 and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

Allowance for Credit Losses

The Group's and the Parent Company's application of the Expected Credit Loss (ECL) model in calculating the allowance for credit losses is significant to our audit as it involves the exercise of significant management judgment. Key areas of judgment include: segmenting the Group's and the Parent Company's credit risk exposures; determining the method to estimate ECL; defining default; identifying exposures with significant deterioration in credit quality; determining assumptions to be used in the ECL model such as the counterparty credit risk rating, the expected life of the financial asset and expected recoveries from defaulted accounts; and incorporating forward-looking information (called overlays) in calculating ECL.

Allowance for credit losses as of December 31, 2019 for the Group and the Parent Company amounted to ₱24.3 billion and ₱13.9 billion, respectively. Provision for credit losses of the Group and the Parent Company in 2019 amounted to ₱9.6 billion and ₱1.6 billion, respectively.

Refer to Note 15 of the financial statements for the disclosure on the details of the allowance for credit losses using the ECL model.

Audit response

We obtained an understanding of the board-approved methodologies and models used for the Group's and the Parent Company's different credit exposures and assessed whether these considered the requirements of PFRS 9 to reflect an unbiased and probability-weighted outcome, and to consider time value of money and the best available forward-looking information.

We (a) assessed the Group's and the Parent Company's segmentation of its credit risk exposures based on homogeneity of credit risk characteristics; (b) tested the definition of default and significant increase in credit risk criteria against historical analysis of accounts and credit risk management policies and practices in place; (c) tested the Group's and the Parent Company's application of internal credit risk rating system by reviewing the ratings of sample credit exposures; (d) assessed whether expected life is different from the contractual life by testing the maturity dates reflected in the Group's and the Parent Company's records and considering management's assumptions regarding future collections, advances, extensions, renewals and modifications; (e) tested loss given default by inspecting historical recoveries and related costs, write-offs and collateral valuations; (f) tested exposure at default considering outstanding commitments and repayment scheme; (g) checked the reasonableness of forward-looking information used for overlay through statistical test and corroboration using publicly available information and our understanding of the Group's and the Parent Company's lending portfolios and broader industry knowledge; and (h) tested the effective interest rate used in discounting the expected loss.



Further, we checked the data used in the ECL models by reconciling data from source system reports to the data warehouse and from the data warehouse to the loss allowance analysis/models and financial reporting systems. To the extent that the loss allowance analysis is based on credit exposures that have been disaggregated into subsets of debt financial assets with similar risk characteristics, we traced or re-performed the disaggregation from source systems to the loss allowance analysis. We also assessed the assumptions used where there are missing or insufficient data.

We recalculated impairment provisions on a sample basis. We reviewed the completeness of the disclosures made in the financial statements.

We involved our internal specialists in the performance of the above procedures.

Applicable to the audit of the consolidated financial statements

Recoverability of Investments in Associates and a Joint Venture

The Group assesses the impairment of its investments in associates and a joint venture whenever events or changes in circumstances indicate that the carrying amount of the investments may not be recoverable. As of December 31, 2019, the Group has an investment in associate amounting to ₱2.0 billion where its fair value declined significantly compared to the carrying value. The Group performed impairment testing using the investment's value-in-use (VIU). We considered the impairment testing of the Group's investment in this associate as a key audit matter as significant judgment and estimates are involved in the determination of the investment's VIU.

The disclosures relating to investments in associates and a joint venture are included in Notes 3 and 11 to the financial statements.

Audit response

We discussed with management the investee's current business performance and prospects and how these were reflected in the Group's VIU calculation. We involved our internal specialist in evaluating the methodology and assumptions used. We compared the expected production volume and capital expenditures used in the calculation to the historical performance and plans of the investee, and the price assumption, exchange rates and long-term growth rate to available industry, economic and financial data including consensus market forecasts. We also tested whether the discount rate used represents current market assessment of risks associated with the investment.

Recoverability of Goodwill

As of December 31, 2019, the Group has goodwill amounting to ₱5.2 billion as a result of various business acquisitions. Under PFRS, the Group is required to annually test the amount of goodwill for impairment. The Group performed the impairment testing using the cash generating unit's (CGU) fair value less costs to sell (FVLCTS). The annual impairment test was significant to our audit because significant judgment and estimates are involved in the determination of the CGU's FVLCTS. The CGU's assets include significant investments in unquoted equity shares and their fair values were determined using price-to-earnings (P/E) ratios of comparable companies. Other assets of the CGU include investments in quoted equity shares and debt financial assets, and real properties, while liabilities include unquoted debt financial liabilities.

The disclosures in relation to goodwill are included in Notes 3 and 11 to the financial statements.



Audit response

We involved our internal specialist in evaluating the assumptions and methodology used by the Group in determining the FVLCTS of the CGU, in particular those relating to the use of P/E ratios of comparable companies in the valuation of the unquoted equity shares. We tested the fair value of the other assets and liabilities by referring to the quoted prices of listed equity and debt instruments, agreeing the appraised values of real estate properties to the appraisal reports, comparing the future cash flows of unquoted debt instruments to the related contracts, and testing the discount rate if based on prevailing interest rates for similar instruments. We also re-performed the calculation of the FVLCTS.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019, but does not include the consolidated and parent company financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019 are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated and parent company financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated and parent company financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated and parent company financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

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

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

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

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



Auditor's Responsibilities for the Audit of the Consolidated and Parent Company Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated and parent company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and parent company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Parent Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and parent company financial statements, including the disclosures, and whether the consolidated and parent company financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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



We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated and parent company financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations No. 15-2010 in Note 37 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of the Parent Company. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The engagement partner on the audit resulting in this independent auditor's report is
Josephine Adrienne A. Abarca

SYCIP GORRES VELAYO & CO.



Josephine Adrienne A. Abarca
Partner

CPA Certificate No. 92126

SEC Accreditation No. 0466-AR-4 (Group A),

November 13, 2018, valid until November 12, 2021

Tax Identification No. 163-257-145

BIR Accreditation No. 08-001998-61-2018,

February 26, 2018, valid until February 25, 2021

PTR No. 8125200, January 7, 2020, Makati City

February 19, 2020



METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
STATEMENTS OF FINANCIAL POSITION
(In Millions)

	Consolidated		Parent Company	
	December 31			
	2019	2018	2019	2018
ASSETS				
Cash and Other Cash Items	₱32,956	₱33,091	₱30,659	₱29,280
Due from Bangko Sentral ng Pilipinas (BSP) (Notes 4 and 16)	219,994	240,134	195,770	206,289
Due from Other Banks (Note 4)	54,767	45,802	38,698	35,218
Interbank Loans Receivable and Securities Purchased Under Resale Agreements (SPURA) (Notes 4, 7 and 26)	72,174	50,719	56,152	24,712
Investment Securities at Fair Value Through Profit or Loss (FVTPL) (Note 8)	61,867	39,689	49,550	30,166
Fair Value Through Other Comprehensive Income (FVOCI) (Notes 4 and 8)	202,520	111,288	188,676	92,144
Amortized Cost (Notes 4 and 8)	251,628	265,376	216,644	212,607
Loans and Receivables (Notes 4 and 9)	1,483,568	1,391,034	1,177,101	1,116,257
Property and Equipment (Note 10)	25,700	21,954	17,857	15,632
Investments in Subsidiaries (Note 11)	—	—	95,739	81,288
Investments in Associates and a Joint Venture (Note 11)	6,591	5,947	542	494
Goodwill (Note 11)	5,200	5,200	—	—
Investment Properties (Note 12)	7,762	7,500	3,291	2,825
Deferred Tax Assets (Note 28)	10,512	10,238	6,918	6,769
Other Assets (Note 14)	15,574	15,721	9,838	9,983
	₱2,450,813	₱2,243,693	₱2,087,435	₱1,863,664
LIABILITIES AND EQUITY				
LIABILITIES				
Deposit Liabilities (Notes 16 and 31)				
CASA	₱1,077,507	₱964,944	₱1,003,249	₱900,186
Time	592,897	548,019	461,713	390,475
Long-Term Negotiable Certificates	43,740	43,790	35,330	35,330
	1,714,144	1,556,753	1,500,292	1,325,991
Bills Payable and Securities Sold Under Repurchase Agreements (SSURA) (Notes 17 and 31)	238,281	259,607	139,072	151,079
Derivative Liabilities (Note 8)	7,427	6,537	5,994	6,182
Manager’s Checks and Demand Drafts Outstanding	6,806	7,565	5,508	5,950
Income Taxes Payable	4,188	2,830	3,259	1,670
Accrued Interest and Other Expenses (Note 18)	10,499	9,619	6,654	5,625
Bonds Payable (Notes 19 and 31)	80,486	30,743	70,110	27,826
Subordinated Debts (Note 20)	7,660	26,618	6,494	22,471
Deferred Tax Liabilities (Note 28)	108	357	—	—
Non-equity Non-controlling Interest (Note 21)	6,553	6,747	—	—
Other Liabilities (Note 21)	56,170	45,613	30,060	24,107
	2,132,322	1,952,989	1,767,443	1,570,901

(Forward)



	Consolidated		Parent Company	
	December 31			
	2019	2018	2019	2018
EQUITY				
Equity Attributable to Equity Holders of the Parent Company				
Common stock (Note 23)	₱89,948	₱79,600	₱89,948	₱79,600
Capital paid in excess of par value (Note 23)	85,252	85,252	85,252	85,252
Treasury stock (Notes 23 and 31)	(72)	(67)	(72)	(67)
Surplus reserves (Note 24)	2,098	1,956	2,098	1,956
Surplus (Note 23)	144,154	130,550	144,154	130,550
Net unrealized gain (loss) on investment securities at FVOCI (Note 8)	2,629	(2,994)	2,629	(2,994)
Remeasurement losses on retirement plan (Notes 11 and 27)	(5,531)	(3,591)	(5,531)	(3,591)
Equity in other comprehensive income (losses) of investees (Note 11)	345	(27)	345	(27)
Translation adjustment and others (Note 11)	(9,269)	(7,719)	1,169	2,084
	309,554	282,960	319,992	292,763
Non-controlling Interest (Note 11)	8,937	7,744	–	–
	318,491	290,704	319,992	292,763
	₱2,450,813	₱2,243,693	₱2,087,435	₱1,863,664

See accompanying Notes to Financial Statements.



METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES

STATEMENTS OF INCOME

(In Millions, Except Earnings Per Share)

	Consolidated			Parent Company		
	Years Ended December 31					
	2019	2018	2017	2019	2018	2017
INTEREST INCOME ON						
Loans and receivables (Notes 9 and 31)	₱95,847	₱79,659	₱63,391	₱59,603	₱46,860	₱35,072
Investment securities at FVOCI/AFS investments and at amortized cost (Note 8)	16,573	14,610	13,480	13,778	11,592	10,655
Investment securities at FVTPL (Note 8)	1,936	1,170	1,585	1,695	1,006	1,362
Interbank loans receivable and securities purchased under resale agreements (SPURA) (Notes 7 and 31)	941	1,092	1,231	468	441	606
Deposits with banks and others	886	655	635	689	422	316
	116,183	97,186	80,322	76,233	60,321	48,011
INTEREST AND FINANCE CHARGES						
Deposit liabilities (Notes 16 and 31)	23,407	18,968	12,613	17,293	13,447	8,777
Bills payable and securities sold under repurchase agreements, bonds payable, subordinated debts and others (Notes 13, 17, 19, 20, 21 and 31)	15,779	9,396	6,303	9,019	4,546	2,741
	39,186	28,364	18,916	26,312	17,993	11,518
NET INTEREST INCOME	76,997	68,822	61,406	49,921	42,328	36,493
PROVISION FOR CREDIT AND IMPAIRMENT LOSSES (Note 15)	10,078	7,770	7,507	1,644	807	1,395
NET INTEREST INCOME AFTER PROVISION FOR CREDIT AND IMPAIRMENT LOSSES	66,919	61,052	53,899	48,277	41,521	35,098
OTHER OPERATING INCOME						
Service charges, fees and commissions (Notes 25 and 31)	14,266	12,695	11,045	5,145	4,954	4,171
Trading and securities gain (loss) - net (Notes 8, 21 and 31)	5,472	2,541	(402)	4,352	3,041	(1,079)
Foreign exchange gain (loss) - net (Note 31)	3,798	210	4,257	3,521	(66)	4,101
Leasing (Notes 12, 13 and 31)	2,122	2,252	2,129	210	224	215
Profit from assets sold (Notes 12 and 31)	585	1,371	1,075	210	623	639
Income from trust operations (Notes 24 and 31)	1,241	1,290	1,377	1,204	1,259	1,351
Dividends (Note 8)	172	141	182	29	23	19
Miscellaneous (Note 25)	1,398	2,410	2,484	83	401	446
	29,054	22,910	22,147	14,754	10,459	9,863
OTHER OPERATING EXPENSES						
Compensation and fringe benefits (Notes 27 and 31)	23,706	22,368	20,218	16,023	15,115	13,526
Taxes and licenses (Note 28)	10,219	8,776	6,580	6,466	5,253	3,701
Depreciation and amortization (Notes 10, 12 and 14)	5,538	4,084	4,018	2,568	1,690	1,708
Occupancy and equipment-related costs (Note 13)	1,867	3,193	2,929	1,162	1,824	1,730
Miscellaneous (Note 25)	16,576	15,235	13,730	11,086	9,573	8,553
	57,906	53,656	47,475	37,305	33,455	29,218
INCOME BEFORE SHARE IN NET INCOME OF SUBSIDIARIES, ASSOCIATES AND A JOINT VENTURE						
	38,067	30,306	28,571	25,726	18,525	15,743
SHARE IN NET INCOME OF SUBSIDIARIES, ASSOCIATES AND A JOINT VENTURE (Note 11)						
	868	874	689	8,938	7,967	6,995
INCOME BEFORE INCOME TAX						
PROVISION FOR INCOME TAX (Note 28)	10,061	7,745	7,990	6,609	4,484	4,515
NET INCOME	₱28,874	₱23,435	₱21,270	₱28,055	₱22,008	₱18,223
Attributable to:						
Equity holders of the Parent Company (Note 32)	₱28,055	₱22,008	₱18,223			
Non-controlling interest (Note 11)	819	1,427	3,047			
	₱28,874	₱23,435	₱21,270			
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 32)						
	₱6.24	₱5.16*	₱4.97*			

*Restated to show the effect of stock dividends issued in 2019 and stock rights issued in 2018

See accompanying Notes to Financial Statements.



METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
STATEMENTS OF COMPREHENSIVE INCOME
(In Millions)

	Consolidated			Parent Company		
	Years Ended December 31					
	2019	2018	2017	2019	2018	2017
Net Income	₱28,874	₱23,435	₱21,270	₱28,055	₱22,008	₱18,223
Other Comprehensive Income for the Year, Net of Tax						
Items that may not be reclassified to profit or loss:						
Change in net unrealized loss on equity securities at FVOCI	(414)	(351)	–	(410)	(347)	–
Change in remeasurement gain (loss) on retirement plan (Notes 11 and 27)	(2,038)	498	26	(1,940)	434	(18)
	(2,452)	147	26	(2,350)	87	(18)
Items that may be reclassified to profit or loss:						
Change in net unrealized gain (loss) on investment on debt securities at FVOCI/AFS investments (Note 8)	6,142	(2,443)	(5,772)	6,052	(2,324)	(5,689)
Change in equity in other comprehensive income (loss) of investees (Note 11)	375	(50)	(32)	372	(49)	(32)
Translation adjustment and others (Note 11)	(399)	(309)	733	(915)	(57)	881
	6,118	(2,802)	(5,071)	5,509	(2,430)	(4,840)
Total Comprehensive Income for the Year	₱32,540	₱20,780	₱16,225	₱31,214	₱19,665	₱13,365
Attributable to:						
Equity holders of the Parent Company	₱31,214	₱19,665	₱13,365			
Non-controlling interest	1,326	1,115	2,860			
	₱32,540	₱20,780	₱16,225			

See accompanying Notes to Financial Statements.



METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES

STATEMENTS OF CHANGES IN EQUITY

(In Millions)

	Consolidated												
	Equity Attributable to Equity Holders of the Parent Company												
	Common Stock (Note 23)	Capital Paid In Excess of Par Value (Note 23)	Treasury Stock (Note 23)	Surplus Reserves (Note 23)	Surplus (Note 23)	Net Unrealized Gain (Loss) on Investment Securities at FVOCI/AFS Investments (Note 8)	Remeasurement Losses on Retirement Plan (Notes 11 and 27)	Equity in Other Comprehensive Income (Losses) of Investees (Note 11)	Translation Adjustment and Others (Note 11)	Total	Other Equity Reserve (Note 11)	Non-controlling Interest (Note 11)	Total Equity
Balance as at January 1, 2019	₱79,600	₱85,252	(₱67)	₱1,956	₱130,550	(₱2,994)	(₱3,591)	(₱27)	(₱7,719)	₱282,960	₱–	₱7,744	₱290,704
Issuance of stock dividend	10,348	–	–	–	(10,348)	–	–	–	–	–	–	–	–
Total comprehensive income (loss) for the year	–	–	–	–	28,055	5,642	(1,940)	372	(915)	31,214	–	1,326	32,540
Transfer to surplus reserves	–	–	–	142	(142)	–	–	–	–	–	–	–	–
Cash dividend	–	–	–	–	(3,980)	–	–	–	–	(3,980)	–	(133)	(4,113)
Realized gain (loss) on sale of equity securities at FVOCI	–	–	–	–	19	(19)	–	–	–	–	–	–	–
Parent Company shares held by mutual fund subsidiary	–	–	(5)	–	–	–	–	–	–	(5)	–	–	(5)
Acquisition of acquired non-controlling interest (Note 11)	–	–	–	–	–	–	–	–	(635)	(635)	–	–	(635)
Balance as at December 31, 2019	₱89,948	₱85,252	(₱72)	₱2,098	₱144,154	₱2,629	(₱5,531)	₱345	(₱9,269)	₱309,554	₱–	₱8,937	₱318,491
Balance as at December 31, 2017	₱63,603	₱42,139	(₱46)	₱1,810	₱116,786	(₱15,804)	(₱4,025)	₱22	(₱2,530)	₱201,955	(₱7,400)	₱9,535	₱204,090
Effect of adoption of Philippine Financial Reporting Standards (PFRS) 9, <i>Financial Instruments</i>	–	–	–	–	(4,756)	15,359	–	–	–	10,603	–	(108)	10,495
Effect of adoption of PFRS 15, <i>Revenue from Contracts with Customers</i>	–	–	–	–	(40)	–	–	–	–	(40)	–	(10)	(50)
Balance as at January 1, 2018	63,603	42,139	(46)	1,810	111,990	(445)	(4,025)	22	(2,530)	212,518	(7,400)	9,417	214,535
Issuance of stock rights	15,997	43,113	–	–	–	–	–	–	–	59,110	–	–	59,110
Total comprehensive income (loss) for the year	–	–	–	–	22,008	(2,671)	434	(49)	(57)	19,665	–	1,115	20,780
Transfer to surplus reserves	–	–	–	146	(146)	–	–	–	–	–	–	–	–
Cash dividend	–	–	–	–	(3,180)	–	–	–	–	(3,180)	–	(520)	(3,700)
Realized gain (loss) on sale of equity securities at FVOCI	–	–	–	–	(122)	122	–	–	–	–	–	–	–
Parent Company shares held by mutual fund subsidiary	–	–	(21)	–	–	–	–	–	–	(21)	–	–	(21)
Settlement of non-controlling interest acquired (Note 11)	–	–	–	–	–	–	–	–	(5,132)	(5,132)	7,400	(2,268)	–
Balance as at December 31, 2018	₱79,600	₱85,252	(₱67)	₱1,956	₱130,550	(₱2,994)	(₱3,591)	(₱27)	(₱7,719)	₱282,960	₱–	₱7,744	₱290,704
Balance as at January 1, 2017	₱63,603	₱42,139	(₱485)	₱1,653	₱101,900	(₱10,115)	(₱4,007)	₱54	₱1,260	₱196,002	₱–	₱9,551	₱205,553
Total comprehensive income for the year	–	–	–	–	18,223	(5,689)	(18)	(32)	881	13,365	–	2,860	16,225
Transfer to surplus reserves	–	–	–	157	(157)	–	–	–	–	–	–	–	–
Cash dividend	–	–	–	–	(3,180)	–	–	–	–	(3,180)	–	(147)	(3,327)
Disposal of Parent Company shares held by mutual fund subsidiaries	–	–	439	–	–	–	–	–	–	439	–	–	439
Acquisition of non-controlling interest (Note 11)	–	–	–	–	–	–	–	–	(4,671)	(4,671)	(7,400)	(2,729)	(14,800)
Balance as at December 31, 2017	₱63,603	₱42,139	(₱46)	₱1,810	₱116,786	(₱15,804)	(₱4,025)	₱22	(₱2,530)	₱201,955	(₱7,400)	₱9,535	₱204,090



Parent Company										
	Common Stock (Note 23)	Capital Paid In Excess of Par Value (Note 23)	Treasury Stock (Note 23)	Surplus Reserves (Note 24)	Surplus (Note 23)	Net Unrealized Gain (Loss) on Investment Securities at FVOCI/AFS Investments (Note 8)	Remeasurement Losses on Retirement Plan (Notes 11 and 27)	Equity in Other Comprehensive Income (Losses) of Investees (Note 11)	Translation Adjustment and Others (Note 11)	Total Equity
Balance as at January 1, 2019	₱79,600	₱85,252	(₱67)	₱1,956	₱130,550	(₱2,994)	(₱3,591)	(₱27)	₱2,084	₱292,763
Issuance of stock dividend	10,348	—	—	—	(10,348)	—	—	—	—	—
Total comprehensive income (loss) for the year	—	—	—	—	28,055	5,642	(1,940)	372	(915)	31,214
Transfer to surplus reserves	—	—	—	142	(142)	—	—	—	—	—
Cash dividend	—	—	—	—	(3,980)	—	—	—	—	(3,980)
Share in realized gain (loss) on sale of equity securities at FVOCI	—	—	—	—	19	(19)	—	—	—	—
Parent Company shares held by mutual fund subsidiary	—	—	(5)	—	—	—	—	—	—	(5)
Balance as at December 31, 2019	₱89,948	₱85,252	(₱72)	₱2,098	₱144,154	₱2,629	(₱5,531)	₱345	₱1,169	₱319,992
Balance as at December 31, 2017	₱63,603	₱42,139	(₱46)	₱1,810	₱116,786	(₱15,804)	(₱4,025)	₱22	₱2,141	₱206,626
Effect of adoption of PFRS 9	—	—	—	—	(4,756)	15,359	—	—	—	10,603
Effect of adoption of PFRS 15	—	—	—	—	(40)	—	—	—	—	(40)
Balance as at January 1, 2018	63,603	42,139	(46)	1,810	111,990	(445)	(4,025)	22	2,141	217,189
Issuance of stock rights	15,997	43,113	—	—	—	—	—	—	—	59,110
Total comprehensive income (loss) for the year	—	—	—	—	22,008	(2,671)	434	(49)	(57)	19,665
Transfer to surplus reserves	—	—	—	146	(146)	—	—	—	—	—
Cash dividend	—	—	—	—	(3,180)	—	—	—	—	(3,180)
Share in realized gain (loss) on sale of equity securities at FVOCI	—	—	—	—	(122)	122	—	—	—	—
Parent Company shares held by mutual fund subsidiary	—	—	(21)	—	—	—	—	—	—	(21)
Balance as at December 31, 2018	₱79,600	₱85,252	(₱67)	₱1,956	₱130,550	(₱2,994)	(₱3,591)	(₱27)	₱2,084	₱292,763
Balance as at January 1, 2017	₱63,603	₱42,139	(₱485)	₱1,653	₱101,900	(₱10,115)	(₱4,007)	₱54	₱1,260	₱196,002
Total comprehensive income for the year	—	—	—	—	18,223	(5,689)	(18)	(32)	881	13,365
Transfer to surplus reserves	—	—	—	157	(157)	—	—	—	—	—
Cash dividends	—	—	—	—	(3,180)	—	—	—	—	(3,180)
Disposal of Parent Company shares held by mutual fund subsidiaries	—	—	439	—	—	—	—	—	—	439
Balance as at December 31, 2017	₱63,603	₱42,139	(₱46)	₱1,810	₱116,786	(₱15,804)	(₱4,025)	₱22	₱2,141	₱206,626

See accompanying Notes to Financial Statements.



METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES

STATEMENTS OF CASH FLOWS

(In Millions)

	Consolidated			Parent Company		
	Years Ended December 31					
	2019	2018	2017	2019	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES						
Income before income tax	₱38,935	₱31,180	₱29,260	₱34,664	₱26,492	₱22,738
Adjustments for:						
Provision for credit and impairment losses (Note 15)	10,078	7,770	7,507	1,644	807	1,395
Trading and securities loss (gain) on investment securities at FVOCI/AFS investments (Note 8)	(4,403)	115	(641)	(3,788)	24	(554)
Depreciation and amortization (Notes 10, 12 and 14)	4,906	3,572	3,524	2,327	1,559	1,585
Unrealized market valuation loss (gain) on financial assets and liabilities at FVTPL	1,395	(3,499)	1,652	1,612	(3,494)	1,652
Profit from assets sold (Notes 10 and 12)	(585)	(1,371)	(1,075)	(210)	(623)	(639)
Share in net income of subsidiaries, associates and a joint venture (Note 11)	(868)	(874)	(689)	(8,938)	(7,967)	(6,995)
Gain on initial recognition of investment properties and chattel properties acquired in foreclosure (Note 25)	(487)	(638)	(1,075)	(33)	(23)	(26)
Amortization of software costs (Note 14)	632	512	494	241	131	123
Dividends (Note 8)	(172)	(141)	(182)	(29)	(23)	(19)
Amortization of discount on subordinated debts, bonds payable and lease liability (Notes 19 and 20)	605	45	66	342	34	33
Decrease (increase) in:						
Investment securities at FVTPL	(22,009)	5,735	(7,497)	(21,184)	3,617	(6,327)
Loans and receivables	(107,137)	(138,128)	(213,951)	(63,413)	(117,786)	(161,020)
Other assets	143	(5,785)	1,033	(1,390)	(4,737)	938
Increase (decrease) in:						
Deposit liabilities	157,391	28,791	138,660	174,301	12,044	108,260
Bills payable - deposit substitutes	7,972	(14,952)	2,425	—	—	—
Manager's checks and demand drafts outstanding	(759)	(489)	1,122	(442)	110	669
Accrued interest and other expenses	880	2,646	(94)	1,029	1,720	(741)
Other liabilities	6,624	(8,732)	(5,704)	4,034	(3,187)	(7,317)
Non-equity non-controlling interest	(194)	(1,255)	68	—	—	—
Net cash provided by (used in) operations	92,947	(95,498)	(45,097)	120,767	(91,302)	(46,245)
Dividends received (Note 8)	172	141	182	29	23	19
Income taxes paid	(8,715)	(8,489)	(7,053)	(5,097)	(4,886)	(3,704)
Net cash provided by (used in) operating activities	84,404	(103,846)	(51,968)	115,699	(96,165)	(49,930)
CASH FLOWS FROM INVESTING ACTIVITIES						
Acquisitions of:						
Investment securities at FVOCI/AFS investments (Note 4)	(1,286,010)	(786,157)	(108,623)	(1,267,741)	(774,480)	(89,874)
Investment securities at amortized cost (Note 4)	(4,488)	(7,017)	—	(4,333)	(5,037)	—
Property and equipment (Note 10)	(3,722)	(2,889)	(3,556)	(1,999)	(1,473)	(1,826)
Investments in subsidiaries and associates (Note 11)	(9)	—	(235)	(7,839)	(15,011)	—
Software (Note 14)	—	(636)	(978)	—	(233)	(144)
Proceeds from sale of:						
Investment securities at FVOCI/AFS investments (Notes 4 and 11)	1,203,883	764,214	77,175	1,180,411	759,803	67,936
Property and equipment (Note 10)	955	585	165	76	278	85
Investments in associates (Note 11)	—	—	190	—	—	—
Investment properties (Note 12)	1,475	1,896	3,031	553	626	1,407
Proceeds from:						
Maturity of investment securities at amortized cost	920	4,077	—	469	30	—
Disposal of investment securities at amortized cost (Note 8)	16,686	—	—	—	—	—
Return of investment from an associate (Note 11)	—	180	—	—	180	—
Cash dividends from investees (Note 11)	169	462	288	1,073	2,448	3,655
Decrease (increase) in interbank loans receivable and SPURA (Note 26)	6,489	1,388	3,039	407	5,984	(322)
Net cash used in investing activities	(63,652)	(23,897)	(29,504)	(98,923)	(26,885)	(19,083)

(Forward)



	Consolidated			Parent Company		
	Years Ended December 31					
	2019	2018	2017	2019	2018	2017
CASH FLOWS FROM FINANCING						
ACTIVITIES (Note 26)						
Settlements of bills payable	(₱4,721,604)	(₱4,472,284)	(₱2,808,869)	(₱3,574,659)	(₱3,445,236)	(₱2,458,936)
Availments of bills payable and SSURA	4,692,306	4,519,008	2,872,903	3,562,652	3,489,833	2,496,553
Proceeds from issuance of:						
Bonds payable (Note 19)	52,499	27,826	—	42,135	27,826	—
Notes payable (Note 21)	—	2,600	—	—	—	—
Stock rights (Note 23)	—	59,110	—	—	59,110	—
Maturity of bonds payable (Note 19)	(3,000)	—	(8,599)	—	—	—
Repayments of subordinated debts (Note 20)	(19,000)	—	(3,000)	(16,000)	—	—
Cash dividends paid (Note 23)	(4,113)	(3,700)	(3,327)	(3,980)	(3,180)	(3,180)
Payment of principal portion of lease liabilities	(1,213)	—	—	(748)	—	—
Proceeds from disposal of Parent Company shares						
by mutual fund subsidiaries (Note 31)	—	10	455	—	—	—
Acquisition of Parent Company shares by a mutual						
fund subsidiary (Note 23)	(5)	(31)	(16)	—	—	—
Net cash provided by (used in) financing activities	(4,130)	132,539	49,547	9,400	128,353	34,437
NET INCREASE (DECREASE) IN CASH						
AND CASH EQUIVALENTS	16,622	4,796	(31,925)	26,176	5,303	(34,576)
CASH AND CASH EQUIVALENTS						
AT BEGINNING OF YEAR						
Cash and other cash items	33,091	27,631	26,553	29,280	24,975	23,470
Due from BSP	240,134	261,959	238,806	206,289	224,723	203,781
Due from other banks	45,808	31,291	44,315	35,218	19,286	30,101
Interbank loans receivable and SPURA (Note 26)	39,380	32,736	75,868	22,742	19,242	65,450
	358,413	353,617	385,542	293,529	288,226	322,802
CASH AND CASH EQUIVALENTS						
AT END OF YEAR						
Cash and other cash items	32,956	33,091	27,631	30,659	29,280	24,975
Due from BSP	219,994	240,134	261,959	195,770	206,289	224,723
Due from other banks	54,772	45,808	31,291	38,698	35,218	19,286
Interbank loans receivable and SPURA (Note 26)	67,313	39,380	32,736	54,578	22,742	19,242
	₱375,035	₱358,413	₱353,617	₱319,705	₱293,529	₱288,226

OPERATIONAL CASH FLOWS FROM INTEREST

OPERATIONAL CASH FLOWS FROM INTEREST						
	Consolidated				Parent Company	
	Years Ended December 31					
	2019	2018	2017	2019	2018	2017
Interest paid	₱39,558	₱25,910	₱18,347	₱26,207	₱17,452	₱11,391
Interest received	113,745	95,315	79,549	73,717	61,129	47,253

See accompanying Notes to Financial Statements.



METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Metropolitan Bank & Trust Company (the Parent Company) is a universal bank incorporated in the Philippines on April 6, 1962. The Securities and Exchange Commission (SEC) approved the renewal until April 6, 2057 on November 19, 2007. The Parent Company's shares were listed with the Philippine Stock Exchange, Inc. (PSE) on February 26, 1981, as approved by the SEC in November 1980. It has a universal banking license granted by the Bangko Sentral ng Pilipinas (BSP) on August 21, 1981.

The Parent Company and its subsidiaries (the Group) are engaged in all aspects of banking, financing, leasing, real estate and stock brokering through a network of over 2,000 local and international branches, subsidiaries, representative offices, remittance correspondents and agencies. As a bank, the Parent Company, which is the ultimate parent of the Group, provides services such as deposit products, loans and trade finance, domestic and foreign fund transfers, treasury, foreign exchange, trading and remittances, and trust services. Its principal place of business is at Metrobank Plaza, Sen. Gil Puyat Avenue, Urdaneta Village, Makati City, Metro Manila, Philippines.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying financial statements have been prepared on a historical cost basis except for financial assets and financial liabilities at fair value through profit or loss (FVTPL) and fair value through other comprehensive income (FVOCI) that have been measured at fair value.

The financial statements of the Parent Company and Philippine Savings Bank (PSBank) include the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU). The functional currency of RBU and FCDU is Philippine Peso (PHP) and United States Dollar (USD), respectively. For financial reporting purposes, FCDU accounts and foreign currency-denominated accounts in the RBU are translated into their equivalents in PHP (see accounting policy on Foreign Currency Translation). The financial statements of these units are combined after eliminating inter-unit accounts.

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The respective functional currencies of the subsidiaries are presented under Basis of Consolidation. The financial statements are presented in PHP, and all values are rounded to the nearest million pesos (₱000,000), except when otherwise indicated.

Statement of Compliance

The financial statements of the Group and the Parent Company have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Presentation of Financial Statements

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position. Income and expense are not



offset in the statement of income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

Basis of Consolidation

The consolidated financial statements include the financial statements of the Parent Company and of its subsidiaries and are prepared for the same reporting period as the Parent Company using consistent accounting policies. The following are the wholly and majority-owned foreign and domestic subsidiaries of the Parent Company in 2019 and 2018 (Note 11):

Subsidiary	Principal Place of Business and Country of Incorporation	Effective Percentage of Ownership	Functional Currency
Financial Markets:			
Domestic:			
Metrobank Card Corporation (A Finance Company and General Insurance Agency) (MCC)	Philippines	100.00	PHP
First Metro Investment Corporation (FMIC) and Subsidiaries	Philippines	99.27*	PHP
PSBank	Philippines	88.38*	PHP
ORIX Metro Leasing and Finance Corporation (ORIX Metro) and Subsidiaries	Philippines	59.85	PHP
Foreign:			
Metropolitan Bank (China) Ltd. (MBCL)	China	100.00	Chinese Yuan
Metropolitan Bank (Bahamas) Limited (Metrobank Bahamas)**	The Bahamas	100.00	USD
First Metro International Investment Company Limited (FMIIC) and Subsidiary	Hong Kong	100.00	Hong Kong Dollar (HKD)
Remittances:			
Metro Remittance (Hong Kong) Limited (MRHL)	Hong Kong	100.00	HKD
Metro Remittance (Singapore) Pte. Ltd. (MRSPL)	Singapore	100.00	Singapore Dollar
Metro Remittance (UK) Limited (MR UK)	United Kingdom	100.00	Great Britain Pound
Metro Remittance (USA), Inc. (MR USA)	United States of America (USA)	100.00	USD
Metro Remittance (Japan) Co. Ltd. (MR Japan)	Japan	100.00	Japanese Yen
Metro Remittance (Italia), S.p.A. (MR Italia)***	Italy	100.00	Euro
Real Estate:			
Circa 2000 Homes, Inc. (Circa)***	Philippines	100.00	PHP
Others:			
Philbancor Venture Capital Corporation (PVCC)***	Philippines	60.00	PHP
MBTC Technology, Inc. (MTI)****	Philippines	100.00	PHP

* In 2019, the Parent Company's effective percentage of ownership in FMIC and PSBank increased from 99.25% and 82.68%, respectively.

** Dissolved in April 2019

*** In process of dissolution

**** In process of liquidation

All significant intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full at consolidation (Note 31). Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved where the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Consolidation of subsidiaries ceases when control is transferred out of the Group or the Parent Company. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statements of income and consolidated statements of comprehensive income from the date of acquisition or up to the date of disposal, as appropriate.



Changes in the Parent Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for within equity. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid (or to be paid) or received is recognized directly in equity included as part of 'Translation adjustment and others' and attributed to the owners of the Parent Company.

When a change in ownership interest in a subsidiary occurs which results in a loss of control over the subsidiary, the Parent Company: (a) derecognizes the assets (including goodwill) and liabilities of the subsidiary; (b) derecognizes the carrying amount of any non-controlling interest; (c) derecognizes the related other comprehensive income (OCI) recorded in equity and recycles the same to statement of income or retained earnings; (d) recognizes the fair value of the consideration received; (e) recognizes the fair value of any investment retained; (f) recognizes any surplus or deficit in statement of income; and (g) reclassifies the Parent Company's share of components' gains (losses) previously recognized in OCI to profit or loss or surplus, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

Entity with Significant Influence over the Group

GT Capital Holdings, Inc. (GT Capital) holds 36.65% and 36.36% interest in the Parent Company as of December 31, 2019 and 2018, respectively (Note 31).

Non-controlling Interest

Non-controlling interest represents the portion of profit or loss and the net assets of the funds not held by the Group and are presented separately in the consolidated statement of income, consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from equity attributable to the Parent Company. Any losses applicable to the non-controlling interests in excess of the non-controlling interests are allocated against the interests of the non-controlling interest even if this results in the non-controlling interest having a deficit balance. Acquisitions of non-controlling interests are accounted for as equity transactions.

Non-equity Non-controlling Interest

The Group has seed capital investments in a number of funds where it is in a position to be able to control those funds. These funds are consolidated.

Non-equity non-controlling interest represents the portion of net assets of the consolidated funds not attributed, directly or indirectly, to the Parent Company and is presented separately in the liability section in the consolidated statement of financial position. This liability is accounted for at FVTPL and measured using net asset value per unit with changes recognized in 'Trading and securities gain (loss) - net' in the consolidated statement of income.

Changes in Accounting Policies and Disclosures

Except for these new and amended standards which were adopted as of January 1, 2019, the accounting policies adopted are consistent with those of previous financial year.

The Group applied for the first time, Philippine Financial Reporting Standards (PFRS) 16, *Leases*. It supersedes PAS 17, *Leases*, Philippine Interpretation IFRIC 4, *Determining Whether an Arrangement Contains a Lease*, SIC-15, *Operating Leases – Incentives*, and SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model. The Group adopted the modified retrospective



approach with certain transition reliefs with the date of initial application of January 1, 2019 and applied the following practical expedients wherein it:

- Applied the standard only to contracts that were previously identified as leases, applying the old standards at the date of initial application;
- Used the recognition exemptions for short-term leases and lease contracts for low value assets;
- Relied on its assessment of whether leases are onerous immediately before the date of initial application; and
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application.

As of January 1, 2019, the weighted average incremental borrowing rate applied to the lease liabilities ranges from 6.14% to 9.35%. The reconciliation of the operating lease commitments to the total gross lease payments used in the measurement of the lease liabilities are as follows:

	Consolidated	Parent Company
Operating lease commitments as of December 31, 2018	₱5,418	₱3,073
Lease payments relating to renewal periods not included in operating lease commitments as of December 31, 2018	51	43
Lease payments pertaining to leases of short-term and low-value assets	(125)	-
Operating lease commitments not considered on lease term	(14)	-
Total gross lease payments as of January 1, 2019	₱5,330	₱3,116
Weighted average incremental borrowing rate	6.14% - 9.35%	7.89%
Lease liability as of January 1, 2019	₱4,530	₱2,407

Except for the additional disclosures required, PFRS 16 has no impact for leases where the Group is the lessor.

The Group has lease contracts for various office spaces used as branch offices. Prior to 2019, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the lease asset to the Group; otherwise it was classified as an operating lease. All leases (as lessee) were classified as operating leases. In an operating lease, the leased property was not capitalized and the lease payments were recognized as rent expense under 'Occupancy and equipment-related cost' in the statement of income on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognized under 'Prepaid expenses' lodged in 'Other assets', and 'Accrued other expenses' lodged in 'Accrued interest and other expenses', respectively.

Effective January 1, 2019, the Group applied a single recognition and measurement approach for all leases (as lessee) except for short-term leases and leases of low-value assets. The Group recognized lease liabilities representing lease payments and right-of-use (ROU) assets representing the right to use the underlying assets. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate (IBR) at the date of initial application. ROU assets were recognized based on the amount equal to the lease liabilities adjusted for any related prepaid and accrued lease payments previously recognized.

Based on the foregoing, as of January 1, 2019, the Group and the Parent Company recognized ROU assets of ₱4.2 billion and ₱2.2 billion, respectively (presented under 'Property and equipment'); lease liability of ₱4.5 billion and ₱2.4 billion, respectively (presented under 'Other liabilities'); and derecognized accrued other expenses of ₱368.5 million and ₱182.2 million, respectively, related to previous operating leases.



The adoption of the following amendments and interpretation to standards did not have significant impact on the financial statements of the Group:

Amendments

- Amendments to PFRS 9, *Financial Instruments – Prepayment Features with Negative Compensation*
- Amendments to PAS 28, *Investments in Associates and Joint Ventures – Long-term Interests in Associates and Joint Ventures*
- Amendments to PAS 19, *Employee Benefits – Plan Amendment, Curtailment or Settlement*
- Annual Improvements to PFRS 2015 to 2017 Cycle
 - PFRS 3, *Business Combinations* and PFRS 11, *Joint Arrangements – Previously held interest in a joint operation*
 - PAS 12, *Income Taxes - Income tax consequence of payments on financial instruments classified as equity*
 - PAS 23, *Borrowing Costs – Borrowing costs eligible for capitalization*

Interpretation

- Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments*

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, *Income Taxes*. It does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

 - Whether an entity considers uncertain tax treatments separately
 - The assumptions an entity makes about the examination of tax treatments by taxation authorities
 - How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
 - How an entity considers changes in facts and circumstances

The Group is required to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and use the approach that better predicts the resolution of the uncertainty. The Group shall assume that the taxation authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, it shall reflect the effect of the uncertainty for each uncertain tax treatment using the method the entity expects to better predict the resolution of the uncertainty.

Upon adoption of the Interpretation, the Group has assessed whether it has any uncertain tax position. The Group applies significant judgement in identifying uncertainties over its income tax treatments. Since the Group operates in a complex and regulated environment, it assessed whether the Interpretation had an impact on its consolidated financial statement. The Group determined, based on its assessment, in consultation with its tax counsel, that it is probable that its uncertain income tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. Accordingly, the interpretation did not have an impact on the consolidated financial statements of the Group.



Significant Accounting Policies

Foreign Currency Translation

Transactions and balances

For financial reporting purposes, the foreign currency-denominated monetary assets and liabilities in the RBU are translated in Philippine peso based on the Bankers Association of the Philippines (BAP) closing rate (for 2019 and 2018) and the Philippine Dealing System (PDS) closing rate (for 2017) prevailing at the statement of financial position date and foreign currency-denominated income and expenses, at the prevailing exchange rates as at the date of transaction. Foreign exchange differences arising from revaluation and translation of foreign currency-denominated assets and liabilities are credited to or charged against operations in the year in which the rates change. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

FCDU, foreign branches and subsidiaries

As at the reporting date, the assets and liabilities of foreign branches and subsidiaries and FCDU of the Parent Company and PSBank are translated into the Parent Company's presentation currency (the PHP) at BAP (PDS in 2017) closing rate prevailing at the statement of financial position date, and their income and expenses are translated at BAP weighted average rate for 2019 and 2018 while in 2017, the basis was the PDS weighted average rate. Exchange differences arising on translation are taken to the statement of comprehensive income under 'Translation adjustment and others'. Upon disposal of a foreign entity or when the Parent Company ceases to have control over the subsidiaries or upon actual remittance of FCDU profits to RBU, the deferred cumulative amount recognized in the statement of comprehensive income is recognized in the statement of income.

Fair Value Measurement

The Group measures certain financial instruments, such as derivatives, at fair value at each statement of financial position date. Also, fair values of financial instruments measured at amortized cost and investment properties are disclosed in Note 5.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., an exit price). The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability; or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

If an asset or a liability measured at fair value has a bid price and an ask price, the price within the bid - ask spread that is most representative of fair value in the circumstances shall be used to measure fair value regardless of where the input is categorized within the fair value hierarchy.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.



For assets and liabilities not listed in an active market, the Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. The Group determines the policies and procedures for both recurring fair value measurement, such as financial assets and liabilities at FVTPL, and for non-recurring measurement, such as investment properties.

External valuers are involved for valuation of significant assets, such as investment properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Financial Instruments – Initial Recognition and Subsequent Measurement

Date of recognition

Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date. Derivatives are recognized on trade date basis. Deposits, amounts due to banks and customers and loans are recognized when cash is received by the Group or advanced to the borrowers.

Initial recognition of financial instruments

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

'Day 1' difference

Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the statement of income. In cases where the transaction price used is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' difference amount.



Classification and Subsequent Measurement

Financial assets are measured at FVTPL unless these are measured at FVOCI or at amortized cost. Financial liabilities are classified as either financial liabilities at FVTPL or financial liabilities at amortized cost. The classification of financial assets depends on the contractual terms and the business model for managing the financial assets. Subsequent to initial recognition, the Group may reclassify its financial assets only when there is a change in its business model for managing these financial assets. Reclassification of financial liabilities is not allowed.

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios. If cash flows after initial recognition are realized in a way that is different from the Group's original expectations, the Group 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 a second step of its classification process, the Group assesses the contractual terms of financial assets to identify whether they pass the contractual cash flows test (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 (for example, if there are repayments of principal or amortization of the 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 than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are SPPI. In such cases, the financial asset is required to be measured at FVTPL.

Financial assets at FVTPL

These are recorded in the statements of financial position at fair value with changes in fair value recognized in 'Trading, securities and foreign exchange gain - net'. Interest earned is recorded in 'Interest Income' while dividend income is recorded in 'Dividends' when the right to receive payment has been established. Included in this classification are debt and equity securities which have been acquired principally for the purpose of selling or repurchasing in the near term.

Derivatives recorded at FVTPL

The Parent Company and some of its subsidiaries are counterparties to derivative contracts, such as currency forwards, currency swaps, interest rate swaps (IRS), call options, non-deliverable forwards (NDF) and other interest rate derivatives. These derivatives are entered into as a service to customers and as a means of reducing or managing their respective foreign exchange and interest rate exposures, as well as for trading purposes. Such derivative financial instruments are initially recorded at fair value on the date at which the derivative contract is entered into and are subsequently remeasured at fair value. Any gains or losses arising from changes in fair values of derivatives (except those accounted for as accounting hedges) are taken directly to the statement of income and are included in 'Trading, securities and foreign exchange gain - net'. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Investment securities at FVOCI

Investment securities at FVOCI include debt and equity securities. After initial measurement, investment securities at FVOCI are subsequently measured at fair value. The unrealized gains and losses arising from the fair valuation of investment securities at FVOCI are excluded, net of tax as applicable, from the reported earnings and are included in the statement of comprehensive income as 'Change in net unrealized loss on investment securities at FVOCI'.



Debt securities at FVOCI are those that meet both of the following conditions: (i) the asset is held within a business model whose objective is to hold the financial assets in order to both collect contractual cash flows and sell financial assets; and (ii) the contractual terms of the financial asset give rise on specified dates to cash flow that are SPPI on the outstanding principal amount. The effective yield component of debt securities at FVOCI, as well as the impact of restatement on foreign currency-denominated debt securities at FVOCI is reported in the statement of income. Interest earned on holding debt securities at FVOCI are reported as 'Interest Income' using the effective interest rate (EIR) method. When the debt securities at FVOCI are disposed of, the cumulative gain or loss previously recognized in the statement of comprehensive income is recognized as 'Trading, securities and foreign exchange gain - net' in the statement of income. The expected credit loss (ECL) arising from impairment of such investments are recognized in OCI with a corresponding charge to 'Provision for credit and impairment losses' in the statement of income.

Equity securities designated at FVOCI are those that the Group made an irrevocable election to present in OCI the subsequent changes in fair value. Dividends earned on holding equity securities at FVOCI are recognized in the statement of income as 'Dividends' when the right of the payment has been established, except when the Group benefits from such proceeds as a recovery part of the cost of the instrument, in which case, such gains are recorded in OCI. Gains and losses on disposal of these equity securities are never recycled to profit or loss, but the cumulative gain or loss previously recognized in the statement of comprehensive income is reclassified to 'Surplus' or any other appropriate equity account upon disposal. Equity securities at FVOCI are not subject to impairment assessment.

Financial assets at amortized cost

Financial assets at amortized cost are debt financial assets that meet both of the following conditions: (i) these are held within a business model whose objective is to hold the financial assets in order to collect contractual cash flows; and (ii) the contractual terms give rise on specified dates to cash flows that are SPPI on the outstanding principal amount. This accounting policy relates to the statement of financial position captions 'Due from BSP', 'Due from other banks', 'Interbank loans receivable and SPURA', 'Investment securities at amortized cost' and 'Loans and receivables'.

After initial measurement, financial assets at amortized cost are subsequently measured at amortized cost using the EIR method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in 'Interest income' in the statement of income. Gains and losses are recognized in statement of income when these investments are derecognized or impaired, as well as through the amortization process. The ECL are recognized in the statement of income under 'Provision for credit and impairment losses'. The effects of revaluation on foreign currency-denominated investments are recognized in the statement of income

Financial liabilities at amortized cost

Issued financial instruments or their components, which are not designated at FVTPL, are classified as liabilities under 'Deposit liabilities', 'Bills payable and securities sold under repurchase agreements (SSURA)', 'Bonds payable', or 'Subordinated debts' or other appropriate financial liability accounts, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.



After initial measurement, bills payable and similar financial liabilities not qualified as and not designated at FVTPL, are subsequently measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

Financial Guarantees and Undrawn Loan Commitments

The Group issues financial guarantees and loan commitments. Financial guarantees are those issued by the Group to creditors as allowed under existing rules and regulations whereby it guarantees third party obligations by signing as guarantor in the contract/agreement. Undrawn loan commitments and letters of credit are commitments under which over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer. The nominal contractual value of financial guarantees and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded in the statement of financial position. Starting January 1, 2018, these contracts are in the scope of the ECL requirements where the Group estimates the expected portion of the undrawn loan commitments that will be drawn over their expected life. The ECL related to financial guarantees and undrawn loan commitments is recognized in 'Miscellaneous liabilities' under 'Other liabilities'.

Derecognition of Financial Assets and Financial Liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired; or
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risks and rewards of the asset but has transferred the control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. The extent of the Group's continuing involvement in the transferred asset is the extent to which it is exposed to changes in the value of the transferred asset. When the Group's continuing involvement takes the form of guaranteeing the transferred asset, the extent of the Group's continuing involvement is the lower of (i) the amount of the asset and (ii) the maximum amount of the consideration received that the Group could be required to repay ('the guarantee amount'). When the Group's continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase. However, in case of a written put option to an asset that is measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price. When the Group's continuing involvement takes the form of a cash-settled option or similar provision on the transferred asset, the extent of the Group's continuing involvement is measured in the same way as that which results from non-cash settled options.

Financial assets are written off either partially or in their entirety only when the Group has stopped pursuing the recovery. If a write-off is later recovered, any amounts formerly charged are credited to 'Recovery on Charged-off Assets' under 'Miscellaneous Income' in the Statements of Income.



Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of income.

Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date ('repos') are not derecognized from the statement of financial position. The corresponding cash received, including accrued interest, is recognized in the statement of financial position as SSURA included in 'Bills payable and SSURA' and is considered as a loan to the Group, reflecting the economic substance of such transaction.

Conversely, securities purchased under agreements to resell at a specified future date ('reverse repos') are not recognized in the statement of financial position. The corresponding cash paid including accrued interest, is recognized in the statement of financial position as SPURA, and is considered a loan to the counterparty. The difference between the purchase price and resale price is treated as interest income and is accrued over the life of the agreement using the EIR method.

Reclassification of Financial Assets

The Group reclassifies its financial assets when there is a change in its business model for managing financial assets. A change in business model occurs when the Group either begins or ceases to perform an activity that is significant to its operations. The Group applies the reclassification prospectively from the reclassification date and does not restate any previously recognized gains, losses or interest.

Impairment of Financial Assets

Policies applicable beginning January 1, 2018

The adoption of PFRS 9 has changed the Group's loss impairment method on financial assets by replacing PAS 39's incurred loss approach with a forward-looking ECL approach which covers all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts.

Overview of the ECL principles

ECL represents credit losses that reflect an unbiased and probability weighted amount which is based on reasonable and supportable information about past events, current conditions and forecasts of future economic conditions, and time value of money. The ECL allowance is based on the credit losses expected to arise on a 12-month duration if there has been no SICR of the financial asset since origination. Otherwise if a SICR is observed, then the ECL estimation is extended until the end of the life of the financial asset. The 12-month ECL represents the losses that result from default events on a financial asset which may happen within 12 months after the reporting date. The Lifetime ECL on the other hand represents the losses that result from default events on a financial asset which may happen over its life. Both Lifetime ECLs and 12-month ECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The major portfolios of financial assets identified upon initial analysis of the Group's credit exposure are loan receivables, treasury accounts, and other receivables. Loan receivables may be availed by specific individuals, corporations or organizations. Hence, these portfolios can be further segmented



to commercial and consumer portfolios. After segmentation, financial assets are grouped into Stage 1, Stage 2, and Stage 3 as described below.

Definition of “default” and “cure”

The Group defines a financial instrument as in default, which is fully aligned with the definition of non-performing loans i.e. credit impaired, in all cases when the borrower becomes more than 90 days (more than 30 days in 2018) past due on its contractual payments. As a part of a qualitative assessment of whether a customer is in default, the Group also considers a variety of instances that may indicate unlikelihood to pay. When such events occur, the Group carefully considers whether the event should result in treating the customer as defaulted. An instrument is considered to be no longer in default (i.e. to have cured) when it no longer meets any of the default criteria and has exhibited a satisfactory track record.

Treasury exposures are considered in default upon occurrence of a credit event such as but not limited to bankruptcy of counterparty, restructuring, failure to pay on agreed settlement date, or request for moratorium.

SICR

In order to determine whether an instrument is subject to 12-month or Lifetime ECL, the Group assesses whether there has been a SICR since initial recognition. The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative and qualitative factors. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Group’s internal credit assessment, the borrower or counterparty is determined to have well-defined credit weaknesses (i.e. with internal credit rating of 6 due to financial or repayment concerns or lower). These may include adverse trends or developments of financial, managerial, economic or political nature, or a significant weakness in collateral. Credit weakness may be manifested by unfavorable record or unsatisfactory characteristics or may only be potential that deserves management’s close attention and may lead to significant losses or may result in collection or liquidation of the outstanding loan amount to be highly improbable. For exposures without internal credit grades, if contractual payments are more than 30 days past due (1 day past due in 2018), the credit risk is deemed to have increased significantly since initial recognition. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. In subsequent reporting periods, if the credit risk of the financial asset improves over an observable period such that there is no longer a SICR since initial recognition, the Group shall revert to recognizing a 12-month ECL.

Staging assessment

For non-credit-impaired financial assets:

- Stage 1 is comprised of all non-impaired financial assets which have not experienced a SICR since initial recognition. The Group recognizes a 12-month ECL for Stage 1 financial assets.
- Stage 2 is comprised of all non-impaired financial assets which have experienced a SICR since initial recognition. The Group recognizes a lifetime ECL for Stage 2 financial assets.

For credit-impaired financial assets:

- Financial assets 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 financial asset or a portfolio of financial assets. ECL for Stage 3 exposure are computed on a per account, taking into consideration the present value of the expected recoverable cash flows from each transaction.



Financial assets that are credit-impaired on initial recognition are classified as purchased or originated credit-impaired (POCI) assets. These are recorded at fair value at original recognition and interest income is subsequently recognized based on a credit-adjusted EIR. ECL is only recognized or released to the extent that there is a subsequent change in the ECLs. POCI assets pertain to loans purchased by the Parent Company from MBCL.

Assessment of ECL on a collective basis

The Group calculates ECL either on an individual or a collective basis. The Group performs collective impairment by grouping exposures into smaller homogenous portfolios based on a combination of borrower and account characteristics. Accounts with similar risk attributes (i.e. facility, security, credit rating, months-on-books, utilization and collateral type, etc.) are pooled together for calculating provisions based on the ECL models.

ECL parameters and methodologies

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

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

EAD consists of the amortized cost and any accrued interest receivable. For off-balance sheet and undrawn committed amounts, EAD includes a credit conversion factor which is an estimate of any further amount to be drawn at the time of default.

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

The Group applies a simplified ECL approach for its accounts receivables wherein the Group uses a provisioning matrix that considers historical changes in the behavior of the portfolio to predict conditions over the span of a given observation period.

MCC offers credit card facilities, in which MCC has the right to cancel and/or reduce the facilities with one-day notice. MCC does not limit its exposure to credit losses to the contractual notice period, but instead, calculates ECL over a period that reflects MCC's expectations of the customers' behavior, their likelihood of default, and MCC's future risk mitigation procedures, which could include reducing or cancelling the facilities. Based on past experience and MCC's expectations, the period over which MCC calculates ECL for these products is two years. The interest rate used to discount the ECL for credit cards is based on contractual interest rate. These rates are also used to discount future recoveries over a period of five years as these cover the cost of securing an equivalent fund. MCC uses the contractual interest rate as discounting factor as MCC estimates that this rate is reflective of the EIR.



Forward-looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of a financial asset has increased significantly since its initial recognition and its measurement of ECL. A broad range of forward-looking information are considered as economic inputs, such as growth of the gross domestic product, inflation rates, unemployment rates, interest rates and BSP statistical indicators. The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

In 2018, the Company incorporated forward-looking information to its ECL estimation using the following economic inputs:

- Gross Domestic Product (GDP) (current) growth
- London Interbank Offered Rate (LIBOR)
- PHP / USD exchange rate

In 2019, after model reviews and validation, the Company relied on the following as economic inputs in measuring ECL:

- Treasury Bill (T-Bill) Rates
- Philippine Stock Exchange (PSE) All Shares Index
- GDP growth
- External debt
- PSE Financials Index
- GDP Financial intermediation
- Government expenditure

Debt investment securities measured at FVOCI

The ECL for debt securities at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortized cost is recognized in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognized in OCI is recycled to profit or loss upon derecognition of these financial assets.

Policies applicable prior to January 1, 2018

The Group assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

For financial assets carried at amortized cost such as loans and receivables, due from other banks, interbank loans and SPURA, and HTM investments, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. For individually assessed



financial assets, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

Financial assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment. The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to the statement of income. Interest income continues to be recognized based on the original EIR of the asset. Financial assets, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent period, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited to 'Recovery on charged-off assets' under 'Miscellaneous income' in the statements of income. If the Group determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of credit risk characteristics such as industry, collateral type, past-due status and term. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with changes in related observable data from period to period (such as changes in property prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

The Group also uses the Net Flow Rate (NFR) method to determine the credit loss rate of a particular delinquency age bucket based on historical data of flow-through and flow-back of loans across specific delinquency age buckets. The allowance for credit losses is determined based on the results of the net flow to write-off methodology. Net flow tables are derived from monitoring of monthly peso movements between different stage buckets, from 1-day past due to 180-day past due. The net flow to write-off methodology relies on the last 12 months of net flow tables to establish a NFR percentage of accounts receivable that are current or in any state of delinquency (i.e., 30, 60, 90, 120, 150 and 180 day past due) as of reporting date that will eventually result in write-off. The gross provision is then computed based on the outstanding balances of the receivables as of statement of financial position date and the NFRs determined for the current and each delinquency bucket. This gross provision is reduced by the estimated recoveries, which are also based on historical data, to arrive at the required allowance for credit losses.



If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

AFS investments

In case of quoted equity securities classified as 'AFS investments', this would include a significant or prolonged decline in the fair value of the securities below their cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statement of income - is removed from OCI and recognized in the statement of income. Impairment losses on equity securities are not reversed through the statement of income. Increases in fair value after impairment are recognized directly in OCI. In case of unquoted equity securities classified as 'AFS investments', the amount of the impairment is measured as the difference between their carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

In case of debt instruments classified as 'AFS investments', impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of 'Interest income' in the statement of income. If subsequently, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of income, the impairment loss is reversed through the statement of income.

Restructured Loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews and monitors restructured loans until derecognition to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR. The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the original EIR, is recognized in 'Provision for credit and impairment losses' in the statement of income. When the loan has been restructured but not derecognized, the Group also reassesses whether there has been a SICR and considers whether the assets should be classified as Stage 3. If the restructuring terms are substantially different, the loan is derecognized and a new 'asset' is recognized at fair value using the revised EIR.

Collateral Valuation of Financial Assets

Collateral, unless repossessed, is not recorded in the Group's statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed every other year. However, some collaterals, for example, cash or securities relating to margining requirements, are valued daily.

Revenue Recognition

Effective January 1, 2018

Revenue from contracts with customers is recognized upon transfer of services to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those services.



The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or agent. The Group concluded that it is acting as a principal in all of its revenue arrangements except for certain brokerage transactions. The following specific recognition criteria must also be met before revenue is recognized within the scope of PFRS 15:

Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers, which are divided into the following two categories:

a. Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period as the customer simultaneously receives and consumes the benefits provided by the Group. Using an output method, revenue is recognized if the Group has a right to invoice the customer for services directly corresponding to performance completed to date. These fees include investment fund fees, custodian fees, fiduciary fees, asset management fees, and income from trust operations.

b. Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party - such as commission income, underwriting fees, corporate finance fees, advisory fees and brokerage fees for the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses - are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

Prior to January 1, 2018, the Group adopted PAS 18 in accounting for the above fees and commissions. The Group assessed that there is no difference in accounting for the above fees and commission income under PFRS 15 and PAS 18.

Discounts earned, membership fees and awards revenue on credit cards

The following table provides information about the nature and timing of the satisfaction of performance obligations for the Group's credit card business, 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	Revenue recognition under PAS 18
Discounts earned	Charges arising from credit availments by the Group's and other credit companies' cardholders when the Group is acting as an acquirer. These discounts are computed based on certain agreed rates. These also include interchange income from transactions processed by other acquirers through VISA and Mastercard and fees from cash advance transactions of cardholders.	Recognized as revenue upon receipt from member establishments of charges arising from credit availments by the Group's cardholders and other credit companies' cardholders when the Group is acting as an acquirer.	Recognized as revenue upon receipt from member establishments of charges arising from credit availments by the Group's cardholders and other credit companies' cardholders when the Group is acting as an acquirer.
Membership fees and dues	Periodically charged to cardholders upfront.	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.	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.



Type of product/service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under PFRS 15	Revenue recognition under PAS 18
Awards revenue	The Group operates a loyalty points program, which allows customers to accumulate points when they purchase from member establishments using the issued card of the Group. The points accumulate and do not expire.	The Group allocates a portion of the consideration received from discounts earned and interchange fees from credit cards to the reward points based on the estimated stand-alone selling prices. The amount allocated to the 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 the 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.

Revenues outside the scope of PFRS 15

Interest income

For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as investment securities at FVOCI investments, interest income is recorded at the EIR, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), including any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR. The adjusted carrying amount is calculated based on the original EIR. The change in carrying amount is recorded as 'Interest income'. Loan commitment fees that are likely to be drawn down are deferred (together with any incremental costs) and recognized as an adjustment to the EIR of the loan.

Under PFRS 9, when a financial asset becomes credit-impaired and is, therefore, regarded as Stage 3 (as discussed in "Impairment of Financial Assets" above), the Group calculates interest income by applying the EIR to the net amortized cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Group reverts to calculating interest income on a gross basis. Under PAS 39 (applicable prior to January 1, 2018), once the recorded value of a financial asset or group of similar financial assets carried at amortized cost has been reduced due to an impairment loss, interest income continues to be recognized using the original EIR applied to the new carrying amount.

Purchases by credit cardholders, collectible on an installment basis, are recorded at the cost of the items purchased plus a certain percentage of cost. The excess over cost is credited to 'Unearned discount' and is shown as a deduction from 'Loans and receivables' in the consolidated statement of financial position. The unearned discount is taken up to interest income over the installment terms and is computed using the EIR method.

Recovery on charged-off assets

Income arising from collections on accounts or recoveries from impairment of items previously written off are recognized in the year of recovery.

Leasing income - Finance lease

The excess of aggregate lease rentals plus the estimated residual value over the cost of the leased equipment constitutes the unearned lease income. Residual values represent estimated proceeds from the disposal of equipment at the time lease is estimated. The unearned lease income is amortized over the term of the lease, commencing on the month the lease is executed using the EIR method.

Dividend income

Dividend income is recognized when the Group's right to receive payment is established.



Trading and securities gain (loss) - net

Results arising from trading activities include all gains and losses from changes in fair value for financial assets and financial liabilities at FVTPL and gains and losses from disposal of investment securities at FVTPL, debt securities at FVOCI/AFS and HTM investments.

Rental income

Rental income arising on leased properties is accounted for on a straight-line basis over the lease terms on ongoing leases and is recorded in the statement of income under 'Leasing'.

Income on direct financing leases and receivables financed

Income on loans and receivables financed with short-term maturities is recorded in 'Interest income' and is recognized using the EIR method. Interest and finance fees on finance leases and loans and receivables financed with long-term maturities and the excess of the aggregate lease rentals plus the estimated terminal value of the leased equipment over its cost are credited to unearned discount and amortized over the term of the note or lease using the EIR method.

Gain on sale of investment in associate

Upon loss of significant influence over an associate, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

Gain on sale of non-current asset held for sale

The gain or loss arising from the sale of non-current asset held for sale is included in profit or loss when the item is derecognized. The gain or loss arising from the derecognition of non-current asset held for sale is determined as the difference between the net disposal proceeds and its carrying amount on the date of the transaction.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, amounts due from BSP and other banks, and interbank loans receivable and SPURA with original maturities of three months or less from dates of placements and that are subject to insignificant risk of changes in value.

Property and Equipment

Land is stated at cost less any impairment in value and depreciable properties including buildings, furniture, fixtures and equipment and leasehold improvements are stated at cost less accumulated depreciation and amortization, and any impairment in value. Such cost includes the cost of replacing part of the property and equipment when that cost is incurred, if the recognition criteria are met but excludes repairs and maintenance costs. Building under construction (BUC) is stated at cost and includes cost of construction and other direct costs. BUC is not depreciated until such time that the relevant asset is completed and put into operational use.

Depreciation is calculated on the straight-line method over the estimated useful life of the depreciable assets. Leasehold improvements are amortized over the shorter of the terms of the covering leases and the estimated useful lives of the improvements. The range of estimated useful lives of property and equipment follows:

Buildings	25 to 50 years
Furniture, fixtures and equipment	2 to 5 years
Leasehold improvements	5 to 20 years



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

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income under 'Profit from assets sold' in the year the asset is derecognized.

Investments in Subsidiaries, Associates and a Joint Venture (JV)

Investment in subsidiaries

Subsidiaries pertain to all entities over which the Group has control. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements; and
- the Group's voting rights.

Investment in associates

Associates pertain to all entities over which the Group and the Parent Company have significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. Investment in associates is accounted for under the equity method of accounting.

Investment in a JV

A JV is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the JV. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. Investment in a JV is accounted for under the equity method of accounting. The Group's investment in a JV represents the 30% interest of PSBank in Sumisho Motor Finance Corporation (SMFC) (Note 11).

Upon loss of significant influence over the associate or joint control over the JV, the Group and the Parent Company measure and recognize any retained investment at its fair value. Any difference between the carrying amount of the associate or JV upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in the statement of income.

Under the equity method, investments in associates and a JV are carried in the statement of financial position at cost plus post-acquisition changes in the Group's and the Parent Company's share of the net assets of the associate or JV less any impairment in value. Post-acquisition changes in the share of net assets of the associate or a JV include the share in the: (a) income or losses; and (b) unrealized gain or loss on investment securities, remeasurement of retirement plans and others. Dividends received are treated as a reduction in the carrying values of the investments. Goodwill relating to the associate and a JV is included in the carrying value of the investment and is not amortized. When the Group and the Parent Company increase its ownership interest in an associate or a JV that continues to be accounted for under the equity method, the cost for the additional interest is added to the existing carrying amount of the associate or JV and the existing interest in the associate or JV is not



remeasured. The share in an associate or a JV's post-acquisition profits or losses is recognized in the statement of income as 'Share in net income of subsidiaries, associates and a joint venture' while its share of post-acquisition movements in the associate or JV's equity reserves is recognized directly in the statement of comprehensive income. When the share of losses in an associate or a JV equals or exceeds its interest in the associate or JV, including any other unsecured receivables, the Group and the Parent Company do not recognize further losses, unless it incurred obligations or made payments on behalf of the associate or JV which is recognized as miscellaneous liabilities. Profits and losses resulting from transactions between the Group or the Parent Company and an associate or JV are eliminated to the extent of the Group or the Parent Company's interest in the associate or JV.

Investments in subsidiaries in the separate financial statements are accounted for under the equity method similarly as investments in associates and JV. Equity in other comprehensive income (losses) of subsidiaries and changes therein are included in remeasurement losses on retirement plan, net unrealized loss on investment securities at FVOCI and AFS investments, and translation adjustments and others as appropriate together with the Parent Company in the separate statement of financial position and statement of comprehensive income.

Investment Properties

Investment properties are measured initially at cost, including transaction costs. An investment property acquired through an exchange transaction is measured at fair value of the asset acquired unless the fair value of such an asset cannot be measured in which case the investment property acquired is measured at the carrying amount of asset given up. The difference between the fair value of the asset received and the carrying amount of the asset given up is recorded as 'Gain on initial recognition of investment properties' under 'Miscellaneous income'. Foreclosed properties are classified under 'Investment properties' upon: a.) entry of judgment in case of judicial foreclosure; b.) execution of the Sheriff's Certificate of Sale in case of extra-judicial foreclosure; or c.) notarization of the Deed of Dacion in case of dation in payment (*dacion en pago*). Subsequent to initial recognition, investment properties are carried at cost less accumulated depreciation (for depreciable investment properties) and impairment in value.

Investment properties are derecognized when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the statement of income under 'Profit from assets sold' in the year of retirement or disposal.

Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs, are normally charged to operations in the year in which the costs are incurred. Depreciation is calculated on a straight-line basis using the remaining useful lives from the time of acquisition of the investment properties based on appraisal reports but not to exceed 50 years for buildings and condominium units.

Transfers are made to investment properties when, and only when, there is a change in use evidenced by ending of owner occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment properties when, and only when, there is a change in use evidenced by commencement of owner occupation or commencement of development with a view to sale.

Interest in Joint Operations

The Group is a party to joint operations whereby it contributed parcels of land for development into residential and commercial units. In respect of the Group's interest in the joint operations, the Group recognizes the following: (a) the assets that it controls and the liabilities that it incurs; and (b) the expenses that it incurs and its share of the income that it earns from the sale of units by the joint



operations. The assets contributed to the joint operations are measured at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale (Note 14).

Chattel Mortgage Properties

Chattel mortgage properties comprise of repossessed vehicles. Chattel mortgage properties are stated at cost less accumulated depreciation and impairment in value. Depreciation is calculated on a straight-line basis using the remaining useful lives from the time of acquisition of the vehicles. The useful lives of chattel mortgage properties are estimated to be five years.

Subordinated Notes

Subordinated notes issued by Special Purpose Vehicles (SPV) (presented as ‘Investment in SPVs’ under ‘Other assets’) are stated at amortized cost reduced by an allowance for credit losses. The allowance for credit losses is determined based on the difference between the outstanding principal amount and the recoverable amount which is the present value of the future cash flow expected to be received as payment for the subordinated notes.

Intangible Assets

Software costs

Software costs (presented under ‘Other assets’) are capitalized on the basis of the cost incurred to acquire and bring to use the specific software. These costs are amortized over three to five years on a straight-line basis. Costs associated with maintaining the computer software programs are recognized as expense when incurred. Software costs are carried at cost less accumulated amortization.

Exchange trading right

Exchange trading right (included in ‘Miscellaneous assets’ presented under ‘Other assets’) is a result of the PSE conversion plan to preserve access of First Metro Securities Brokerage Corporation (FMSBC), a subsidiary of FMIC, to the trading facilities and continue transacting business in the PSE. The exchange trading right has an indefinite useful life as there is no foreseeable limit to the period over which this asset is expected to generate net cash inflows. It is carried at the amount allocated from the original cost to the exchange membership seat (after a corresponding allocation was made to the value of the PSE shares) less any allowance for impairment losses. FMSBC does not intend to sell the exchange trading right in the near future.

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group’s interest in the net fair value of the acquiree’s identifiable assets, liabilities and contingent liabilities. With respect to investments in associates and a JV, goodwill is included in the carrying amounts of the investments. Following initial recognition, goodwill is measured at cost net of impairment losses (see accounting policy on “Impairment of Non-financial Assets”).

Customized System Development Cost

Customized system development cost consists of payments for customization of various banking systems. This account will be reclassified to appropriate accounts upon completion and will be depreciated and amortized from the time the asset is ready for its intended use (Note 14).

Impairment of Non-financial Assets

Property and equipment, investments in subsidiaries, associates and a JV, investment properties, chattel mortgage properties, intangible assets with finite useful lives and other assets

At each statement of financial position date, the Group assesses whether there is any indication that its non-financial assets may be impaired. When an indicator of impairment exists or when an annual



impairment testing for an asset is required, the Group makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell (FVLCTS) and its value in use (VIU) and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash generating unit to which it belongs. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to operations in the year in which it arises.

An assessment is made at each statement of financial position date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income. After such a reversal, the depreciation and amortization expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Intangible assets with indefinite useful lives and customized system development cost not yet available for use

Intangible assets with indefinite useful lives such as exchange trading right and customized system development cost not yet available for use are tested for impairment annually at statement of financial position date either individually or at the cash generating unit level, as appropriate.

Goodwill

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the cash generating unit (CGU) (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the CGU (or group of CGUs) to which goodwill has been allocated, an impairment loss is recognized immediately in the statement of income. The Group uses the higher of FVLCTS and VIU using cash flow projections from financial budgets approved by senior management in determining the recoverable amount.

Leases

Group as lessee

Policies applicable beginning January 1, 2019

The Group assesses at contract inception whether a contract is, or contains a lease. A contract contains a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognizes lease liabilities to make lease payments and ROU assets representing the right-of-use the underlying assets.

ROU assets

The Group recognizes ROU assets (included in 'Property and Equipment') at the commencement date of the lease (i.e. the date the underlying asset is available for use). ROU assets are measured at cost less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of



lease liabilities. The cost of ROU assets includes the amount of lease liabilities recognized and lease payments made at or before the commencement date less any lease incentives received. ROU assets are depreciated on a straight line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

Office space	1 to 29 years
ATM site and equipment	1 to 5 years

Lease liabilities

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest (included in 'Interest expense on bills payable and SSURA, bonds payable, subordinated debt and others) and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term or a change in the lease payments.

The Group's lease liabilities are included in Other Liabilities (Note 21).

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of office spaces and ATM sites (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of ATM site and other equipment that are considered to be of low value (i.e., those with value of less than ₱250,000). Lease payments on short-term leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Residual value of leased assets and deposits on lease contracts

The residual value of leased assets, which approximates the amount of guaranty deposit paid by the lessee at the inception of the lease, is the estimated proceeds from the sale of the leased asset at the end of the lease term. At the end of the lease term, the residual value of the leased asset is generally applied against the guaranty deposit of the lessee when the lessee decides to buy the leased asset.

Policies applicable prior to January 1, 2019

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).

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to the ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and included in 'Property



and equipment' with the corresponding liability to the lessor included in 'Other liabilities'. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recorded directly to 'Interest expense'.

Capitalized leased assets are depreciated over the shorter of the estimated useful lives of the assets or the respective lease terms, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Leases where the lessor retains substantially all the risk and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognized as an expense in the statement of income under 'Occupancy and equipment-related cost' on a straight-line basis over the lease term. Contingent rental payables are recognized as expense in the year in which they are incurred. Any prepaid rent and accrued rent were recognized under 'Prepaid expenses' lodged in 'Other assets' and 'Accrued other expenses' lodged in 'Accrued interest and other expenses', respectively.

Group as lessor

Finance leases, where the Group transfers substantially all the risks and benefits incidental to the ownership of the leased item to the lessee, are included in the statement of financial position under 'Loans and receivables'. All income resulting from the receivable is included in 'Interest income' in the statement of income.

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the year in which they are earned.

Retirement Cost

The Group has a non-contributory defined benefit retirement plan except for FMIIC and its subsidiary which follow the defined contribution retirement benefit plan and the Mandatory Provident Fund Scheme (MPFS). The retirement cost of the Parent Company and most of its subsidiaries is determined using the projected unit credit method. Under this method, the current service cost is the present value of retirement benefits payable in the future with respect to services rendered in the current year. The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation (DBO) at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries. Net interest on the net defined benefit liability or asset is the change



during the year in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss. Retirement expense is presented under 'Compensation and fringe benefits' in the statement of income. Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods. Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the DBO, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Group's right to be reimbursed of some or all of the expenditure required to settle a DBO is recognized as a separate asset at fair value when and only when reimbursement is virtually certain. Payments to the defined contribution retirement benefit plans and the MPFS are recognized as expenses when employees have rendered service entitling them to the contributions.

Equity

When the shares are sold at a premium, the difference between the proceeds and par value is credited to 'Capital paid in excess of par value', net of direct costs incurred related to the equity issuance. If 'Capital paid in excess of par value' is not sufficient, the excess is charged against surplus. When the Group issues more than one class of stock, a separate account is maintained for each class of stock and the number of stocks issued.

Surplus represents accumulated earnings of the Group less dividends declared.

Own equity instruments which are reacquired or Parent Company's shares acquired by its subsidiaries (treasury stock) are recognized at cost and deducted from equity. No gain or loss is recognized in the profit or loss on the purchase, sale, issue or cancellation of the Parent Company's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in 'Capital paid in excess of par value'. Voting rights related to treasury stocks are nullified and no dividends are allocated. When the stocks are retired, the Common stock account is reduced by its par value and the excess of cost over par value upon retirement is debited to capital paid in excess of par value at the time the stocks were issued and to surplus for the remaining balance.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to



the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as 'Interest expense'.

Contingent Liabilities and Contingent Assets

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

Income Taxes

Current taxes

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxing authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the statement of financial position date. Effective January 1, 2019, management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretations and establishes provisions where appropriate.

Deferred taxes

Deferred tax is provided on temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- a. Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- b. In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular income tax, and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable income will be available against which the deductible temporary differences and carryforward of unused tax credits from MCIT and unused NOLCO can be utilized except:

- a. Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- b. In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each statement of financial position date and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.



Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

Current tax and deferred tax relating to items recognized directly in equity are recognized in OCI and not in the statement of income.

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

Earnings Per Share

Basic earnings per share is computed by dividing net income for the year attributable to equity holders of the Parent Company by the weighted average number of common shares outstanding during the year after giving retroactive effect to stock dividends declared and stock rights exercised during the year. The Group does not have dilutive potential common shares.

Dividends on Common Shares

Cash dividends on common shares are recognized as a liability and deducted from the equity when approved by the Board of Directors (BOD) of the Parent Company while stock dividends are deducted from equity when approved by BOD and shareholders of the Parent Company. Dividends declared during the year but are paid or issued after the statement of financial position date are dealt with as a subsequent event.

Debt Issuance Costs

Issuance, underwriting and other related costs incurred in connection with the issuance of debt instruments are deferred and amortized over the terms of the instruments using the EIR method. Unamortized debt issuance costs are included in the related carrying amount of the debt instrument in the statement of financial position.

Capital Securities Issuance Costs

Issuance, underwriting and other related costs incurred in connection with the issuance of the capital securities are treated as a reduction of equity against 'Capital paid in excess of par value'.

Events after the Statement of Financial Position Date

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

Segment Reporting

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on business segments is presented in Note 6.

Fiduciary Activities

Assets and income arising from fiduciary activities together with related undertakings to return such assets to customers are excluded from the financial statements where the Parent Company and PSBank act in a fiduciary capacity such as nominee, trustee or agent.



Standards Issued but not yet Effective

The list below consists of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt these standards when they become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended standards and interpretations to have significant impact on its financial statements.

Effective beginning on or after January 1, 2020

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

The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business. An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted. These amendments will apply to future business combinations of the Group.

Amendments to PAS 1, Presentation of Financial Statements, and PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Material

The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements. An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

Effective beginning on or after January 1, 2021

PFRS 17, Insurance Contracts

PFRS 17 provides updated information about the obligation, risks and performance of insurance contracts, increases transparency in financial information reported by insurance companies, and introduces consistent accounting for all insurance contracts based on a current measurement model. The standard is effective for annual periods beginning on or after January 1, 2021. Early application is permitted but only if the entity also applies PFRS 9 and PFRS 15.

Deferred effectivity

Amendments to PFRS 10, Consolidated Financial Statements and PAS 28, Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture. On January 13, 2016, the Financial Reporting Standards Council postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.



3. Significant Accounting Judgments and Estimates

The preparation of the financial statements in compliance with PFRS requires the Group to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and the disclosures of contingent assets and contingent liabilities. Future events may occur which can cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The following are the critical judgments and key assumptions that have a significant risk of material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Judgments

a. Classification of financial assets

Beginning January 1, 2018, the Group 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 Group 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 Group'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 Group applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, 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. Consolidation of subsidiaries

The determination whether the Group has control over an investee company requires significant judgment. The Group considers that the following criteria are all met, including: (a) an investor has the power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's return.

In accordance with PFRS 10, the Group included the accounts of First Metro Save and Learn Balance Fund, Inc. (FMSALBF), First Metro Save and Learn Equity Fund, Inc. (FMSALEF), First Metro Save and Learn Fixed Income Fund (FMSLFIF), First Metro Philippine Equity Exchange Traded Fund, Inc. (FMPETF), First Metro Save and Learn F.O.C.C.U.S. Dynamic Fund, Inc. and First Metro Save and Learn Money Market Fund, Inc., collectively the "Funds", in its consolidated financial statements. The Group re-assessed the control conclusion for these Funds. Although the ownership is less than half of the voting power of these investees, the Group has control due to its power to direct the relevant activities of the Funds through First Metro Asset Management Inc. (FAMI), a subsidiary of FMIC, which acts as the fund manager of the Funds. Further, the Group has the exposure to variable returns from its investments and its ability to use its power over the Funds to affect their returns.



c. Existence of significant influence over an associate with less than 20.00% ownership

As discussed in Note 11, there are instances that an investor exercises significant influence even if its ownership is less than 20.00%. The Group applies significant judgment in assessing whether it holds significant influence over an investee and considers the following:

- (a) representation in the board of directors or equivalent governing body of the investee;
- (b) participation in policy-making processes, including participation in decisions about dividends or other distributions;
- (c) material transactions between the investor and the investee;
- (d) interchange of managerial personnel;
- (e) joint voting agreement with other investors; or
- (f) provision of essential technical information.

d. Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position or disclosed in the notes to financial statements cannot be derived from active markets, these are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. These judgments may include considerations of liquidity and volatility for longer dated derivatives (Note 5).

e. Leases

Group as lessor

The Group has entered into commercial property leases on its investment properties portfolio and over various items of furniture, fixtures and equipment. The Group has determined, based on an evaluation of the terms and conditions of the arrangements (i.e., the lease does not transfer ownership of the asset to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable and the lease term is not for the major part of the asset's economic life), that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Group as lessee

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

Extension and termination options

The Group has several lease contracts that include extension and termination options. The Group applies judgment in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors such as leasehold improvements and location that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassess the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

Estimating the IBR for lease liabilities

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its IBR to measure lease liabilities. The IBR for lease liabilities is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the ROU asset in a similar economic environment. The Group estimates the IBR for lease liabilities using observable inputs (by reference to prevailing risk-free rates) adjusted to take into account the entity's credit risk (i.e., credit spread).



f. Contingencies

The Group is currently involved in legal proceedings. The estimate of the probable cost for the resolution of claims has been developed in consultation with the aid of the outside legal counsel handling the Group's defense in this matter and is based upon an analysis of potential results. It is probable, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to this proceeding (Note 31).

Estimates

a. Credit losses on financial assets

The Group reviews its debt financial assets subject to ECL on a semi-annual basis with updating provisions made during the intervals as necessary based on the continuing analysis and monitoring of individual accounts by credit officers. The measurement of credit losses under PFRS 9 across all categories of such financial assets requires judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining credit losses and the assessment of a SICR. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgments and estimates include, among others:

- Segmentation of the portfolio, where the appropriate model or ECL approach is used
- Criteria for assessing if there has been a SICR and so allowances for debt financial assets should be measured on a lifetime ECL basis and the qualitative assessment. In 2019, Stage 2 includes those accounts that are "Watchlisted" due to financial and repayment concerns, which are previously under Stage 1, and aligned the definition of default (previously more than 30 days past due) with the BSP's definition of non-performing loans, i.e., more than 90 days past due
- Segmentation of debt financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs. In 2019, the Parent Company recalibrated its lifetime PD models and loss rates (for portfolios to which the loss rate approach is applied).
- Determination of associations between macroeconomic scenarios and economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomics scenarios and their probability weightings, to derive the economic inputs into the ECL models

The gross carrying amounts of financial assets subject to ECL as of December 31, 2019 and December 31, 2018 are disclosed in Note 4, while the related ECL allowances for credit losses are disclosed in Note 15. In 2019 and 2018, provision for credit losses on these financial assets amounted to ₱9.6 billion and ₱7.7 billion, respectively for the Group and ₱1.6 billion and ₱0.8 billion, respectively for the Parent Company (Note 16).

b. Recognition of deferred income taxes

Deferred tax assets are recognized for all unused tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The estimates of future taxable income indicate that certain temporary differences will be realized in the future. The recognized net deferred tax assets and unrecognized deferred tax assets for the Group and the Parent Company are disclosed in Note 28.



c. *Present value of retirement liability*

The cost of defined retirement pension plan is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and the long-term nature of these plans, such estimates are subject to significant uncertainty. The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of the statement of financial position date. The present values of the retirement liability of the Group and the Parent Company are disclosed in Note 27.

d. *Impairment of non-financial assets*

The Group assesses impairment on non-financial assets (property and equipment, investments in subsidiaries, associates and a JV, investment properties, software costs, chattel mortgage properties and other assets) whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Group considers important which could trigger an impairment review include the following: a) significant underperformance relative to expected historical or projected future operating results; b) significant changes in the manner of use of the acquired assets or the strategy for overall business; and c) significant negative industry or economic trends.

The Group uses the higher of FVLCTS and VIU in determining recoverable amount. As of December 31, 2019 and 2018, there has been a significant and prolonged decline in the fair value of an associate. The recoverable amount of the investment in the associate has been determined based on a VIU calculation. Key assumptions in VIU calculation are most sensitive to the following assumptions: (a) production volume; (b) price; (c) exchange rates; (d) capital expenditures and (e) long-term growth rates. Based on the Group's impairment testing as of December 31, 2019, allowance for impairment loss on investment in associate amounted to ₱513.6 million.

The carrying values of the property and equipment, investments in subsidiaries, associates and a JV, investment properties, software costs, chattel mortgage properties, and other assets of the Group and the Parent Company are disclosed in Notes 11, 12, 13 and 15, respectively.

Goodwill

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the CGU (or group of CGUs) to which goodwill has been allocated, an impairment loss is recognized immediately in the statement of income. The recoverable amount of the CGU is determined based on FVLCTS.

The fair value of the CGU is determined using the cost approach, specifically the adjusted Net Asset Value (NAV) method. This method requires the measurement of the fair value of the individual assets and liabilities recognized in the CGU, as well as the fair value of any unrecognized assets and liabilities at the measurement date. The resulting net fair values of the assets and liabilities represent the fair value of the CGU. In determining the fair value of the CGU's net assets, the Group used the discounted cash flow method for unquoted debt financial assets/liabilities at the appropriate market rate, the price-to-earnings (P/E) valuation model for unquoted equity investments, and the appraisal reports for the valuation of real properties. Fair values of listed debt and equity securities are based on their quoted market prices. The Group applied the P/E valuation model by reference to P/E ratios of listed comparable companies of the



CGU's equity investments. The FVLCTS calculation of the CGU is most sensitive to discount rates and the P/E ratios of listed comparable companies of the CGU's equity investments. As of December 31, 2019 and 2018, the Group's goodwill amounted to ₱5.2 billion (Note 11).

4. Financial Risk and Capital Management

Introduction

The Group has exposure to the following risks from its use of financial instruments: (a) credit; (b) liquidity; and (c) market risks.

Risk management framework

The Board of Directors (BOD) has overall responsibility for the oversight of the Parent Company's risk management process. On the other hand, the risk management processes of the subsidiaries are the separate responsibilities of their respective BOD. Supporting the BOD in this function are certain Board-level committees such as Risk Oversight Committee (ROC), Audit Committee (AC) and senior management committees through the Executive Committee and Asset and Liability Committee (ALCO) among others.

The ROC, which is composed primarily of independent members of the BOD, is responsible for overseeing the Parent Company's risk infrastructure, the adequacy and relevance of risk policies, and the compliance to defined risk appetite and levels of exposure. The ROC is assisted in this responsibility by the Risk Management Group (RSK). The RSK undertakes the implementation and execution of the Parent Company's Risk Management framework which involves the identification, assessment, control, monitoring and reporting of risks.

The Parent Company and its subsidiaries manage their respective financial risks separately. The subsidiaries have their own risk management processes but are structured similar to that of the Parent Company. To a certain extent, the respective risk management programs and objectives are the same across the Group. The risk management policies adopted by the subsidiaries and affiliates are aligned with the Parent Company's risk policies. To further promote compliance with PFRS and Basel III, the Parent Company created a Risk Management Coordinating Council (RMCC) composed of risk officers of the Parent Company and its financial institution subsidiaries.

Credit Risk

Credit risk is the risk of financial loss to the Group if a counterparty to a financial instrument fails to meet its contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties, related groups of borrowers, market segments, and industry concentrations, and by monitoring exposures in relation to such limits, among others. The same is true for treasury-related activities. Each business unit is responsible for the quality of its credit portfolio and for monitoring and controlling all credit risks in its portfolio. Regular reviews and audits of business units and credit processes are undertaken by the RSK and Internal Audit Group, respectively.

Management of credit risk

The Group faces potential credit risks every time it extends funds to borrowers, commits funds to counterparties, guarantees the paying performance of its clients, invests funds to issuers (e.g., investment securities issued by either sovereign or corporate entities) or enter into either market-traded or over-the-counter derivatives, either through implied or actual contractual agreements (i.e., on- or off-balance sheet exposures). The Parent Company manages its credit risk at various levels (i.e., strategic level, portfolio level down to individual obligor or transaction) by adopting a credit risk management environment that has the following components:



- Formulating credit policies in consultation with business units, covering collateral requirements, credit/financial assessment, risk grading and reporting and compliance with regulatory requirements;
- Establishment of authorization limits for the approval and renewal of credit facilities;
- Limiting concentrations of exposure to counterparties and industries (for loans), and by issuer (for investment securities);
- Utilizing the Internal Credit Risk Rating System (ICRRS) in order to categorize exposures according to their risk profile. The risk grading system is used for determining impairment provisions against credit exposures. The current risk grading framework consists of ten grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation; and
- Monitoring compliance with approved exposure limits.

Borrowers, counterparties or group of related accounts across the Group are aggregated and managed by the Parent Company's Institutional Banking Sector as the "Control Unit". Group Limits for conglomerates are set-up and approved to guide subsidiaries and affiliates of the Group. Consolidated exposures are regularly reported to senior management and the ROC.

Credit risk at initial recognition

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

Modification

In certain circumstances, the Group modifies the original terms and conditions of a credit exposure to form a new loan agreement or payment schedule. The modifications can be given depending on the borrower's or counterparty's current or expected financial difficulty. The modifications may include, but are not limited to, change in interest rate and terms, principal amount, maturity date, date and amount of periodic payments and accrual of interest and charges.

Maximum exposure to credit risk

An analysis of the maximum credit risk exposure (net of allowance for ECL) relating to financial assets with collateral or credit enhancements is shown below:

	Consolidated							
	2019				2018			
	Maximum Exposure to Credit Risk	Fair Value of Collateral	Financial Effect of Collateral or Credit Enhancement	Net Exposure	Maximum Exposure to Credit Risk	Fair Value of Collateral	Financial Effect of Collateral or Credit Enhancement	Net Exposure
Interbank loans receivable and SPURA	₱401	₱401	₱401	₱—	₱8,067	₱8,060	₱8,058	₱9
Loans and receivables - net								
Receivables from customers								
Commercial loans	341,616	856,065	299,588	42,028	305,371	793,563	283,893	21,478
Auto loans	116,069	202,470	115,636	433	116,975	197,160	116,465	510
Residential mortgage loans	109,093	207,864	93,723	15,370	106,818	202,043	96,980	9,838
Trade loans	61,260	59,907	59,785	1,475	59,972	58,936	58,718	1,254
Others	796	738	702	94	674	694	655	19
	628,834	1,327,044	569,434	59,400	589,810	1,252,396	556,711	33,099
Accrued interest receivable	3,507	3,370	3,370	137	3,424	3,416	3,416	8
Sales contract receivable	142	414	100	42	155	347	122	33
	632,483	1,330,828	572,904	59,579	593,389	1,256,159	560,249	33,140
Total	₱632,884	₱1,331,229	₱573,305	₱59,579	₱601,456	₱1,264,219	₱568,307	₱33,149



	Parent Company							
	2019				2018			
	Maximum Exposure to Credit Risk	Fair Value of Collateral	Financial Effect of Collateral or Credit Enhancement	Net Exposure	Maximum Exposure to Credit Risk	Fair Value of Collateral	Financial Effect of Collateral or Credit Enhancement	Net Exposure
Interbank loans receivable and SPURA	₱–	₱–	₱–	₱–	₱1,459	₱1,634	₱1,459	₱–
Loans and receivables - net								
Receivables from customers								
Commercial loans	296,577	806,784	264,137	32,440	269,607	753,469	254,545	15,062
Auto loans	23,674	63,917	23,330	344	29,109	74,249	28,646	463
Residential mortgage loans	56,977	114,374	56,780	197	57,239	113,903	57,026	213
Trade loans	61,260	59,907	59,785	1,475	59,908	58,873	58,654	1,254
Others	796	738	703	93	659	685	647	12
	439,284	1,045,720	404,735	34,549	416,522	1,001,179	399,518	17,004
Accrued interest receivable	1,659	1,656	1,656	3	1,489	1,483	1,483	6
Sales contract receivable	100	187	100	–	116	140	109	7
	441,043	1,047,563	406,491	34,552	418,127	1,002,802	401,110	17,017
Total	₱441,043	₱1,047,563	₱406,491	₱34,552	₱419,586	₱1,004,436	₱402,569	₱17,017

The maximum exposure to credit risks for the other financial assets is limited to their carrying values as of December 31, 2019 and 2018.

Collaterals on loans and receivables includes real estate and chattel mortgages, guarantees, and other registered securities over assets (Note 9). Generally, collateral is not held over loans and advances to banks except for reverse repurchase agreements and certain due from other banks. Collateral usually is not held against investment securities, and no such collateral was held as of December 31, 2019 and 2018. Estimates of fair values of the collateral are based on the value of collateral assessed at the time of borrowing and are regularly updated according to internal lending policies and regulatory guidelines. The Group is not permitted to sell or repledge the collateral in the absence of default by the counterparty.

The following tables show the effect of rights of set-off associated with the recognized financial assets and financial liabilities.

	Gross Carrying Amounts (before offsetting)	Gross Amounts Offset in accordance with the Offsetting Criteria	Net Amount Presented in Statement of Financial Position	Effect of Remaining Rights of Set-Off (including rights to set-off financial collateral) Not Meeting Offsetting Criteria		
				Financial Instruments	Fair Value of Financial Collateral	Net Exposure
Financial assets recognized by type						
Consolidated						
2019						
Derivative assets	₱233,601	₱225,128	₱8,473	₱1,634	₱–	₱6,839
SPURA	39,686	–	39,686	–	39,686	–
	₱273,287	₱225,128	₱48,159	₱1,634	₱39,686	₱6,839
2018						
Derivative assets	₱178,920	₱168,270	₱10,650	₱1,534	₱–	₱9,116
SPURA	8,067	–	8,067	–	8,058	9
	₱186,987	₱168,270	₱18,717	₱1,534	₱8,058	₱9,125



	Gross Carrying Amounts (before offsetting)	Gross Amounts Offset in accordance with the Offsetting Criteria	Net Amount Presented in Statement of Financial Position	Effect of Remaining Rights of Set-Off (including rights to set-off financial collateral) Not Meeting Offsetting Criteria		Net Exposure
				Financial Instruments	Fair Value of Financial Collateral	
Financial assets recognized by type						
Parent Company						
2019						
Derivative assets	₱233,601	₱225,128	₱8,473	₱1,634	₱—	₱6,839
SPURA	36,921	—	36,921	—	36,921	—
	₱270,522	₱225,128	₱45,394	₱1,634	₱36,921	₱6,839
2018						
Derivative assets	₱177,295	₱166,659	₱10,636	₱1,534	₱—	₱9,102
Financial liabilities recognized by type						
Consolidated						
2019						
Derivative liabilities	₱236,188	₱228,780	₱7,408	₱1,634	₱—	₱5,774
SSURA	91,492	—	91,492	—	91,428	64
	₱327,680	₱228,780	₱98,900	₱1,634	₱91,428	₱5,838
2018						
Derivative liabilities	₱172,755	₱166,221	₱6,534	₱1,534	₱—	₱5,000
SSURA	95,247	—	95,247	—	95,247	—
	₱268,002	₱166,221	₱101,781	₱1,534	₱95,247	₱5,000
Parent Company						
2019						
Derivative liabilities	₱216,963	₱210,986	₱5,977	₱1,634	₱—	₱4,343
SSURA	90,780	—	90,780	—	90,716	64
	₱307,743	₱210,986	₱96,757	₱1,634	₱90,716	₱4,407
2018						
Derivative liabilities	₱154,742	₱148,562	₱6,180	₱1,534	₱—	₱4,646
SSURA	95,247	—	95,247	—	95,247	—
	₱249,989	₱148,562	₱101,427	₱1,534	₱95,247	₱4,646

Excessive risk concentration

Credit risk concentrations can arise whenever a significant number of borrowers have similar characteristics and are affected similarly by changes in economic or other conditions. The Parent Company analyzes the credit risk concentration to an individual borrower, related group of accounts, industry, internal rating buckets, and security. For risk concentration monitoring purposes, the financial assets are broadly categorized into (1) loans and receivables and (2) trading and financial investment securities. To mitigate risk concentration, the Parent Company constantly checks for breaches in regulatory and internal limits.

Concentration of risks of financial assets with credit risk exposure

Below is an analysis of concentrations of credit risk at the reporting date based on carrying amount:

	Consolidated				
	Loans and Receivables*	Loans and Advances to Banks**	Investment Securities***	Others****	Total
2019					
Concentration by Industry					
Financial and insurance activities	₱241,154	₱346,941	₱69,197	₱221,912	₱879,204
Wholesale and retail trade, repair of motor vehicles, motorcycles	233,963	—	154	25,268	259,385
Manufacturing	218,319	—	1,010	19,620	238,949
Real estate activities	232,781	—	5	1,105	233,891
Transportation and storage, information and communication	111,277	—	293	3,017	114,587
Electricity, gas, steam and air-conditioning supply and water supply, sewerage, waste management and remediation activities	101,210	—	1,812	1,781	104,803

(Forward)



	Consolidated				Total
	Loans and Receivables*	Loans and Advances to Banks**	Investment Securities***	Others****	
Activities of households as employers and undifferentiated goods and services and producing activities of households for own use	₱82,359	₱—	₱—	₱185	₱82,544
Construction	64,442	—	—	10,326	74,768
Agricultural, forestry and fishing	41,102	—	—	508	41,610
Accommodation and food service activities	35,310	—	—	19	35,329
Others*****	142,633	—	380,043	3,040	525,716
	1,504,550	346,941	452,514	286,781	2,590,786
Less allowance for credit losses	24,223	6	26	9,681	33,936
	₱1,480,327	₱346,935	₱452,488	₱277,100	₱2,556,850
Concentration by Location					
Philippines	₱1,450,466	₱256,774	₱379,799	₱280,584	₱2,367,623
Asia	53,781	57,586	44,213	6,071	161,651
USA	237	13,369	17,778	125	31,509
Europe	51	16,897	7,561	—	24,509
Others	15	2,315	3,163	1	5,494
	1,504,550	346,941	452,514	286,781	2,590,786
Less allowance for credit losses	24,223	6	26	9,681	33,936
	₱1,480,327	₱346,935	₱452,488	₱277,100	₱2,556,850
2018					
Concentration by Industry					
Financial and insurance activities	₱184,848	₱336,673	₱80,486	₱199,358	₱801,365
Manufacturing	218,850	—	967	28,694	248,511
Wholesale and retail trade, repair of motor vehicles, motorcycles	231,924	—	—	8,023	239,947
Real estate activities	210,582	—	1,416	912	212,910
Transportation and storage, information and communication	113,058	—	152	1,372	114,582
Electricity, gas, steam and air-conditioning supply and water supply, sewerage, waste management and remediation activities	100,346	—	4,238	3,601	108,185
Activities of households as employers and undifferentiated goods and services and producing activities of households for own use	86,926	—	—	257	87,183
Construction	58,218	—	—	488	58,706
Agricultural, forestry and fishing	34,356	—	—	2,810	37,166
Accommodation and food service activities	32,211	—	—	5	32,216
Others*****	138,767	—	288,324	25,571	452,662
	1,410,086	336,673	375,583	271,091	2,393,433
Less allowance for credit losses	22,688	18	48	10,598	33,352
	₱1,387,398	₱336,655	₱375,535	₱260,493	₱2,360,081
Concentration by Location					
Philippines	₱1,371,536	₱249,078	₱323,643	₱265,578	₱2,209,835
Asia	38,166	53,007	25,362	5,298	121,833
USA	273	10,968	13,829	215	25,285
Europe	81	14,672	7,727	—	22,480
Others	30	8,948	5,022	—	14,000
	1,410,086	336,673	375,583	271,091	2,393,433
Less allowance for credit losses	22,688	18	48	10,598	33,352
	₱1,387,398	₱336,655	₱375,535	₱260,493	₱2,360,081

	Parent Company				
	Loans and Receivables*	Loans and Advances to Banks**	Investment Securities***	Others****	Total
2019					
Concentration by Industry					
Financial and insurance activities	₱160,968	₱290,621	₱30,010	₱11,938	₱493,537
Wholesale and retail trade, repair of motor vehicles, motorcycles	215,828	—	154	25,268	241,250
Manufacturing	210,633	—	1,009	19,620	231,262
Real estate activities	182,336	—	—	660	182,996
Transportation and storage, information and communication	96,581	—	293	3,017	99,891
Electricity, gas, steam and air-conditioning supply and water supply, sewerage, waste management and remediation activities	95,041	—	1,672	1,780	98,493
Activities of households as employers and undifferentiated goods and services and producing activities of households for own use	81,911	—	—	185	82,096

(Forward)



	Parent Company				
	Loans and Receivables*	Loans and Advances to Banks**	Investment Securities***	Others****	Total
Construction	₱50,120	₱—	₱—	₱10,273	₱60,393
Agricultural, forestry and fishing	37,474	—	—	509	37,983
Accommodation and food service activities	34,869	—	—	19	34,888
Others*****	22,021	—	371,682	1,844	395,547
	1,187,782	290,621	404,820	75,113	1,958,336
Less allowance for credit losses	13,922	1	—	9,681	23,604
	₱1,173,860	₱290,620	₱404,820	₱65,432	₱1,934,732
Concentration by Location					
Philippines	₱1,168,082	₱233,721	₱339,445	₱68,951	₱1,810,199
Asia	19,410	24,558	36,879	6,038	86,885
USA	230	13,198	17,778	124	31,330
Europe	46	16,885	7,560	—	24,491
Others	14	2,259	3,158	—	5,431
	1,187,782	290,621	404,820	75,113	1,958,336
Less allowance for credit losses	13,922	1	—	9,681	23,604
	₱1,173,860	₱290,620	₱404,820	₱65,432	₱1,934,732
2018					
Concentration by Industry					
Financial and insurance activities	₱120,484	₱266,231	₱31,692	₱11,000	₱429,407
Manufacturing	213,184	—	967	28,694	242,845
Wholesale and retail trade, repair of motor vehicles, motorcycles	215,810	—	—	8,023	223,833
Real estate activities	164,310	—	—	873	165,183
Electricity, gas, steam and air-conditioning supply and water supply, sewerage, waste management and remediation activities	97,581	—	3,836	3,601	105,018
Transportation and storage, information and communication	98,907	—	152	1,372	100,431
Activities of households as employers and undifferentiated goods and services and producing activities of households for own use	86,271	—	—	257	86,528
Construction	44,195	—	—	435	44,630
Agricultural, forestry and fishing	29,837	—	—	2,810	32,647
Accommodation and food service activities	31,762	—	—	5	31,767
Others*****	23,077	—	267,679	24,397	315,153
	1,125,418	266,231	304,326	81,467	1,777,442
Less allowance for credit losses	12,797	12	48	9,685	22,542
	₱1,112,621	₱266,219	₱304,278	₱71,782	₱1,754,900
Concentration by Location					
Philippines	₱1,110,240	₱208,586	₱258,035	₱75,993	₱1,652,854
Asia	14,810	23,471	19,773	5,261	63,315
USA	258	10,589	13,769	213	24,829
Europe	80	14,637	7,727	—	22,444
Others	30	8,948	5,022	—	14,000
	1,125,418	266,231	304,326	81,467	1,777,442
Less allowance for credit losses	12,797	12	48	9,685	22,542
	₱1,112,621	₱266,219	₱304,278	₱71,782	₱1,754,900

* Excludes statutory receivables which are not considered financial assets.

** Comprised of due from BSP, due from other banks and interbank loans receivable and SPURA.

*** Comprised of debt securities at FVOCI and investment securities at amortized cost.

**** Comprised of applicable accounts under other assets, financial guarantees and loan commitments and other credit-related liabilities.

***** Includes government-issued debt securities.

Credit quality per class of financial assets

The credit quality of financial assets is assessed and managed using external and internal ratings (applying ICRRS).



The ICRRS contains the following:

- a. Borrower Risk Rating (BRR) - an assessment of the credit worthiness of the borrower (or guarantor) without considering the type or amount of the facility and security arrangements. It is an indicator of the probability that a borrower cannot meet its credit obligations when they fall due. The components of the assessment is described below:

Component	Description	Credit Factor Weight
Financial Condition	Refers to the financial condition of the borrower based on audited financial statements as indicated by certain financial ratios. The Financial Factor Evaluation is conducted manually.	40.00%
Industry Analysis	Refers to the prospects of the industry as well as the company's performance and position in the industry.	30.00%
Management Quality	Refers to the management's ability to run the company successfully.	30.00%

- b. Facility Risk Factor (FRF) - determined for each individual facility considering the term of the facility, security arrangement and quality of documentation. This factor can downgrade or upgrade the BRR based on the elements relating to cover (collateral including pledged cash deposits and guarantee), quality of documentation and structure of transactions.
- c. Adjusted Borrower Risk Rating - combination of BRR and FRF.

Loans and receivables

The credit quality is generally monitored using the 10-grade ICRRS which is integrated in the credit process. Validation of the individual borrower's risk rating is performed by the Credit Group to maintain accurate and consistent risk ratings across the credit portfolio. For commercial loans, the credit quality with the corresponding ICRRS Grade and description follows:

High Grade

1 - Excellent

An excellent rating is given to a borrower with a very low probability of going into default and with high degree of stability, substance and diversity. Borrower has access to raise substantial amounts of funds through public market at any time; very strong debt service capacity and has conservative balance sheet ratios. Track record in profit terms is very good. Borrower exhibits highest quality under virtually all economic conditions.

2 - Strong

This rating is given to borrowers with low probability of going into default in the coming year. Normally has a comfortable degree of stability, substance and diversity. Under normal market conditions, borrower has good access to public markets to raise funds. Have a strong market and financial position with a history of successful performance. Overall debt service capacity is deemed very strong; critical balance sheet ratios are conservative. Concerned multinationals or local corporations are well capitalized.

Standard Grade

3 - Good

This rating is given to smaller corporations with limited access to public capital markets or to alternative financial markets during favorable economic and/or market conditions. As it bears characteristics of some degree of stability and substance, probability of default is quite low. However, susceptibility to cyclical changes and more concentration of business risk, by product or market, may be present. Typical is the combination of comfortable asset protection and an acceptable balance sheet structure. Debt service capacity is strong.



4 - Satisfactory

A 'satisfactory' rating is given to a borrower where clear risk elements exist and probability of default is somewhat greater. Due to volatility of earnings and overall performance, borrower normally has limited access to public markets. Borrower should be able to withstand normal business cycles, but any prolonged unfavorable economic period would create deterioration beyond acceptable levels. With the combination of reasonable sound asset and cash flow protection, the debt service capacity is adequate. Reported profits in the past year and is expected to report a profit in the current year.

5 - Acceptable

An 'acceptable' rating is given to a borrower whose risk elements are sufficiently pronounced although borrower should still be able to withstand normal business cycles. Any prolonged unfavorable economic and/or market period would create an immediate deterioration beyond acceptable levels. Risk is still acceptable as there is sufficient cash flow either historically or expected in the future from new business or projected finance transaction; an existing borrower where the nature of the exposure represents a higher risk because of extraordinary developments but for which a decreasing risk within an acceptable period can be expected.

Substandard Grade

6 - Watchlist

This rating is given to a borrower that belongs to an unfavorable industry or has company-specific risk factors which represent a concern. Operating performance and financial strength may be marginal and it is uncertain if borrower can attract alternative course of finance. Borrower finds it hard to cope with any significant economic downturn and a default in such a case is more than a possibility. Borrower which incurs net losses and has salient financial weaknesses specifically in profitability. Credit exposure is not at risk of loss at the moment but performance of the borrower has weakened which, unless present trends are reversed, could lead to losses.

7 - Especially Mentioned

This rating is given to a borrower that exhibits potential weaknesses that deserve management's close attention. These potential weaknesses, if left uncorrected, may affect the repayment of the loan and thus, increase credit risk of the Group.

Impaired

8 - Substandard

These are loans or portions thereof which appear to involve a substantial and unreasonable degree of risk to the Group because of unfavorable record or unsatisfactory characteristics. There exists the possibility of future losses to the Group unless given closer supervision. Borrower has well-defined weaknesses or weaknesses that jeopardize loan liquidation. Such well-defined weaknesses may include adverse trends or development of financial, managerial, economic or political nature, or a significant weakness in collateral.

9 - Doubtful

This rating is given to a nonperforming borrower whose loans or portions thereof have the weaknesses inherent in those classified as Substandard, with the added characteristics that existing facts, conditions, and values make collection or liquidation in full, highly improbable and in which substantial loss is probable.

10 - Loss

This rating is given to a borrower whose loans or portions thereof are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted although the loans may have some recoveries or salvage value. The amount of loss is difficult to measure and



it is not practical or desirable to defer writing off these basically worthless assets even though partial recovery may be obtained in the future.

The credit quality of consumer loan applicants are currently evaluated using quantitative and qualitative criteria. For booked consumer loans, the description of credit quality is as follows:

High Grade

Good credit rating

This rating is given to a good repeat client with very satisfactory track record of its loan repayment (paid at least 50.00%) and whose account did not turn past due during the entire term of the loan.

Standard Grade

Good

A good rating is given to accounts which did not turn past due for 90 days and over.

Limited

This rating is given to borrowers who have average track record on loan repayment (paid less than 50.00%) and whose account did not turn past due for 90 days and over.

Substandard Grade

Poor

A poor rating is given to accounts who reached 90 days past due regardless of the number of times and the number of months past due.

Poor litigation

This rating is given to accounts that were past due for 180 days and over and are currently being handled by lawyers.

Impaired

Poor repossessed

This rating is given to accounts whose collaterals were repossessed.

Poor written-off

This rating is given to accounts that were recommended for write-off.

Investment securities

In ensuring quality investment portfolio, the Group uses the credit risk rating from the published data providers like Moody's, Standard & Poor's (S&P) or other reputable rating agencies. The following indicates the levels of equivalent credit quality and its relevant external rating:

Credit Quality	External Rating								
High grade	Aaa	Aa1	Aa2	A1	A2	A3	Baa1	Baa2	Baa3
Standard grade	Ba1	Ba2	Ba3	B1	B2				
Substandard grade	B3	Caa1	Caa2	Caa3	Ca	C			
Impaired	D								

The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to those rated by external rating agencies as 'Investment grade' (i.e., those under High grade in the table above).

The following tables show the credit quality of loans and advances to banks and investment securities, gross of allowance for credit losses, as of December 31, 2019 and 2018. All loans and advances to banks are classified as Stage 1 in 2019 and 2018. As of December 31, 2018, all



investment securities are classified as Stage 1. In 2019, sovereign debt securities at FVOCI with total carrying value of ₱37.8 million as of December 31, 2018 was transferred from Stage 1 to Stage 3. As of December 31, 2019, the total carrying value of investment securities classified as Stage 1 and Stage 3 amounts to ₱200.8 billion and ₱28.9 million, respectively.

	Consolidated		Parent Company	
	2019	2018	2019	2018
Due from BSP				
High grade	₱219,994	₱240,134	₱195,770	₱206,289
Due from other banks				
High grade	53,472	44,707	38,671	35,137
Standard grade	941	697	—	50
Unrated	359	404	27	31
	54,772	45,808	38,698	35,218
Interbank loans receivable and SPURA				
High grade	71,646	48,757	55,624	22,750
Unrated	529	1,974	529	1,974
	72,175	50,731	56,153	24,724
Total loans and advances to banks				
High grade	345,112	333,598	290,065	264,176
Standard grade	941	697	—	50
Unrated	888	2,378	556	2,005
	₱346,941	₱336,673	₱290,621	₱266,231
Debt securities at FVOCI				
Private				
High grade	₱32,793	₱41,872	₱25,827	₱32,576
Standard grade	3,163	258	254	258
Unrated	243	239	243	239
	36,199	42,369	26,324	33,073
Treasury notes and bonds				
High grade	111,791	40,786	109,203	37,377
Government				
High grade	52,841	26,226	52,620	20,443
Sub-standard grade	29	778	29	778
	52,870	27,004	52,649	21,221
Total debt securities at FVOCI				
High grade	197,425	108,884	187,650	90,396
Standard grade	3,163	258	254	258
Sub-standard grade	29	778	29	778
Unrated	243	239	243	239
	200,860	110,159	188,176	91,671
Investment securities at amortized cost				
Treasury notes and bonds				
High grade	227,442	237,476	208,514	204,176
Government				
High grade	20,110	21,859	8,130	8,479
Standard grade	122	—	—	—
	20,232	21,859	8,130	8,479
Private				
High grade	331	5,298	—	—
Standard grade	3,543	742	—	—
Unrated	6	—	—	—
	3,880	6,040	—	—
Treasury bills				
High grade	100	49	—	—
Total investment securities at amortized cost				
High grade	247,983	264,682	216,644	212,655
Standard grade	3,665	742	—	—
Unrated	6	—	—	—
	251,654	265,424	216,644	212,655

(Forward)



	Consolidated		Parent Company	
	2019	2018	2019	2018
Total debt investment securities				
High grade	₱445,408	₱373,566	₱404,294	₱303,051
Standard grade	6,828	1,000	254	258
Sub-standard grade	29	778	29	778
Unrated	249	239	243	239
	₱452,514	₱375,583	₱404,820	₱304,326

As of December 31, 2019 and 2018, availments of interbank loans and SPURA amounted to ₱73.4 billion and ₱33.0 billion, respectively, for the Group and ₱56.2 billion and ₱24.7 billion, respectively, for the Parent Company while maturities of interbank loans and SPURA amounted to ₱50.7 billion and ₱27.7 billion, respectively, for the Group and ₱24.7 billion and ₱27.2 billion, respectively, for the Parent Company. As of December 31, 2019 and 2018, net decrease in due from BSP amounted to ₱20.1 billion and ₱21.8 billion, respectively, for the Group, and ₱10.5 billion and ₱18.4 billion, respectively, for the Parent Company and net increase in due from other banks amounted to ₱9.0 billion and ₱14.5 billion, respectively, for the Group, and ₱3.5 billion and ₱15.9 billion, respectively, for the Parent Company.

As of December 31, 2019 and 2018, purchases of investment in debt securities at FVOCI amounted to ₱1.3 trillion and ₱786.2 billion, respectively, for the Group and ₱1.3 trillion and ₱774.5 billion, respectively, for the Parent Company while disposals/maturities amounted to ₱1.2 trillion and ₱764.2 billion, respectively, for the Group and ₱1.2 trillion and ₱759.8 billion, respectively, for the Parent Company. Other movements, which include amortization of premiums/discounts, mark-to-market and foreign exchange revaluations, resulted in an increase/(decrease) in carrying value of debt securities at FVOCI as of December 31, 2019 and 2018 amounting to ₱8.6 billion and (₱10.1 billion), respectively, for the Group and an increase increase/(decrease) in carrying value of ₱9.2 billion and (₱2.2 billion), respectively for the Parent Company.

As of December 31, 2019 and 2018, purchases of investment securities at amortized cost amounted to ₱4.5 billion and ₱7.0 billion, respectively, for the Group and ₱4.3 billion and ₱5.0 billion, respectively, for the Parent Company while maturities and disposals amounted to ₱17.6 billion and ₱4.1 billion, respectively, for the Group and ₱468.8 million and ₱29.6 million, respectively, for the Parent Company. Other movements, which include amortization of premiums/discounts, mark-to-market and foreign exchange revaluations, resulted in an increase/(decrease) in carrying value of investment securities at amortized cost as of December 31, 2019 and 2018 amounting to (₱651.2 million) and ₱1.5 billion, respectively, for the Group and an increase/(decrease) in carrying value of (₱0.1 billion) and ₱2.9 million, respectively, for the Parent Company.

The credit quality of receivables from customers, net of unearned discount and capitalized interest, as of December 31, 2019 and 2018 follow:

	Consolidated			Total
	Stage 1	Stage 2	Stage 3	
2019				
Commercial loans				
High grade	₱320,456	₱662	₱—	₱321,118
Standard grade	540,388	1,670	—	542,058
Sub-standard grade	52,925	133,775	—	186,700
Unrated	93	—	—	93
Non-performing individually impaired	—	—	10,652	10,652
	913,862	136,107	10,652	1,060,621

(Forward)



	Consolidated			
	Stage 1	Stage 2	Stage 3	Total
Auto loans				
High grade	₱83,179	₱6,418	₱—	₱89,597
Standard grade	20,186	5,245	—	25,431
Sub-standard grade	12	8	—	20
Non-performing individually impaired	—	—	3,360	3,360
	103,377	11,671	3,360	118,408
Residential mortgage loans				
High grade	42,893	8,595	—	51,488
Standard grade	53,176	1,186	—	54,362
Sub-standard grade	1,506	292	—	1,798
Non-performing individually impaired	—	—	2,351	2,351
	97,575	10,073	2,351	109,999
Trade loans				
High grade	8,530	—	—	8,530
Standard grade	47,930	17	—	47,947
Sub-standard grade	4,636	2,142	—	6,778
Non-performing individually impaired	—	—	105	105
	61,096	2,159	105	63,360
Credit card				
Standard grade	83,481	—	—	83,481
Sub-standard grade	—	2,040	—	2,040
Non-performing individually impaired	—	—	1,509	1,509
	83,481	2,040	1,509	87,030
Other loans				
High grade	14,705	241	—	14,946
Standard grade	21,733	2,117	—	23,850
Sub-standard grade	54	712	—	766
Unrated	13	—	—	13
Non-performing individually impaired	—	—	1,494	1,494
	36,505	3,070	1,494	41,069
Total receivables from customers				
High grade	469,763	15,916	—	485,679
Standard grade	766,894	10,235	—	777,129
Sub-standard grade	59,133	138,969	—	198,102
Unrated	106	—	—	106
Non-performing individually impaired	—	—	19,471	19,471
	₱1,295,896	₱165,120	₱19,471	₱1,480,487
2018				
Commercial loans				
High grade	₱266,886	₱—	₱—	₱266,886
Standard grade	595,361	792	—	596,153
Sub-standard grade	104,142	7,488	3,793	115,423
Past due but not impaired	—	111	—	111
Non-performing individually impaired	—	230	7,114	7,344
	966,389	8,621	10,907	985,917
Auto loans				
High grade	71,575	8,104	—	79,679
Standard grade	25,154	6,205	—	31,359
Sub-standard grade	22	1,558	13	1,593
Past due but not impaired	—	3,301	—	3,301
Non-performing individually impaired	—	34	4,006	4,040
	96,751	19,202	4,019	119,972
Residential mortgage loans				
High grade	41,224	6,181	—	47,405
Standard grade	52,462	2,247	—	54,709
Sub-standard grade	1,009	253	310	1,572
Past due but not impaired	—	1,855	—	1,855
Non-performing individually impaired	—	142	2,264	2,406
	94,695	10,678	2,574	107,947

(Forward)



	Consolidated			Total
	Stage 1	Stage 2	Stage 3	
Trade loans				
High grade	₱6,664	₱—	₱—	₱6,664
Standard grade	53,566	—	—	53,566
Sub-standard grade	2,521	276	—	2,797
Non-performing individually impaired	—	—	99	99
	62,751	276	99	63,126
Credit card				
Standard grade	67,776	—	—	67,776
Non-performing individually impaired	—	1,692	1,186	2,878
	67,776	1,692	1,186	70,654
Other loans				
High grade	13,053	345	—	13,398
Standard grade	23,956	1,434	—	25,390
Sub-standard grade	6	420	—	426
Past due but not impaired	—	86	—	86
Non-performing individually impaired	—	385	920	1,305
	37,015	2,670	920	40,605
Total receivables from customers				
High grade	399,402	14,630	—	414,032
Standard grade	818,275	10,678	—	828,953
Sub-standard grade	107,700	9,995	4,116	121,811
Past due but not impaired	—	5,353	—	5,353
Non-performing individually impaired	—	2,483	15,589	18,072
	₱1,325,377	₱43,139	₱19,705	₱1,388,221

	Parent Company				Total
	Stage 1	Stage 2	Stage 3	POCI	
2019					
Commercial loans					
High grade	₱275,842	₱—	₱—	₱—	₱275,842
Standard grade	538,993	1,200	—	—	540,193
Sub-standard grade	52,898	133,472	—	—	186,370
Non-performing individually impaired	—	—	6,753	2,992	9,745
	867,733	134,672	6,753	2,992	1,012,150
Auto loans					
High grade	3,804	—	—	—	3,804
Standard grade	20,162	54	—	—	20,216
Sub-standard grade	12	8	—	—	20
Non-performing individually impaired	—	—	142	—	142
	23,978	62	142	—	24,182
Residential mortgage loans					
High grade	1,843	—	—	—	1,843
Standard grade	53,176	225	—	—	53,401
Sub-standard grade	1,506	292	—	—	1,798
Non-performing individually impaired	—	—	478	—	478
	56,525	517	478	—	57,520
Trade loans					
High grade	7,824	—	—	—	7,824
Standard grade	47,930	17	—	—	47,947
Sub-standard grade	4,636	2,142	—	—	6,778
Non-performing individually impaired	—	—	105	—	105
	60,390	2,159	105	—	62,654
Other loans					
High grade	14,120	—	—	—	14,120
Standard grade	376	—	—	—	376
Sub-standard grade	6	—	—	—	6
Non-performing individually impaired	—	—	40	—	40
	14,502	—	40	—	14,542

(Forward)



	Parent Company				
	Stage 1	Stage 2	Stage 3	POCI	Total
Total receivables from customers					
High grade	₱303,433	₱—	₱—	₱—	₱303,433
Standard grade	660,637	1,496	—	—	662,133
Sub-standard grade	59,058	135,914	—	—	194,972
Non-performing individually impaired	—	—	7,518	2,992	10,510
	₱1,023,128	₱137,410	₱7,518	₱2,992	₱1,171,048
2018					
Commercial loans					
High grade	₱255,970	₱—	₱—	₱—	₱255,970
Standard grade	569,963	—	—	—	569,963
Sub-standard grade	104,141	7,290	3,793	—	115,224
Non-performing individually impaired	—	57	3,127	3,309	6,493
	930,074	7,347	6,920	3,309	947,650
Auto loans					
High grade	4,014	1	—	—	4,015
Standard grade	25,120	313	—	—	25,433
Sub-standard grade	16	2	12	—	30
Non-performing individually impaired	—	34	169	—	203
	29,150	350	181	—	29,681
Residential mortgage loans					
High grade	1,802	—	—	—	1,802
Standard grade	52,428	1,462	—	—	53,890
Sub-standard grade	1,009	183	311	—	1,503
Non-performing individually impaired	—	142	637	—	779
	55,239	1,787	948	—	57,974
Trade loans					
High grade	6,664	—	—	—	6,664
Standard grade	53,502	—	—	—	53,502
Sub-standard grade	2,521	276	—	—	2,797
Non-performing individually impaired	—	—	99	—	99
	62,687	276	99	—	63,062
Other loans					
High grade	12,194	—	—	—	12,194
Standard grade	336	—	—	—	336
Non-performing individually impaired	—	—	41	—	41
	12,530	—	41	—	12,571
Total receivables from customers					
High grade	280,644	1	—	—	280,645
Standard grade	701,349	1,775	—	—	703,124
Sub-standard grade	107,687	7,751	4,116	—	119,554
Non-performing individually impaired	—	233	4,073	3,309	7,615
	₱1,089,680	₱9,760	₱8,189	₱3,309	₱1,110,938

Movements during 2019 and 2018 for receivables from customers follows:

	Consolidated			
	Receivables from Customers			
	Stage 1	Stage 2	Stage 3	Total
2019				
Commercial loans				
Balance at January 1, 2019	₱966,389	₱8,621	₱10,907	₱985,917
New assets originated	533,499	—	—	533,499
Assets derecognized or repaid	(440,204)	(12,696)	(3,570)	(456,470)
Amounts written-off	—	—	(294)	(294)
Transfers to/(from) Stage 1	(143,955)	—	—	(143,955)
Transfers to/(from) Stage 2	—	140,182	—	140,182
Transfers to/(from) Stage 3	—	—	3,773	3,773
Others	(1,867)	—	(164)	(2,031)
Balance at December 31, 2019	913,862	136,107	10,652	1,060,621

(Forward)



	Consolidated			
	Receivables from Customers			
	Stage 1	Stage 2	Stage 3	Total
Auto loans				
Balance at January 1, 2019	₱96,751	₱19,202	₱4,019	₱119,972
New assets originated	44,354	—	—	44,354
Assets derecognized or repaid	(34,357)	(8,527)	(2,876)	(45,760)
Amounts written-off	(1)	(45)	(112)	(158)
Transfers to/(from) Stage 1	(3,370)	—	—	(3,370)
Transfers to/(from) Stage 2	—	1,041	—	1,041
Transfers to/(from) Stage 3	—	—	2,329	2,329
Balance at December 31, 2019	103,377	11,671	3,360	118,408
Residential mortgage loans				
Balance at January 1, 2019	94,695	10,678	2,574	107,947
New assets originated	21,914	—	—	21,914
Assets derecognized or repaid	(16,607)	(2,462)	(793)	(19,862)
Amounts written-off	—	—	—	—
Transfers to/(from) Stage 1	(2,427)	—	—	(2,427)
Transfers to/(from) Stage 2	—	1,857	—	1,857
Transfers to/(from) Stage 3	—	—	570	570
Balance at December 31, 2019	97,575	10,073	2,351	109,999
Trade loans				
Balance at January 1, 2019	62,751	276	99	63,126
New assets originated	63,143	—	—	63,143
Assets derecognized or repaid	(62,673)	(232)	—	(62,905)
Transfers to/(from) Stage 1	(2,122)	—	—	(2,122)
Transfers to/(from) Stage 2	—	2,115	—	2,115
Transfers to/(from) Stage 3	—	—	7	7
Others	(3)	—	(1)	(4)
Balance at December 31, 2019	61,096	2,159	105	63,360
Credit card				
Balance at January 1, 2019	67,776	1,692	1,186	70,654
New assets originated	22,868	—	—	22,868
Amounts written-off	—	—	(6,492)	(6,492)
Transfers to/(from) Stage 1	(7,163)	—	—	(7,163)
Transfers to/(from) Stage 2	—	348	—	348
Transfers to/(from) Stage 3	—	—	6,815	6,815
Balance at December 31, 2019	83,481	2,040	1,509	87,030
Other loans				
Balance at January 1, 2019	37,015	2,670	920	40,605
New assets originated	30,574	—	—	30,574
Assets derecognized or repaid	(28,522)	(690)	(628)	(29,840)
Amounts written-off	(1)	(96)	(866)	(963)
Transfers to/(from) Stage 1	(2,559)	—	—	(2,559)
Transfers to/(from) Stage 2	—	1,186	—	1,186
Transfers to/(from) Stage 3	—	—	1,373	1,373
Others	(2)	—	695	693
Balance at December 31, 2019	36,505	3,070	1,494	41,069
Total receivables from customers				
Balance at January 1, 2019	1,325,377	43,139	19,705	1,388,221
New assets originated	716,352	—	—	716,352
Assets derecognized or repaid	(582,363)	(24,607)	(7,867)	(614,837)
Amounts written-off	(2)	(141)	(7,764)	(7,907)
Transfers to/(from) Stage 1	(161,596)	—	—	(161,596)
Transfers to/(from) Stage 2	—	146,729	—	146,729
Transfers to/(from) Stage 3	—	—	14,867	14,867
Others	(1,872)	—	530	(1,342)
Balance at December 31, 2019	₱1,295,896	₱165,120	₱19,471	₱1,480,487
2018				
Commercial loans				
Balance at January 1, 2018	₱895,139	₱10,211	₱5,820	₱911,170
New assets originated	478,641	—	—	478,641
Assets derecognized or repaid	(405,069)	(3,954)	(420)	(409,443)
Amounts written-off	—	(1)	(78)	(79)
Transfers to/(from) Stage 1	(7,652)	—	—	(7,652)
Transfers to/(from) Stage 2	—	2,259	—	2,259
Transfers to/(from) Stage 3	—	—	5,393	5,393
Others	5,330	106	192	5,628
Balance at December 31, 2018	966,389	8,621	10,907	985,917

(Forward)



	Consolidated			
	Receivables from Customers			
	Stage 1	Stage 2	Stage 3	Total
Auto loans				
Balance at January 1, 2018	₱98,612	₱16,068	₱3,485	₱118,165
New assets originated	46,127	—	—	46,127
Assets derecognized or repaid	(33,364)	(7,986)	(2,511)	(43,861)
Amounts written-off	—	(12)	(447)	(459)
Transfers to/(from) Stage 1	(14,624)	—	—	(14,624)
Transfers to/(from) Stage 2	—	11,132	—	11,132
Transfers to/(from) Stage 3	—	—	3,492	3,492
Balance at December 31, 2018	96,751	19,202	4,019	119,972
Residential mortgage loans				
Balance at January 1, 2018	83,368	14,181	2,187	99,736
New assets originated	26,618	—	—	26,618
Assets derecognized or repaid	(14,891)	(2,768)	(748)	(18,407)
Transfers to/(from) Stage 1	(400)	—	—	(400)
Transfers to/(from) Stage 2	—	(735)	—	(735)
Transfers to/(from) Stage 3	—	—	1,135	1,135
Balance at December 31, 2018	94,695	10,678	2,574	107,947
Trade loans				
Balance at January 1, 2018	40,624	395	101	41,120
New assets originated	62,840	—	—	62,840
Assets derecognized or repaid	(41,071)	(253)	(20)	(41,344)
Transfers to/(from) Stage 1	(151)	—	—	(151)
Transfers to/(from) Stage 2	—	134	—	134
Transfers to/(from) Stage 3	—	—	17	17
Others	509	—	1	510
Balance at December 31, 2018	62,751	276	99	63,126
Credit card				
Balance at January 1, 2018	58,391	1,852	648	60,891
New assets originated	15,207	—	—	15,207
Amounts written off	—	—	(5,444)	(5,444)
Transfers to/(from) Stage 1	(5,822)	—	—	(5,822)
Transfers to/(from) Stage 2	—	(160)	—	(160)
Transfers to/(from) Stage 3	—	—	5,982	5,982
Balance at December 31, 2018	67,776	1,692	1,186	70,654
Other loans				
Balance at January 1, 2018	23,512	2,177	1,105	26,794
New assets originated	35,584	—	—	35,584
Assets derecognized or repaid	(20,626)	(668)	(242)	(21,536)
Amounts written off	(4)	(66)	(173)	(243)
Transfers to/(from) Stage 1	(1,457)	—	—	(1,457)
Transfers to/(from) Stage 2	—	1,227	—	1,227
Transfers to/(from) Stage 3	—	—	230	230
Others	6	—	—	6
Balance at December 31, 2018	37,015	2,670	920	40,605
Total receivables from customers				
Balance at January 1, 2018	1,199,646	44,884	13,346	1,257,876
New assets originated	665,017	—	—	665,017
Assets derecognized or repaid	(515,021)	(15,629)	(3,941)	(534,591)
Amounts written off	(4)	(79)	(6,142)	(6,225)
Transfers to/(from) Stage 1	(30,106)	—	—	(30,106)
Transfers to/(from) Stage 2	—	13,857	—	13,857
Transfers to/(from) Stage 3	—	—	16,249	16,249
Others	5,845	106	193	6,144
Balance at December 31, 2018	₱1,325,377	₱43,139	₱19,705	₱1,388,221

	Parent Company				
	Receivables from Customers				
	Stage 1	Stage 2	Stage 3	POCI	Total
2019					
Commercial loans					
Balance at January 1, 2019	₱930,074	₱7,347	₱6,920	₱3,309	₱947,650
New assets originated	505,051	—	—	—	505,051
Assets derecognized or repaid	(423,882)	(12,287)	(3,007)	(247)	(439,423)
Amounts written-off	—	—	(233)	—	(233)
Transfers to/(from) Stage 1	(142,769)	—	—	—	(142,769)
Transfers to/(from) Stage 2	—	139,612	—	—	139,612
Transfers to/(from) Stage 3	—	—	3,157	—	3,157
Others	(741)	—	(84)	(70)	(895)
Balance at December 31, 2019	867,733	134,672	6,753	2,992	1,012,150

(Forward)



	Parent Company				
	Receivables from Customers				
	Stage 1	Stage 2	Stage 3	POCI	Total
Auto loans					
Balance at January 1, 2019	₱29,150	₱350	₱181	₱–	₱29,681
New assets originated	8,710	–	–	–	8,710
Assets derecognized or repaid	(14,066)	(87)	(51)	–	(14,204)
Amounts written-off	–	–	(5)	–	(5)
Transfers to/(from) Stage 1	184	–	–	–	184
Transfers to/(from) Stage 2	–	(201)	–	–	(201)
Transfers to/(from) Stage 3	–	–	17	–	17
Balance at December 31, 2019	23,978	62	142	–	24,182
Residential mortgage loans					
Balance at January 1, 2019	55,239	1,787	948	–	57,974
New assets originated	11,842	–	–	–	11,842
Assets derecognized or repaid	(11,750)	(265)	(281)	–	(12,296)
Transfers to/(from) Stage 1	1,194	–	–	–	1,194
Transfers to/(from) Stage 2	–	(1,005)	–	–	(1,005)
Transfers to/(from) Stage 3	–	–	(189)	–	(189)
Balance at December 31, 2019	56,525	517	478	–	57,520
Trade loans					
Balance at January 1, 2019	62,687	276	99	–	63,062
New assets originated	62,499	–	–	–	62,499
Assets derecognized or repaid	(62,673)	(232)	–	–	(62,905)
Transfers to/(from) Stage 1	(2,123)	–	–	–	(2,123)
Transfers to/(from) Stage 2	–	2,115	–	–	2,115
Transfers to/(from) Stage 3	–	–	7	–	7
Others	–	–	(1)	–	(1)
Balance at December 31, 2019	60,390	2,159	105	–	62,654
Other loans					
Balance at January 1, 2019	12,530	–	41	–	12,571
New assets originated	9,633	–	–	–	9,633
Assets derecognized or repaid	(7,644)	–	(18)	–	(7,662)
Transfers to/(from) Stage 1	(17)	–	–	–	(17)
Transfers to/(from) Stage 3	–	–	17	–	17
Balance at December 31, 2019	14,502	–	40	–	14,542
Total receivables from customers					
Balance at January 1, 2019	1,089,680	9,760	8,189	3,309	1,110,938
New assets originated	597,735	–	–	–	597,735
Assets derecognized or repaid	(520,015)	(12,871)	(3,357)	(247)	(536,490)
Amounts written-off	–	–	(238)	–	(238)
Transfers to/(from) Stage 1	(143,531)	–	–	–	(143,531)
Transfers to/(from) Stage 2	–	140,521	–	–	140,521
Transfers to/(from) Stage 3	–	–	3,009	–	3,009
Others	(741)	–	(85)	(70)	(896)
Balance at December 31, 2019	₱1,023,128	₱137,410	₱7,518	₱2,992	₱1,171,048
2018					
Commercial loans					
Balance at January 1, 2018	₱839,156	₱9,092	₱1,880	₱3,383	₱853,511
New assets originated	474,250	–	–	–	474,250
Assets derecognized or repaid	(381,738)	(3,661)	(265)	(74)	(385,738)
Transfers to/(from) Stage 1	(6,923)	–	–	–	(6,923)
Transfers to/(from) Stage 2	–	1,810	–	–	1,810
Transfers to/(from) Stage 3	–	–	5,113	–	5,113
Others	5,329	106	192	–	5,627
Balance at December 31, 2018	930,074	7,347	6,920	3,309	947,650
Auto loans					
Balance at January 1, 2018	32,153	1,579	151	–	33,883
New assets originated	10,921	–	–	–	10,921
Assets derecognized or repaid	(14,698)	(335)	(90)	–	(15,123)
Transfers to/(from) Stage 1	774	–	–	–	774
Transfers to/(from) Stage 2	–	(894)	–	–	(894)
Transfers to/(from) Stage 3	–	–	120	–	120
Balance at December 31, 2018	29,150	350	181	–	29,681
Residential mortgage loans					
Balance at January 1, 2018	46,938	5,519	684	–	53,141
New assets originated	16,379	–	–	–	16,379
Assets derecognized or repaid	(10,492)	(752)	(302)	–	(11,546)
Transfers to/(from) Stage 1	2,414	–	–	–	2,414
Transfers to/(from) Stage 2	–	(2,980)	–	–	(2,980)
Transfers to/(from) Stage 3	–	–	566	–	566
Balance at December 31, 2018	55,239	1,787	948	–	57,974

(Forward)



	Parent Company				
	Receivables from Customers				
	Stage 1	Stage 2	Stage 3	POCI	Total
Trade loans					
Balance at January 1, 2018	₱40,574	₱395	₱101	₱—	₱41,070
New assets originated	62,826	—	—	—	62,826
Assets derecognized or repaid	(41,071)	(253)	(20)	—	(41,344)
Transfers to/(from) Stage 1	(151)	—	—	—	(151)
Transfers to/(from) Stage 2	—	134	—	—	134
Transfers to/(from) Stage 3	—	—	17	—	17
Others	509	—	1	—	510
Balance at December 31, 2018	62,687	276	99	—	63,062
Other loans					
Balance at January 1, 2018	12,793	—	42	—	12,835
New assets originated	8,118	—	—	—	8,118
Assets derecognized or repaid	(8,387)	—	(1)	—	(8,388)
Others	6	—	—	—	6
Balance at December 31, 2018	12,530	—	41	—	12,571
Total receivables from customers					
Balance at January 1, 2018	971,614	16,585	2,858	3,383	994,440
New assets originated	572,494	—	—	—	572,494
Assets derecognized or repaid	(456,386)	(5,001)	(678)	(74)	(462,139)
Transfers to/(from) Stage 1	(3,886)	—	—	—	(3,886)
Transfers to/(from) Stage 2	—	(1,930)	—	—	(1,930)
Transfers to/(from) Stage 3	—	—	5,816	—	5,816
Others	5,844	106	193	—	6,143
Balance at December 31, 2018	₱1,089,680	₱9,760	₱8,189	₱3,309	₱1,110,938

The credit quality of other receivables, gross of allowance for credit losses, as of December 31, 2019 and 2018 follows:

	Consolidated			
	Stage 1	Stage 2	Stage 3	Total
2019				
Unquoted debt securities				
High grade	₱630	₱—	₱—	₱630
Non-performing individually impaired	—	—	386	386
	630	—	386	1,016
Accrued interest receivable				
High grade	8,404	134	—	8,538
Standard grade	2,517	153	—	2,670
Sub-standard grade	285	745	—	1,030
Unrated	12	—	—	12
Non-performing individually impaired	—	—	855	855
	11,218	1,032	855	13,105
Sales contract receivables				
High grade	23	—	—	23
Unrated	100	—	—	100
Non-performing individually impaired	—	—	22	22
	123	—	22	145
Other receivables				
High grade	3	—	—	3
Standard grade	261	—	—	261
Unrated	65	—	—	65
Non-performing individually impaired	—	—	2	2
	329	—	2	331
Total other receivables				
High grade	9,060	134	—	9,194
Standard grade	2,778	153	—	2,931
Sub-standard grade	285	745	—	1,030
Unrated	177	—	—	177
Non-performing individually impaired	—	—	1,265	1,265
	₱12,300	₱1,032	₱1,265	₱14,597
2018				
Unquoted debt securities				
Standard grade	₱632	₱—	₱—	₱632
Non-performing individually impaired	—	—	386	386
	632	—	386	1,018

(Forward)



	Consolidated			
	Stage 1	Stage 2	Stage 3	Total
Accrued interest receivable				
High grade	₱6,063	₱120	₱—	₱6,183
Standard grade	2,787	105	—	2,892
Sub-standard grade	488	49	2	539
Unrated	22	—	—	22
Past due but not impaired	3	95	—	98
Non-performing individually impaired	—	1	932	933
	9,363	370	934	10,667
Sales contract receivables				
High grade	45	—	—	45
Unrated	116	—	—	116
Non-performing individually impaired	—	—	29	29
	161	—	29	190
Other receivables				
High grade	3	—	—	3
Standard grade	282	—	—	282
Unrated	48	—	—	48
Non-performing individually impaired	—	—	2	2
	333	—	2	335
Total other receivables				
High grade	6,111	120	—	6,231
Standard grade	3,701	105	—	3,806
Sub-standard grade	488	49	2	539
Unrated	186	—	—	186
Past due but not impaired	3	95	—	98
Non-performing individually impaired	—	1	1,349	1,350
	₱10,489	₱370	₱1,351	₱12,210

	Parent Company			
	Stage 1	Stage 2	Stage 3	Total
2019				
Unquoted debt securities				
Non-performing individually impaired	₱—	₱—	₱386	₱386
Accrued interest receivable				
High grade	6,600	—	—	6,600
Standard grade	2,468	5	—	2,473
Sub-standard grade	285	741	—	1,026
Unrated	10	—	—	10
Non-performing individually impaired	—	—	394	394
	9,363	746	394	10,503
Sales contract receivables				
Unrated	100	—	—	100
Non-performing individually impaired	—	—	2	2
	100	—	2	102
Other receivables				
Unrated	10	—	—	10
Non-performing individually impaired	—	—	2	2
	10	—	2	12
Total other receivables				
High grade	6,600	—	—	6,600
Standard grade	2,468	5	—	2,473
Sub-standard grade	285	741	—	1,026
Unrated	120	—	—	120
Non-performing individually impaired	—	—	784	784
	₱9,473	₱746	₱784	₱11,003

2018				
Unquoted debt securities				
Non-performing individually impaired	₱—	₱—	₱386	₱386
Accrued interest receivable				
High grade	4,188	—	—	4,188
Standard grade	2,737	6	—	2,743
Sub-standard grade	487	23	2	512
Unrated	21	—	—	21
Past due but not impaired	3	—	—	3
Non-performing individually impaired	—	1	519	520
	7,436	30	521	7,987
Sales contract receivables				
Unrated	117	—	—	117
Non-performing individually impaired	—	—	2	2
	117	—	2	119

(Forward)



	Parent Company			Total
	Stage 1	Stage 2	Stage 3	
Other receivables				
Unrated	₱11	₱—	₱—	₱11
Non-performing individually impaired	—	—	2	2
	11	—	2	13
Total other receivables				
High grade	4,188	—	—	4,188
Standard grade	2,737	6	2	2,743
Sub-standard grade	487	23	—	512
Unrated	149	—	—	149
Past due but not impaired	3	—	—	3
Non-performing individually impaired	—	1	909	910
	₱7,564	₱30	₱911	₱8,505

Movements during 2019 and 2018 for other receivables follow:

	Consolidated			Total
	Stage 1	Stage 2	Stage 3	
2019				
Balance at January 1, 2019	₱10,489	₱370	₱1,351	₱12,210
New assets originated	8,985	—	—	8,985
Assets derecognized or repaid	(5,522)	(366)	(709)	(6,597)
Amounts written-off	—	—	(1)	(1)
Transfers to/(from) Stage 1	(1,652)	—	—	(1,652)
Transfers to/(from) Stage 2	—	1,028	—	1,028
Transfers to/(from) Stage 3	—	—	624	624
Balance at December 31, 2019	₱12,300	₱1,032	₱1,265	₱14,597
2018				
Balance at January 1, 2018	₱8,899	₱452	₱878	₱10,229
New assets originated	3,811	—	—	3,811
Assets derecognized or repaid	(1,505)	(105)	(218)	(1,828)
Transfers to/(from) Stage 1	(716)	—	—	(716)
Transfers to/(from) Stage 2	—	23	—	23
Transfers to/(from) Stage 3	—	—	693	693
Others	—	—	(2)	(2)
Balance at December 31, 2018	₱10,489	₱370	₱1,351	₱12,210

	Parent Company			Total
	Stage 1	Stage 2	Stage 3	
2019				
Balance at January 1, 2019	₱7,564	₱30	₱911	₱8,505
New assets originated	7,575	—	—	7,575
Assets derecognized or repaid	(4,487)	(219)	(370)	(5,076)
Amounts written-off	—	—	(1)	(1)
Transfers to/(from) Stage 1	(1,179)	—	—	(1,179)
Transfers to/(from) Stage 2	—	935	—	935
Transfers to/(from) Stage 3	—	—	244	244
Balance at December 31, 2019	₱9,473	₱746	₱784	₱11,003
2018				
Balance at January 1, 2018	₱6,004	₱145	₱726	₱6,875
New assets originated or purchased	2,861	—	—	2,861
Assets derecognized or repaid	(1,117)	(55)	(57)	(1,229)
Transfers to/(from) Stage 1	(184)	—	—	(184)
Transfers to/(from) Stage 2	—	(60)	—	(60)
Transfers to/(from) Stage 3	—	—	244	244
Others	—	—	(2)	(2)
Balance at December 31, 2018	₱7,564	₱30	₱911	₱8,505

The credit risk exposure on the accounts receivable (excluding statutory receivables which are not considered financial assets) of the Group and the Parent Company based on their aging as of December 31, 2019 and 2018 follows:

Age of accounts receivables	Consolidated		Parent Company	
	2019	2018	2019	2018
Up to 1 month	₱5,775	₱5,256	₱2,191	₱2,359
> 1 to 2 months	76	126	41	57
> 2 to 3 months	36	55	26	18
More than 3 months	3,579	4,218	3,473	3,541
Total gross carrying amount	₱9,466	₱9,655	₱5,731	₱5,975



The maximum exposure and credit quality of loan commitments and financial guarantees as of December 31, 2019 and 2018 follows:

	Consolidated			Total
	Stage 1	Stage 2	Stage 3	
2019				
Standard grade	₱210,260	₱—	₱—	₱210,260
Unrated	62,768	1,460	—	64,228
	₱273,028	₱1,460	₱—	₱274,488
2018				
High grade	₱71	₱—	₱—	₱71
Standard grade	188,211	—	—	188,211
Unrated	69,513	84	—	69,597
	₱257,795	₱84	₱—	₱257,879

	Parent Company			Total
	Stage 1	Stage 2	Stage 3	
2019				
Unrated	₱62,768	₱1,460	₱—	₱64,228
2018				
Unrated	₱69,513	₱84	₱—	₱69,597

Movements during 2019 and 2018 for loan commitments and financial guarantees follow:

	Consolidated			Total
	Stage 1	Stage 2	Stage 3	
2019				
Balance at January 1, 2019	₱257,795	₱84	₱—	₱257,879
New assets originated or purchased	47,799	—	—	47,799
Assets derecognized or repaid	(30,939)	(251)	—	(31,190)
Transfers to/(from) Stage 1	(1,627)	—	—	(1,627)
Transfers to/(from) Stage 2	—	1,627	—	1,627
Balance at December 31, 2019	₱273,028	₱1,460	₱—	₱274,488
2018				
Balance at January 1, 2018	₱228,559	₱302	₱—	₱228,861
New assets originated or purchased	50,093	—	—	50,093
Assets derecognized or repaid	(20,980)	(95)	—	(21,075)
Transfers to/(from) Stage 1	123	—	—	123
Transfers to/(from) Stage 2	—	(123)	—	(123)
Balance at December 31, 2018	₱257,795	₱84	₱—	₱257,879

	Parent Company			Total
	Stage 1	Stage 2	Stage 3	
2019				
Balance at January 1, 2019	₱69,513	₱84	₱—	₱69,597
New assets originated or purchased	25,821	—	—	25,821
Assets derecognized or repaid	(30,939)	(251)	—	(31,190)
Transfers to/(from) Stage 1	(1,627)	—	—	(1,627)
Transfers to/(from) Stage 2	—	1,627	—	1,627
Balance at December 31, 2019	₱62,768	₱1,460	₱—	₱64,228
2018				
Balance at January 1, 2018	₱68,419	₱302	₱—	₱68,721
New assets originated or purchased	21,939	—	—	21,939
Assets derecognized or repaid	(20,968)	(95)	—	(21,063)
Transfers to/(from) Stage 1	123	—	—	123
Transfers to/(from) Stage 2	—	(123)	—	(123)
Balance at December 31, 2018	₱69,513	₱84	₱—	₱69,597

Breakdown of restructured receivables from customers by class are shown below:

	Consolidated		Parent Company	
	2019	2018	2019	2018
Commercial loans	₱2,048	₱1,798	₱2,044	₱1,793
Auto loans	16	25	—	—
Residential mortgage loans	95	123	11	23
Others	276	164	—	—
	₱2,435	₱2,110	₱2,055	₱1,816



As of December 31, 2019 and 2018, an analysis by past due status of receivables from customers wherein the SICR is based only on the past due information is as follows:

	Consolidated					
	Number of days past due					
	Within 30 days	31-60 days	61-90 days	91-180 days	Over 180 days	Total
2019						
Auto loans	₱419	₱165	₱330	₱1,392	₱1,132	₱3,438
Residential mortgage loans	807	328	187	422	1,035	2,779
	₱1,226	₱493	₱517	₱1,814	₱2,167	₱6,217
2018						
Auto loans	₱61	₱14	₱10	₱34	₱1,464	₱1,583
Residential mortgage loans	266	88	43	120	838	1,355
	₱327	₱102	₱53	₱154	₱2,302	₱2,938
	Parent Company					
	Number of days past due					
	Within 30 days	31-60 days	61-90 days	91-180 days	Over 180 days	Total
2019						
Auto loans	₱61	₱20	₱8	₱11	₱121	₱221
Residential mortgage loans	322	84	39	105	357	907
	₱383	₱104	₱47	₱116	₱478	₱1,128
2018						
Auto loans	₱54	₱12	₱9	₱26	₱103	₱204
Residential mortgage loans	265	87	43	119	436	950
	₱319	₱99	₱52	₱145	₱539	₱1,154

Liquidity Risk

Liquidity risk is the current and prospective risk to earnings or capital arising from the inability to meet obligations when they come due. This may be caused by the inability to liquidate assets or to obtain funding to meet liquidity needs.

The Group manages its liquidity risk by holding adequate stock of high quality liquid assets, analyzing net funding requirements over time, diversifying funding sources and contingency planning.

To measure the prospective liquidity needs, the Group uses Maximum Cumulative Outflow (MCO), a liquidity gap tool to project short-term as well as long-term cash flow expectations on a business-as-usual condition.

The MCO is generated by distributing the cash flows of the Group's assets, liabilities and off-balance sheet items to time bands based on cash flow expectations such as contractual maturity, nature of the account, behavioral patterns, projections on business strategies, and/or optionality of certain products. The incorporation of behavioral cash flow assumptions and business projections or targets results in a dynamic gap report which realistically captures the behavior of the products and creates a forward-looking cash flow projection.

Cash flows from assets are considered as cash inflows, while cash flows from liabilities are considered cash outflows. The net cash flows are determined for each given time period. If the inflows exceed the outflows, the Group is said to have a positive liquidity gap or excess funds for the given time bucket. Conversely, if the outflows exceed the inflows, the Group is said to have a negative liquidity gap or funding need for the given time bucket.



The MCO is monitored regularly to ensure that it remains within the set limits. The Parent Company generates and monitors daily its MCO, while the subsidiaries generate the report at least monthly. The liquidity profile of the Group is reported monthly to the Parent Company's ALCO and ROC.

To supplement the business-as-usual scenario parameters reflected in the MCO report, the Group also conducts liquidity stress testing to determine the impact of extreme factors, scenarios and/or events to the Group's liquidity profile. Liquidity stress testing exercise is performed quarterly on a per firm basis, and at least annually on the Group-wide level.

Financial assets

Analysis of debt securities into maturity groupings is based on the expected date on which these assets will be realized. For other financial assets, the analysis into maturity groupings is based on the remaining period from the end of the reporting period to the contractual maturity date or, if earlier, the expected date the assets will be realized.

Financial liabilities

The maturity groupings are based on the remaining period from the end of the reporting period to the contractual maturity date. When a counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the Group can be required to pay.

The table below summarizes the maturity profile of financial instruments and gross-settled derivatives based on contractual undiscounted cash flows.

	Consolidated						
	On demand	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year	Total
2019							
Financial Assets							
Cash and other cash items	₱32,956	₱–	₱–	₱–	₱–	₱–	₱32,956
Due from BSP	219,994	–	–	–	–	–	219,994
Due from other banks	51,867	26	2,724	164	4	–	54,785
Interbank loans receivable and SPURA	175	66,185	3,632	2,196	–	–	72,188
Investment securities at FVTPL							
FVTPL investments	–	12,310	38,502	–	–	38	50,850
Derivative assets							
Trading:							
Receive	–	53,050	27,989	29,617	14,099	3,018	127,773
Pay	–	(53,625)	(28,447)	(30,201)	(14,307)	(3,151)	(129,731)
	–	(575)	(458)	(584)	(208)	(133)	(1,958)
Investment securities at FVOCI	–	546	2,799	5,049	2,940	230,995	242,329
Investment securities at amortized cost	–	15,370	150	312	9,766	317,901	343,499
Loans and receivables							
Receivables from customers	60,348	276,769	178,037	129,824	103,398	994,261	1,742,637
Unquoted debt securities	–	10	1	161	18	980	1,170
Accrued interest receivable	11,220	1,276	251	52	306	–	13,105
Accounts receivable	7,761	259	21	11	1,413	1	9,466
Sales contract receivable	9	–	19	13	26	86	153
Other receivables	15	316	–	–	–	–	331
Other assets							
Returned checks and other cash items	407	–	–	–	–	–	407
Miscellaneous	8	–	1	4	8	172	193
	₱384,760	₱372,492	₱225,679	₱137,202	₱117,671	₱1,544,301	₱2,782,105



	Consolidated						
	On demand	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year	Total
Financial Liabilities							
Non-derivative liabilities							
Deposit liabilities							
CASA	₱1,077,507	₱–	₱–	₱–	₱–	₱–	₱1,077,507
Time	–	394,827	125,808	23,838	30,119	21,280	595,872
LTNCD	–	34	104	8,375	590	40,253	49,356
	1,077,507	394,861	125,912	32,213	30,709	61,533	1,722,735
Bills payable and SSURA	–	91,394	50,379	22,665	26,319	51,687	242,444
Manager's checks and demand drafts outstanding	6,806	–	–	–	–	–	6,806
Accrued interest payable	766	1,295	1,199	171	339	146	3,916
Accrued other expenses	3,395	792	1	–	180	–	4,368
Bonds payable	–	–	442	1,098	30,283	56,468	88,291
Subordinated debts	–	–	54	104	6,623	1,394	8,175
Non-equity non-controlling interest	6,553	–	–	–	–	–	6,553
Other liabilities							
Bills purchased - contra	14,089	–	–	–	–	–	14,089
Accounts payable	5,089	9,964	–	2,384	–	–	17,437
Marginal deposits	6,138	–	236	–	–	–	6,374
Outstanding acceptances	–	488	378	324	398	23	1,611
Deposits on lease contracts	36	54	83	121	291	1,140	1,725
Notes payable	–	–	–	1,881	1,028	–	2,909
Dividends payable	90	–	–	–	–	–	90
Lease liability	59	125	225	341	644	3,593	4,987
Miscellaneous	3	–	–	–	–	–	3
	1,120,531	498,973	178,909	61,302	96,814	175,984	2,132,513
Derivative liabilities*							
Trading:							
Pay	–	84,202	26,452	17,814	17,521	2,097	148,086
Receive	–	(83,588)	(26,100)	(17,699)	(17,462)	(1,930)	(146,779)
	–	614	352	115	59	167	1,307
Loan commitments and financial guarantees							
	218,613	6,182	16,531	12,967	12,457	7,738	274,488
	₱1,339,144	₱505,769	₱195,792	₱74,384	₱109,330	₱183,889	₱2,408,308
2018							
Financial Assets							
Cash and other cash items	₱33,091	₱–	₱–	₱–	₱–	₱–	₱33,091
Due from BSP	240,134	–	–	–	–	–	240,134
Due from other banks	40,058	3,728	2,036	–	–	–	45,822
Interbank loans receivable and SPURA	2,200	27,992	13,294	3,749	3,521	–	50,756
Investment securities at FVTPL							
HFT investments	–	9,508	20,036	–	–	39	29,583
Derivative assets							
Trading:							
Receive	4	34,677	27,348	13,324	3,734	–	79,087
Pay	–	(59,215)	(24,785)	(12,371)	(5,417)	–	(101,788)
	4	(24,538)	2,563	953	(1,683)	–	(22,701)
Investment securities at FVOCI	–	309	1,314	5,405	15,132	109,071	131,231
Investment securities at amortized cost	29	40	253	929	3,773	366,156	371,180
Loans and receivables							
Receivables from customers	49,067	242,271	173,781	125,761	89,350	984,476	1,664,706
Unquoted debt securities	–	9	–	9	18	1,306	1,342
Accrued interest receivable	8,546	1,319	358	377	67	–	10,667
Accounts receivable	8,515	564	24	5	56	491	9,655
Sales contract receivable	8	1	13	14	26	143	205
Other receivables	15	320	–	–	–	–	335
Other assets							
Returned checks and other cash items	417	–	–	–	–	–	417
Miscellaneous	11	2	2	5	6	191	217
	₱382,095	₱261,525	₱213,674	₱137,207	₱110,266	₱1,461,873	₱2,566,640



	Consolidated						Total
	On demand	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year	
Financial Liabilities							
Non-derivative liabilities							
Deposit liabilities							
CASA	P964,944	P–	P–	P–	P–	P–	P964,944
Time	–	328,841	133,644	38,455	28,169	20,887	549,996
LTNCD	–	34	104	375	750	49,814	51,077
	964,944	328,875	133,748	38,830	28,919	70,701	1,566,017
Bills payable and SSURA	1,155	87,961	65,458	35,957	24,933	52,487	267,951
Manager's checks and demand drafts outstanding	7,565	–	–	–	–	–	7,565
Accrued interest payable	329	1,141	2,154	240	90	334	4,288
Accrued other expenses	2,592	848	325	195	–	2	3,962
Bonds payable	–	67	265	501	3,964	30,002	34,799
Subordinated debts	–	–	301	16,360	290	12,008	28,959
Non-equity non-controlling interest	6,747	–	–	–	–	–	6,747
Other liabilities							
Bills purchased - contra	12,171	–	–	–	–	–	12,171
Accounts payable	3,101	10,446	–	2,082	–	–	15,629
Marginal deposits	82	–	4,150	–	–	–	4,232
Outstanding acceptances	–	898	419	225	251	–	1,793
Deposits on lease contracts	–	46	93	81	320	1,103	1,643
Notes payable	–	16	31	47	96	2,699	2,889
Dividends payable	–	90	–	–	–	–	90
Miscellaneous	8	–	–	–	–	–	8
	998,694	430,388	206,944	94,518	58,863	169,336	1,958,743
Derivative liabilities*							
Trading:							
Pay	–	73,574	40,125	66,613	5,474	7,402	193,188
Receive	–	(36,064)	(30,290)	(15,322)	(4,895)	(7,277)	(93,848)
	–	37,510	9,835	51,291	579	125	99,340
Loan commitments and financial guarantees	199,507	7,373	19,844	10,917	14,763	5,475	257,879
	P1,198,201	P475,271	P236,623	P156,726	P74,205	P174,936	P2,315,962

	Parent Company						Total
	On demand	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year	
2019							
Financial Assets							
Cash and other cash items	P30,659	P–	P–	P–	P–	P–	P30,659
Due from BSP	195,770	–	–	–	–	–	195,770
Due from other banks	34,495	1,498	2,717	–	–	–	38,710
Interbank loans receivable and SPURA	–	55,708	426	33	–	–	56,167
Investment securities at FVTPL							
FVTPL investments	–	–	38,502	–	–	38	38,540
Derivative assets							
Trading:							
Receive	–	53,050	27,989	29,617	14,099	3,018	127,773
Pay	–	(53,625)	(28,447)	(30,201)	(14,307)	(3,151)	(129,731)
	–	(575)	(458)	(584)	(208)	(133)	(1,958)
Investment securities at FVOCI	–	381	1,574	2,914	2,022	220,905	227,796
Investment securities at amortized cost	–	15,017	–	–	7,605	275,365	297,987
Loans and receivables							
Receivables from customers	10,053	276,409	160,093	105,231	49,435	722,173	1,323,394
Unquoted debt securities	–	–	–	–	–	482	482
Accrued interest receivable	10,503	–	–	–	–	–	10,503
Accounts receivable	5,731	–	–	–	–	–	5,731
Sales contract receivable	5	–	19	12	25	49	110
Other receivables	12	–	–	–	–	–	12
Other assets							
Returned checks and other cash items	378	–	–	–	–	–	378
	P287,606	P348,438	P202,873	P107,606	P58,879	P1,218,879	P2,224,281



	Parent Company						
	On demand	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year	Total
Financial Liabilities							
Non-derivative liabilities							
Deposit liabilities							
CASA	₱1,003,249	₱–	₱–	₱–	₱–	₱–	₱1,003,249
Time	–	318,644	114,318	18,571	9,812	1,248	462,593
LTNCD	–	34	104	8,375	590	30,606	39,709
	1,003,249	318,678	114,422	26,946	10,402	31,854	1,505,551
Bills payable and SSURA	–	73,962	17,763	13,313	13,299	22,656	140,993
Manager’s checks and demand drafts outstanding	5,508	–	–	–	–	–	5,508
Accrued interest payable	–	1,058	835	170	272	146	2,481
Accrued other expenses	2,124	–	–	–	–	–	2,124
Bonds payable	–	–	442	1,097	29,930	45,694	77,163
Subordinated debts	–	–	36	85	6,585	–	6,706
Other liabilities							
Bills purchased - contra	14,080	–	–	–	–	–	14,080
Accounts payable	–	8,269	–	–	–	–	8,269
Outstanding acceptances	–	488	378	324	398	23	1,611
Marginal deposits	–	–	236	–	–	–	236
Lease liability	59	62	121	181	340	1,981	2,744
	1,025,020	402,517	134,233	42,116	61,226	102,354	1,767,466
Derivative liabilities*							
Trading:							
Pay	–	80,750	26,452	17,814	18,566	–	143,582
Receive	–	(80,276)	(26,100)	(17,699)	(18,487)	–	(142,562)
	–	474	352	115	79	–	1,020
Loan commitments and financial guarantees	8,776	6,169	16,531	12,557	12,457	7,738	64,228
	₱1,033,796	₱409,160	₱151,116	₱54,788	₱73,762	₱110,092	₱1,832,714
2018							
Financial Assets							
Cash and other cash items	₱29,280	₱–	₱–	₱–	₱–	₱–	₱29,280
Due from BSP	206,289	–	–	–	–	–	206,289
Due from other banks	29,607	3,701	1,923	–	–	–	35,231
Interbank loans receivable and SPURA	–	18,046	6,106	–	601	–	24,753
Investment securities at FVTPL							
HFT investments	–	–	20,036	–	–	38	20,074
Derivative assets							
Trading:							
Receive	–	34,674	27,341	13,324	3,734	–	79,073
Pay	–	(59,215)	(24,785)	(12,371)	(5,417)	–	(101,788)
	–	(24,541)	2,556	953	(1,683)	–	(22,715)
Investment securities at FVOCI	–	240	866	4,788	10,751	91,191	107,836
Investment securities at amortized cost	–	–	57	–	423	298,611	299,091
Loans and receivables							
Receivables from customers	6,227	236,314	159,325	107,788	43,325	732,624	1,285,603
Unquoted debt securities	–	–	–	–	–	595	595
Accrued interest receivable	7,987	–	–	–	–	–	7,987
Accounts receivable	5,975	–	–	–	–	–	5,975
Sales contract receivable	4	1	13	13	25	77	133
Other receivables	13	–	–	–	–	–	13
Other assets							
Returned checks and other cash items	397	–	–	–	–	–	397
	₱285,779	₱233,761	₱190,882	₱113,542	₱53,442	₱1,123,136	₱2,000,542



	Parent Company						Total
	On demand	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year	
Financial Liabilities							
Non-derivative liabilities							
Deposit liabilities							
CASA	P900,186	P–	P–	P–	P–	P–	P900,186
Time	–	255,265	98,486	24,356	12,121	1,563	391,791
LTNCD	–	34	104	375	750	39,946	41,209
	900,186	255,299	98,590	24,731	12,871	41,509	1,333,186
Bills payable and SSURA	–	58,122	42,463	26,629	5,396	21,201	153,811
Manager's checks and demand drafts outstanding	5,950	–	–	–	–	–	5,950
Accrued interest payable	–	807	1,149	238	88	93	2,375
Accrued other expenses	1,881	–	–	–	–	–	1,881
Bonds payable	–	–	265	501	1,001	30,002	31,769
Subordinated debts	–	–	241	16,300	171	6,756	23,468
Other liabilities							
Bills purchased - contra	12,158	–	–	–	–	–	12,158
Accounts payable	–	7,104	–	–	–	–	7,104
Outstanding acceptances	–	898	419	225	251	–	1,793
Marginal deposits	–	–	166	–	–	–	166
	920,175	322,230	143,293	68,624	19,778	99,561	1,573,661
Derivative liabilities*							
Trading:							
Pay	–	73,574	40,122	66,613	5,474	–	185,783
Receive	–	(36,064)	(30,290)	(15,322)	(4,895)	–	(86,571)
	–	37,510	9,832	51,291	579	–	99,212
Loan commitments and financial guarantees	11,296	7,373	19,791	10,900	14,762	5,475	69,597
	P931,471	P367,113	P172,916	P130,815	P35,119	P105,036	P1,742,470

*Does not include derivatives embedded in financial and non-financial contracts.

Market Risk

Market risk is the possibility of loss to future earnings, fair values, or future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates, foreign exchange rates, and other market factors. Market risk originates from holdings in foreign currencies, debt securities, and derivatives transactions.

Depending on the business model for the product, i.e., whether they belong to the trading book or banking book, the Group applies different tools and processes to manage market risk exposures. Risk limits, approved by the BOD, are enforced to monitor and control this risk. RSK, as an independent body under the ROC, performs daily market risk analyses to ensure compliance to policies and limits, while Treasury Group manages the asset/liability risks arising from both banking book and trading operations in financial markets. The ALCO, chaired by the President, manages market risks within the parameters approved by the BOD.

As part of group supervision, the Parent Company regularly coordinates with subsidiaries to monitor their compliance to their respective risk tolerances and to ensure alignment of risk management practices. Each subsidiary has its own risk management unit responsible for monitoring its market risk exposures. The Parent, however, requires regular submission of market risk profiles which are presented to ALCO and ROC in both individual and consolidated forms to provide senior management and ROC a holistic perspective, and ensure alignment of strategies and risk appetite across the Group.

Market risk - trading book

In measuring the potential loss in its trading portfolio, the Parent Company uses VaR. VaR is an estimate of the potential decline in the value of a portfolio, under normal market conditions, for a given “confidence level” over a specified holding period. The Parent Company measures and



monitors the Trading Book VaR daily, and this value is compared against the set VaR limit. Meanwhile, the Group VaR is monitored and reported monthly.

VaR methodology assumptions and parameters

Historical Simulation (HS) is used to compute the VaR. This method assumes that market rates volatility in the future will follow the same movement that occurred within the 260-day historical period. In calculating VaR, a 99.00% confidence level and a one-day holding period are assumed. This means that, statistically, within a one-day horizon, the trading losses will exceed VaR in 1 out of 100 trading days.

Like any other model, the HS method has its own limitations. To wit, it cannot predict volatility levels which did not happen in the specified historical period. The validity of the VaR model is verified through a daily backtesting analysis, which examines how frequently both actual and hypothetical daily losses exceed VaR. The result of the daily backtesting analysis is reported to the ALCO and ROC monthly.

A summary of the VaR levels of the trading portfolio of the Parent Company appears below:

	Rates and FX	Fixed Income	FX Options
As of December 31, 2019			
December 27	₱189.27	₱139.49	₱9.18
Average	146.87	141.22	12.26
Highest	223.46	269.07	42.02
Lowest	57.91	32.93	2.12
As of December 31, 2018			
December 28	₱47.91	₱34.15	₱2.58
Average	71.66	77.34	13.52
Highest	250.69	214.96	37.96
Lowest	23.21	28.84	1.88

Rates and Foreign Exchange (FX) VaR is the correlated VaR of the following products: FX spot, outright forward, non-deliverable forwards, FX swaps, interest rate swaps, and cross-currency swaps. The Fixed Income VaR is the correlated VaR of these products: peso and foreign currency bonds, bond forwards and credit default swaps (CDS).

Subsidiaries with trading books perform daily mark-to-market valuation and VaR calculations for their exposures. Risk exposures are bounded by a system of risk limits and monitoring tools to effectively manage the risks.

The table below summarizes the VaR levels of FMIC and PSBank:

	FMIC			PSBank		
	Equities	Bonds		Bonds		FX
		PHP	USD	PHP	USD	
As of December 31, 2019						
December 27	₱—	₱9.05	₱0.18	₱0.00		₱0.98
Average	0.99	30.26	3.63	0.00		0.75
Highest	9.42	89.66	11.34	0.00		1.33
Lowest	0.64	4.86	0.18	0.00		0.01
As of December 31, 2018						
December 28	₱—	₱7.58	₱—	₱0.00	₱—	₱0.86
Average	8.32	11.90	0.34	0.50	0.86	0.92
Highest	24.61	37.26	4.06	12.17	12.14	3.64
Lowest	1.45	4.40	1.31	0.00	—	0.12



The limitations of the VaR methodology are recognized by supplementing VaR limits with other position and sensitivity limit structures and by doing stress testing analysis. These processes address potential product concentration risks, monitor portfolio vulnerability and give the management an early advice if an actual loss goes beyond what is deemed to be tolerable to the bank, even before the VaR limit is hit.

Stress testing is performed by the Parent Company on a quarterly basis and the results are reported to the ALCO and, subsequently, to the ROC and BOD. On a Group-wide perspective, stress testing is done, at least, annually. The results are reported by the Parent Company's Risk Management Group to the BOD through ROC.

Market risk - banking book

The Group has in place their own risk management system and processes to quantify and manage market risks in the banking book. To the extent applicable, these are generally aligned with the Parent's framework/tools.

The Group assesses interest rate risk in the banking book using measurement tools such as Interest Rate Repricing Gap, Earnings-at-Risk (EaR), Delta Economic Value of Equity (Δ EVE), and Sensitivity Analysis.

Interest Rate Repricing Gap is a tool that distributes rate-sensitive assets and liabilities into pre-defined tenor buckets according to time remaining to their maturity (if fixed rate) or repricing (if floating rate). Items lacking definitive repricing schedule (e.g., current and savings account) and items with actual maturities that could vary from contractual maturities (e.g., securities with embedded options) are assigned to repricing tenor buckets based on analysis of historical patterns, past experience and/or expert judgment.

EaR measures the possible decline in the Group's net interest income as a result of adverse interest rate movements, given the current repricing profile. It is a tool used to evaluate the sensitivity of the accrual portfolio to changes in interest rates in the adverse direction over the next twelve (12) months.

EaR methodology assumptions and parameters

The Group calculates EaR using Historical Simulations (HS) approach, with one-year horizon and using five years data. EaR is then derived as the 99th percentile biggest drop in net interest income.

The table below shows the EaR profile of the Parent Company and certain subsidiaries as of December 31, 2019 and 2018:

	Parent Company	FMIC	PSBank	MCC	ORIX Metro	Group
2019	(₱2,892.41)	(₱88.73)	(₱1,411.33)	(₱140.61)	(₱97.92)	(₱2,498.06)
2018	(1,407.13)	(166.00)	(1,121.72)	(197.34)	(18.12)	(2,910.31)

The Parent Company generates and monitors daily its EaR exposure while the subsidiaries generate their EaR reports at least monthly.

In March 2019, the Parent Company started to use Delta EVE as additional IRRBB risk metric. Δ EVE is used to measure changes in the net present value of its banking book at different interest rate shocks and stress scenarios. It reflects changes in the economic value of equity over the remaining life of the assets and liabilities. Δ EVE is calculated by slotting the notional repricing cash flows arising from rate-sensitive assets and liabilities into pre-defined tenor buckets. The present value of



the net repricing cash flows is then calculated using various interest rate scenarios prescribed by Basel as well as scenarios internally developed by the Parent Company.

Aside from the tools above, the Parent Company and its subsidiaries perform regular sensitivity and stress testing analyses on their banking books to broaden their forward-looking analysis. This way, management can craft strategies to address and/or arrest probable risks, if necessary.

Foreign currency risk

Foreign exchange risk is the probability of loss to earnings or capital arising from changes in foreign exchange rates. Foreign currency liabilities generally consist of foreign currency deposits in the Group's FCDU account. Foreign currency deposits are generally used to fund the Group's foreign currency-denominated loan and investment portfolio in the FCDU. Banks are required by the BSP to match the foreign currency liabilities with the foreign currency assets held in FCDUs. Outside the FCDU, the Group has additional foreign currency assets and liabilities in its foreign branch network. The Group's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines.

The following table sets forth, for the year indicated, the impact of reasonably possible changes in the USD exchange rate and other currencies per Philippine peso on pre-tax income and equity:

Currency	Consolidated						Parent Company					
	2019			2018			2019			2018		
	Change in currency rate in %	Effect on profit before tax	Effect on equity	Change in currency rate in %	Effect on profit before tax	Effect on equity	Change in currency rate in %	Effect on profit before tax	Effect on equity	Change in currency rate in %	Effect on profit before tax	Effect on equity
USD	+1.00%	(12.81)	5.04	+1.00%	(121.52)	1.89	+1.00%	107.32	1.21	+1.00%	(34.54)	0.09
EUR	+1.00%	(36.41)	0.00	+1.00%	24.26	—	+1.00%	(36.41)	—	+1.00%	23.40	0.00
JPY	+1.00%	9.37	0.00	+1.00%	(18.51)	—	+1.00%	9.37	—	+1.00%	(18.51)	0.00
GBP	+1.00%	8.16	0.00	+1.00%	22.25	—	+1.00%	8.16	—	+1.00%	22.25	0.00
Others	+1.00%	(162.34)	0.00	+1.00%	11.41	—	+1.00%	(162.34)	—	+1.00%	11.41	0.00
USD	-1.00%	12.81	(5.04)	-1.00%	121.52	(1.89)	-1.00%	(107.32)	(1.21)	-1.00%	34.54	(0.09)
EUR	-1.00%	36.41	0.00	-1.00%	(22.53)	—	-1.00%	36.41	—	-1.00%	(23.40)	0.00
JPY	-1.00%	(9.37)	0.00	-1.00%	18.51	—	-1.00%	(9.37)	—	-1.00%	18.51	0.00
GBP	-1.00%	(8.16)	0.00	-1.00%	(22.25)	—	-1.00%	(8.16)	—	-1.00%	(22.25)	0.00
Others	-1.00%	162.34	0.00	-1.00%	(11.41)	—	-1.00%	162.34	—	-1.00%	(11.41)	0.00

Information relating to the Parent Company's currency derivatives is included in Note 8. As of December 31, 2019 and 2018, the Parent Company has outstanding foreign currency spot transactions (in equivalent peso amounts) of ₱21.24 billion and ₱7.6 billion, respectively (sold), and ₱13.85 billion and ₱8.8 billion, respectively (bought).

The impact on the Parent Company's equity already excludes the impact on transactions affecting the profit and loss.

Capital Management

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

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital structure, or issue capital securities. No changes were made in the objectives, policies and processes from the previous year.



BSP Reporting

Regulatory Qualifying Capital

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

The Group complied with BSP Circular No. 781, *Basel III Implementing Guidelines on Minimum Capital Requirements*, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. The Circular sets out a minimum Common Equity Tier 1 (CET1) ratio of 6.00% and Tier 1 capital ratio of 7.50%; capital conservation buffer of 2.50% comprised of CET1 capital and Total Capital Adequacy Ratio (CAR) of 10.00%. These ratios shall be maintained at all times. Further, BSP Circular No. 856 covers the implementing guidelines on the framework for dealing with domestic systemically important banks (DSIBs) in accordance with the Basel III standards. Banks identified as DSIBs shall be required to have higher loss absorbency, on top of the minimum CET1 capital and capital conservation buffer. Compliance with this requirement was phased-in starting January 1, 2017, with full compliance on January 1, 2019.

The details of CAR, as reported to the BSP, as of December 31, 2019 and 2018 follow:

	Consolidated		Parent Company	
	2019	2018	2019	2018
Tier 1 capital	₱310,100	₱278,930	₱310,971	₱281,282
CET1 Capital	310,100	278,930	310,971	281,282
Less: Required deductions	33,812	31,156	127,872	106,847
Net Tier 1 Capital	276,288	247,774	183,099	174,435
Tier 2 capital	22,032	41,177	17,271	32,649
Total Qualifying Capital	₱298,320	₱288,951	₱200,370	₱207,084
Credit Risk-Weighted Assets	₱1,487,360	₱1,469,970	₱1,143,218	₱1,160,414
Market Risk-Weighted Assets	72,042	57,101	66,166	46,045
Operational Risk-Weighted Assets	146,694	174,345	86,437	102,152
Total Risk-Weighted Assets	1,706,096	1,701,416	1,295,821	1,308,611
CET1 Ratio*	16.19%	14.56%	14.13%	13.33%
Tier 1 capital ratio	16.19%	14.56%	14.13%	13.33%
Total capital ratio	17.49%	16.98%	15.46%	15.82%

* of which capital conservation buffer in 2019 and 2018 is 10.19% and 8.56%, respectively, for the Group and 8.13% and 7.33%, respectively, for the Parent Company

Qualifying capital and risk-weighted assets (RWA) are computed based on BSP regulations. Under Basel III, the regulatory qualifying capital of the Parent Company consists of CET1 capital, which comprises paid-up common stock, additional paid-in capital, retained earnings including current year profit, retained earnings reserves, OCI and non-controlling interest less required regulatory deductions. The other component of regulatory capital is Tier 2 (supplementary) capital, which includes unsecured subordinated debts and general loan loss provision. RWA consist of total assets excluding cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the Monetary Board (MB) of the BSP. Operational RWA are computed using the Basic Indicator Approach. As discussed in Note 30, as of December 31, 2018, additional operational risk has been included as required by the MB, which was lifted on July 18, 2019.

The Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the year.



The Internal Capital Adequacy Assessment Process (ICAAP) supplements the BSP's risk-based capital adequacy framework. In compliance with this, the Group has adopted and developed its ICAAP framework to ensure that appropriate level and quality of capital are maintained by the Group. Under this framework, the assessment of risks extends beyond the Pillar 1 set of credit, market and operational risks and onto other risks deemed material by the Group. The level and structure of capital are assessed and determined in light of the Group's business environment, plans, performance, risks and budget as well as regulatory edicts.

Basel III Leverage Ratio (BLR)

BSP Circular Nos. 881 and 990 cover the implementing guidelines on the BLR framework designed to act as a supplementary measure to the risk-based capital requirements and shall not be less than 5.00%. The monitoring period has been set every quarter starting December 31, 2014 and extended until June 30, 2018. Effective July 1, 2018, the monitoring of the leverage ratio was implemented as a Pillar I minimum requirement.

The details of the BLR, as reported to the BSP, as of December 31, 2019 and 2018 follow:

	Consolidated		Parent Company	
	2019	2018	2019	2018
Tier 1 Capital	₱276,288	₱247,774	₱183,099	₱174,435
Exposure Measure	₱2,532,633	₱2,312,538	₱2,055,498	₱1,840,207
BLR	10.91%	10.71%	8.91%	9.48%

Under the framework, BLR is defined as the capital measure divided by the exposure measure. Capital measure is Tier 1 capital. Exposure measure is the sum of on-balance sheet exposures, derivative exposures, security financing exposures and off-balance sheet items.

Liquidity Coverage Ratio (LCR)

BSP Circular No. 905 provides the implementing guidelines on LCR and disclosure standards that are consistent with the Basel III framework. The LCR is the ratio of high-quality liquid assets to total net cash outflows which should not be lower than 100.00%. Compliance with the LCR minimum requirement commenced on January 1, 2018 with the prescribed minimum ratio of 90.00% for 2018 and 100.00% effective January 1, 2019. As of December 31, 2019 and 2018, the LCR in single currency as reported to the BSP, was at 245.10% and 131.92%, respectively for the Group, and 279.11% and 147.82%, respectively for the Parent Company.

Net Stable Funding Ratio (NSFR)

On June 6, 2018, the BSP issued BSP Circular No.1007 covering the implementing guidelines on the adoption of the Basel III Framework on Liquidity Standards – NSFR. The NSFR is aimed to promote long-term resilience against liquidity risk by requiring banks to maintain a stable funding profile in relation to the composition of its assets and off-balance sheet activities. It complements the LCR, which promotes short term resilience of a bank's liquidity profile. Banks shall maintain an NSFR of at least 100 percent (100%) at all times. The implementation of the minimum NSFR shall be phased in to help ensure that covered banks can meet the standard through reasonable measures without disrupting credit extension and financial market activities. An observation period was set from July 1 to December 31, 2018. Effective, January 1, 2019, banks shall comply with the prescribed minimum ratio of 100%. As of December 31, 2019 and 2018, the NSFR as reported to the BSP, was at 148.53% and 134.17%, respectively for the Group, and 150.61% and 139.88%, respectively for the Parent Company.



5. Fair Value Measurement

Financial Instruments

The methods and assumptions used by the Group and the Parent Company in estimating the fair values of financial assets and financial liabilities are:

Cash and other cash items, due from BSP and other banks and interbank loans receivable and SPURA

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

Trading and investment securities

Fair values of debt and equity securities are generally based on quoted market prices. Where the debt securities are not quoted or the market prices are not readily available, the Group and the Parent Company obtained valuations from independent parties offering pricing services, used adjusted quoted market prices of comparable investments, or applied discounted cash flow methodologies. For equity securities that are not quoted, remeasurement to their fair values is not material to the financial statements.

Derivative instruments

Fair values are estimated based on quoted market prices, prices provided by independent parties, or prices derived using acceptable valuation models. The models utilize published underlying rates (e.g. interest rates, FX rates, CDS rates, FX volatilities and spot and forward FX rates) and are implemented through validated calculation engines.

Loans and receivables

Fair values of the Group's loans and receivables are estimated using the discounted cash flow methodology, using current incremental lending rates for similar types of loans. Where the instrument reprices on a quarterly basis or has a relatively short maturity, the carrying amounts approximate fair values.

Liabilities

Fair values are estimated using the discounted cash flow methodology using the Group's current borrowing rate for similar borrowings with maturities consistent with those remaining for the liability being valued, if any. The carrying amounts of demand and savings deposit liabilities and other short-term liabilities approximate fair values considering that these are either due and demandable or with short-term maturities.

Non-Financial Assets

Investment properties

Fair value of investment properties is determined based on valuations performed by independent and in-house appraisers using valuation technique with significant inputs that are not based on observable market data (Level 3). The valuation of investment properties was based on the Sales Comparison Approach and considered recent sales of similar or substitute properties in the same areas where the investment properties are located, taking into account the economic conditions prevailing at the time of the valuation. Other factors considered were the location and shape of the properties, environmental issues, development controls such as the height restrictions, building coverage and floor area ratio restrictions, among others. The fair value of investment properties is based on its highest and best use, which is their current use.



The following tables summarize the carrying amounts and fair values of assets and liabilities, analyzed among those whose fair value is based on:

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

	Consolidated				Total Fair Value
	Carrying Value	Level 1	Level 2	Level 3	
2019					
Assets Measured at Fair Value					
Financial Assets					
Investment securities at FVTPL					
FVTPL investments					
Debt securities					
Private	₱7,935	₱7,935	₱–	₱–	₱7,935
Government	13,048	13,048	–	–	13,048
Treasury notes and bonds	24,145	24,145	–	–	24,145
Treasury bills	1,662	1,662	–	–	1,662
BSP	2	2	–	–	2
	46,792	46,792	–	–	46,792
Equity securities	6,585	6,585	–	–	6,585
Derivative assets					
Cross-currency swaps	6,007	–	6,007	–	6,007
Currency forwards	1,756	–	1,756	–	1,756
Interest rate swaps	711	–	711	–	711
Put option	10	–	10	–	10
Call option	6	–	6	–	6
	8,490	–	8,490	–	8,490
	61,867	53,377	8,490	–	61,867
Investment securities at FVOCI					
Debt securities					
Treasury notes and bonds	111,791	110,346	1,445	–	111,791
Government	52,870	52,495	375	–	52,870
Private	36,199	28,487	7,712	–	36,199
	200,860	191,328	9,532	–	200,860
Equity securities	1,660	1,454	206	–	1,660
	202,520	192,782	9,738	–	202,520
	₱264,387	₱246,159	₱18,228	₱–	₱264,387
Assets for which Fair Values are Disclosed					
Financial Assets					
Investment securities at amortized cost					
Treasury notes and bonds	₱227,438	₱200,742	₱11,585	₱–	₱212,327
Government	20,213	20,554	338	–	20,892
Private	3,877	2,482	1,367	–	3,849
Treasury bills	100	101	–	–	101
	251,628	223,879	13,290	–	237,169
Loans and receivables - net					
Receivables from customers					
Commercial loans	1,049,544	–	–	1,039,249	1,039,249
Auto loans	116,434	–	–	137,168	137,168
Residential mortgage loans	109,292	–	–	133,645	133,645
Trade loans	63,093	–	–	63,093	63,093
Credit card	82,449	–	–	82,449	82,449
Others	39,812	–	–	40,858	40,858
	1,460,624	–	–	1,496,462	1,496,462
Unquoted debt securities	630	–	–	647	647
Sales contract receivable	142	–	–	146	146
	1,461,396	–	–	1,497,255	1,497,255
Other assets	185	–	–	257	257
	1,713,209	223,879	13,290	1,497,512	1,734,681
Non-Financial Assets					
Investment properties	7,762	–	–	14,283	14,283
Residual value of leased assets	1,135	–	–	1,001	1,001
	8,897	–	–	15,284	15,284
	₱1,722,106	₱223,879	₱13,290	₱1,512,796	₱1,749,965

(Forward)



	Consolidated				Total Fair Value
	Carrying Value	Level 1	Level 2	Level 3	
Liabilities Measured at Fair Value					
Financial Liabilities					
Financial liabilities at FVTPL					
Derivative liabilities					
Cross-currency swaps	₱3,772	₱–	₱3,772	₱–	₱3,772
Interest rate swaps	2,235	–	2,235	–	2,235
Currency forwards	1,401	–	1,401	–	1,401
Call option	12	–	12	–	12
Put option	6	–	6	–	6
Credit default swaps	1	–	1	–	1
Non-equity non-controlling interest	6,553	–	6,553	–	6,553
	₱13,980	₱–	₱13,980	₱–	₱13,980
Liabilities for which Fair Values are Disclosed					
Financial Liabilities					
Deposit liabilities					
Time	₱592,897	₱–	₱–	₱594,991	₱594,991
LTNCD	43,740	35,122	9,042	–	44,164
	636,637	35,122	9,042	594,991	639,155
Bills payable and SSURA	238,281	–	–	243,017	243,017
Bonds payable	80,486	82,297	–	–	82,297
Subordinated debts	7,660	6,502	–	1,195	7,697
Other liabilities					
Deposits on lease contracts	1,725	–	–	1,440	1,440
Notes Payable	2,592	–	–	2,677	2,677
	₱967,381	₱123,921	₱9,042	₱843,320	₱976,283
2018					
Assets Measured at Fair Value					
Financial Assets					
Investment securities at FVTPL					
HFT investments					
Debt securities					
Private	₱9,257	₱9,257	₱–	₱–	₱9,257
Government	6,247	6,247	–	–	6,247
Treasury notes and bonds	4,285	4,285	–	–	4,285
Treasury bills	2,642	2,642	–	–	2,642
BSP	2	2	–	–	2
	22,433	22,433	–	–	22,433
Equity securities	6,605	6,605	–	–	6,605
Derivative assets					
Cross-currency swaps	8,222	–	8,222	–	8,222
Currency forwards	1,223	–	1,223	–	1,223
Interest rate swaps	1,205	–	1,205	–	1,205
Put option	1	–	1	–	1
	10,651	–	10,651	–	10,651
	39,689	29,038	10,651	–	39,689
Investment securities at FVOCI					
Debt securities					
Private	42,369	36,498	5,871	–	42,369
Treasury notes and bonds	40,786	40,786	–	–	40,786
Government	27,004	26,610	394	–	27,004
	110,159	103,894	6,265	–	110,159
Equity securities	1,129	945	184	–	1,129
	111,288	104,839	6,449	–	111,288
	₱150,977	₱133,877	₱17,100	₱–	₱150,977
Assets for which Fair Values are Disclosed					
Financial Assets					
Investment securities at amortized cost					
Treasury notes and bonds	₱237,464	₱202,537	₱–	₱–	₱202,537
Government	21,823	20,700	–	–	20,700
Private	6,040	5,654	–	–	5,654
Treasury bills	49	49	–	–	49
	265,376	228,940	–	–	228,940
Loans and receivables – net					
Receivables from customers					
Commercial loans	977,404	–	–	961,772	961,772
Auto loans	117,309	–	–	138,227	138,227
Residential mortgage loans	107,079	–	–	128,752	128,752
Trade loans	62,786	–	–	62,786	62,786

(Forward)



	Consolidated				Total Fair Value
	Carrying Value	Level 1	Level 2	Level 3	
Credit card	P66,568	P-	P-	P66,569	P66,569
Others	39,446	-	-	40,122	40,122
	1,370,592	-	-	1,398,228	1,398,228
Unquoted debt securities	632	-	-	635	635
Sales contract receivable	156	-	-	196	196
	1,371,380	-	-	1,399,059	1,399,059
Other assets	207	-	-	315	315
	1,636,963	228,940	-	1,399,374	1,628,314
Non-Financial Assets					
Investment properties	7,500	-	-	14,224	14,224
Residual value of leased assets	1,130	-	-	1,006	1,006
	8,630	-	-	15,230	15,230
	P1,645,593	P228,940	P-	P1,414,604	P1,643,544
Liabilities Measured at Fair Value					
Financial Liabilities					
Financial liabilities at FVTPL					
Derivative liabilities					
Cross-currency swaps	P3,857	P-	P3,857	P-	P3,857
Currency forwards	1,388	-	1,388	-	1,388
Interest rate swaps	1,290	-	1,290	-	1,290
Put option	2	-	2	-	2
Non-equity non-controlling interest	6,747	-	6,747	-	6,747
	P13,284	P-	P13,284	P-	P13,284
Liabilities for which Fair Values are Disclosed					
Financial Liabilities					
Deposit liabilities					
Time	P548,019	P-	P-	P548,680	P548,680
LTNCD	43,790	40,354	-	-	40,354
	591,809	40,354	-	548,680	589,034
Bills payable and SSURA	259,607	-	-	255,472	255,472
Bonds payable	30,743	28,023	-	2,944	30,967
Subordinated debts	26,618	22,047	-	3,356	25,403
Other liabilities					
Notes payable	2,600	-	-	2,575	2,575
Deposits on lease contracts	1,643	-	-	1,376	1,376
	P913,020	P90,424	P-	P814,403	P904,827
Parent Company					
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
2019					
Assets Measured at Fair Value					
Financial Assets					
Investment securities at FVTPL					
FVTPL investments					
Debt securities					
Private	P7,213	P7,213	P-	P-	P7,213
Government	12,838	12,838	-	-	12,838
Treasury notes and bonds	20,210	20,210	-	-	20,210
Treasury bills	761	761	-	-	761
BSP	2	2	-	-	2
	41,024	41,024	-	-	41,024
Equity securities	38	38	-	-	38
Derivative assets					
Cross-currency swaps	6,007	-	6,007	-	6,007
Currency forwards	1,755	-	1,755	-	1,755
Interest rate swaps	711	-	711	-	711
Put option	9	-	9	-	9
Call option	6	-	6	-	6
	8,488	-	8,488	-	8,488
	49,550	41,062	8,488	-	49,550
Investment securities at FVOCI					
Debt securities					
Treasury notes and bonds	109,203	109,203	-	-	109,203
Private	26,324	25,766	558	-	26,324
Government	52,649	52,494	155	-	52,649
	188,176	187,463	713	-	188,176
Equity securities	500	439	61	-	500
	188,676	187,902	774	-	188,676
	P238,226	P228,964	P9,262	P-	P238,226



	Parent Company				Total Fair Value
	Carrying Value	Level 1	Level 2	Level 3	
Assets for which Fair Values are Disclosed					
Financial Assets					
Investment securities at amortized cost					
Treasury notes and bonds	₱208,514	₱193,267	₱–	₱–	₱193,267
Government	8,130	8,223	–	–	8,223
	216,644	201,490	–	–	201,490
Loans and receivables – net					
Receivables from customers					
Commercial loans	1,002,413	–	–	989,097	989,097
Auto loans	24,038	–	–	24,243	24,243
Residential mortgage loans	57,176	–	–	57,635	57,635
Trade loans	62,387	–	–	62,387	62,387
Others	14,505	–	–	14,505	14,505
	1,160,519	–	–	1,147,867	1,147,867
Sales contract receivable	100	–	–	100	100
	1,160,619	–	–	1,147,967	1,147,967
	1,377,263	201,490	–	1,147,967	1,349,457
Non-Financial Assets					
Investment properties	3,291	–	–	7,179	7,179
	₱1,380,554	₱201,490	₱–	₱1,155,146	₱1,356,636
Liabilities Measured at Fair Value					
Financial Liabilities					
Financial liabilities at FVTPL					
Derivative liabilities					
Cross-currency swaps	₱2,341	₱–	₱2,341	₱–	₱2,341
Currency forwards	1,401	–	1,401	–	1,401
Interest rate swaps	2,234	–	2,234	–	2,234
Credit default swaps	1	–	1	–	1
Call option	12	–	12	–	12
Put option	5	–	5	–	5
	₱5,994	₱–	₱5,994	₱–	₱5,994
Liabilities for which Fair Values are Disclosed					
Financial Liabilities					
Deposit liabilities					
Time	₱461,713	₱–	₱–	₱461,713	₱461,713
LTNCD	35,330	26,536	9,042	–	35,578
	497,043	26,536	9,042	461,713	497,291
Bills payable and SSURA	139,072	–	–	139,223	139,223
Bonds payable	70,110	71,741	–	–	71,741
Subordinated debts	6,494	6,502	–	–	6,502
	₱712,719	₱104,779	₱9,042	₱600,936	₱714,757
2018					
Assets Measured at Fair Value					
Financial Assets					
Investment securities at FVTPL					
HFT investments					
Debt securities					
Private	₱8,571	₱8,571	₱–	₱–	₱8,571
Government	6,063	6,063	–	–	6,063
Treasury notes and bonds	3,394	3,394	–	–	3,394
Treasury bills	1,460	1,460	–	–	1,460
BSP	2	2	–	–	2
	19,490	19,490	–	–	19,490
Equity securities	38	38	–	–	38
Derivative assets					
Cross-currency swaps	8,222	–	8,222	–	8,222
Currency forwards	1,210	–	1,210	–	1,210
Interest rate swaps	1,205	–	1,205	–	1,205
Put option	1	–	1	–	1
	10,638	–	10,638	–	10,638
	30,166	19,528	10,638	–	30,166

(Forward)



	Parent Company				Total Fair Value
	Carrying Value	Level 1	Level 2	Level 3	
Investment securities at FVOCI					
Debt securities					
Treasury notes and bonds	P37,377	P37,377	P—	P—	P37,377
Private	33,073	32,499	574	—	33,073
Government	21,221	21,058	163	—	21,221
	91,671	90,934	737	—	91,671
Equity securities	473	412	61	—	473
	92,144	91,346	798	—	92,144
	P122,310	P110,874	P11,436	P—	P122,310
Assets for which Fair Values are Disclosed					
Financial Assets					
Investment securities at amortized cost					
Treasury notes and bonds	P204,164	P173,943	P—	P—	P173,943
Government	8,443	8,162	—	—	8,162
	212,607	182,105	—	—	182,105
Loans and receivables - net					
Receivables from customers					
Commercial loans	940,127	—	—	922,105	922,105
Auto loans	29,444	—	—	29,522	29,522
Residential mortgage loans	57,500	—	—	57,860	57,860
Trade loans	62,722	—	—	62,722	62,722
Others	12,530	—	—	12,530	12,530
	1,102,323	—	—	1,084,739	1,084,739
Sales contract receivable	118	—	—	118	118
	1,102,441	—	—	1,084,857	1,084,857
	1,315,048	182,105	—	1,084,857	1,266,962
Non-Financial Assets					
Investment properties	2,825	—	—	6,194	6,194
	P1,317,873	P182,105	P—	P1,091,051	P1,273,156
Liabilities Measured at Fair Value					
Financial Liabilities					
Financial liabilities at FVTPL					
Derivative liabilities					
Cross-currency swaps	P3,505	P—	P3,505	P—	P3,505
Currency forwards	1,385	—	1,385	—	1,385
Interest rate swaps	1,290	—	1,290	—	1,290
Put option	2	—	2	—	2
	P6,182	P—	P6,182	P—	P6,182
Liabilities for which Fair Values are Disclosed					
Financial Liabilities					
Deposit liabilities					
Time	P390,475	P—	P—	P390,475	P390,475
LTNCD	35,330	32,661	—	—	32,661
	425,805	32,661	—	390,475	423,136
Bills payable and SSURA	151,079	—	—	150,852	150,852
Bonds payable	27,826	28,023	—	—	28,023
Subordinated debts	22,471	22,047	—	—	22,047
	P627,181	P82,731	P—	P541,327	P624,058

When fair values of listed equity and debt securities, as well as publicly traded derivatives at the reporting date are based on quoted market prices or binding dealer price quotations, without any adjustments for transaction costs, the instruments are included within Level 1 of the hierarchy.

For all other financial instruments, fair value is determined using valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist and other revaluation models. Instruments included in Level 3 include those for which there is currently no active market.

As of December 31, 2019, the fair value hierarchy of FVOCI debt and equity securities amounting to ₱1.4 billion and ₱1.2 million, respectively, were transferred from Level 1 to Level 2 due to absence of an active market.



6. Segment Information

The Group's operating businesses are recognized and managed separately according to the nature of services provided and the different markets served with segment representing a strategic business unit. Operating segments are reported in accordance with internal reporting to the Senior Management who is responsible for allocating resources to the segments and assessing its performance.

The Group's business segments follow:

- Consumer Banking - principally providing consumer type loans and support for effective sourcing and generation of consumer business;
- Corporate Banking - principally handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers;
- Investment Banking - principally arranging structured financing, and providing services relating to privatizations, initial public offerings, mergers and acquisitions; and providing advisory services primarily aimed to create wealth to individuals and institutions;
- Treasury - principally providing money market, trading and treasury services, as well as the management of the Group's funding operations by use of treasury bills, government securities and placements and acceptances with other banks, through treasury and corporate banking;
- Branch Banking - principally handling branch deposits and providing loans and other loan related businesses for domestic middle market clients; and
- Others - principally handling other services including but not limited to remittances, leasing, account financing, and other support services. Other operations of the Group comprise the operations and financial control groups.

Segment assets are those operating assets that are employed by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment liabilities are those operating liabilities that result from the operating activities of a segment and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Interest income is reported net, as management primarily relies on the net interest income as performance measure, not the gross income and expense. The Group has no significant customers which contributes 10.00% or more of the consolidated revenue net of interest expense. Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is charged/credited to business segments based on a pool rate which approximates the cost of funds.

The following table presents revenue and income information of operating segments presented in accordance with PFRS and segment assets and liabilities:

	Consumer Banking	Corporate Banking	Investment Banking	Treasury	Branch Banking	Others	Total
2019							
Results of Operations							
Net interest income (expense)							
Third party	₱17,710	₱53,360	₱—	₱7,885	(₱5,702)	₱3,744	₱76,997
Intersegment	(663)	(41,061)	—	2,746	38,978	—	—
Net interest income after intersegment transactions	17,047	12,299	—	10,631	33,276	3,744	76,997
Non-interest income	6,476	2,042	441	7,983	5,116	6,996	29,054
Revenue - net of interest expense	23,523	14,341	441	18,614	38,392	10,740	106,051
Non-interest expense	15,359	6,977	49	2,519	22,747	20,333	67,984

(Forward)



	Consumer Banking	Corporate Banking	Investment Banking	Treasury	Branch Banking	Others	Total
Income (loss) before share in net income of subsidiaries, associates and a JV	₱8,164	₱7,364	₱392	₱16,095	₱15,645	(₱9,593)	₱38,067
Share in net income of subsidiaries, associates and a JV	—	106	—	—	—	762	868
Provision for income tax	(2,178)	(471)	—	(3,344)	(137)	(3,931)	(10,061)
Non-controlling interest in net income of consolidated subsidiaries	—	—	—	—	—	(819)	(819)
Net income (loss)	₱5,986	₱6,999	₱392	₱12,751	₱15,508	(₱13,581)	₱28,055
Statement of Financial Position							
Total assets	₱119,984	₱1,199,477	₱—	₱624,354	₱162,413	₱344,585	₱2,450,813
Total liabilities	₱76,840	₱1,039,196	₱—	₱633,147	₱266,212	₱116,927	₱2,132,322
Other Segment Information							
Capital expenditures	₱649	₱538	₱—	₱95	₱35	₱3,455	₱4,772
Depreciation and amortization	₱623	₱175	₱—	₱70	₱2,451	₱2,219	₱5,538
Provision for credit and impairment losses	₱6,853	₱1,766	₱—	₱—	₱350	₱1,109	₱10,078
2018							
Results of Operations							
Net interest income (expense)							
Third party	₱17,881	₱40,602	₱—	₱9,444	(₱1,997)	₱2,892	₱68,822
Intersegment	(476)	(30,190)	—	1,761	27,639	1,266	—
Net interest income after intersegment transactions	17,405	10,412	—	11,205	25,642	4,158	68,822
Non-interest income	6,892	1,078	347	1,748	4,771	8,074	22,910
Revenue - net of interest expense	24,297	11,490	347	12,953	30,413	12,232	91,732
Non-interest expense	14,523	4,877	26	2,418	23,203	16,379	61,426
Income (loss) before share in net income of subsidiaries, associates and a JV	9,774	6,613	321	10,535	7,210	(4,147)	30,306
Share in net income of subsidiaries, associates and a JV	—	77	—	—	—	797	874
Provision for income tax	(2,212)	(455)	—	(2,637)	(88)	(2,353)	(7,745)
Non-controlling interest in net income of consolidated subsidiaries	—	—	—	—	—	(1,427)	(1,427)
Net income (loss)	₱7,562	₱6,235	₱321	₱7,898	₱7,122	(₱7,130)	₱22,008
Statement of Financial Position							
Total assets	₱221,884	₱1,043,630	₱—	₱464,751	₱153,913	₱359,515	₱2,243,693
Total liabilities	₱75,848	₱999,803	₱—	₱488,041	₱259,621	₱129,676	₱1,952,989
Other Segment Information							
Capital expenditures	₱488	₱62	₱—	₱108	₱60	₱2,807	₱3,525
Depreciation and amortization	₱586	₱130	₱—	₱28	₱1,557	₱1,783	₱4,084
Provision for credit and impairment losses	₱6,607	₱669	₱—	₱126	₱172	₱196	₱7,770
2017							
Results of Operations							
Net interest income (expense)							
Third party	₱15,528	₱29,594	₱—	₱10,900	₱2,491	₱2,893	₱61,406
Intersegment	(267)	(11,914)	—	(1,240)	16,036	(2,615)	—
Net interest income after intersegment transactions	15,261	17,680	—	9,660	18,527	278	61,406
Non-interest income	6,827	871	307	2,252	3,935	7,955	22,147
Revenue - net of interest expense	22,088	18,551	307	11,912	22,462	8,233	83,553
Non-interest expense	12,784	5,521	28	1,587	20,818	14,244	54,982
Income (loss) before share in net income of subsidiaries, associates and a JV	9,304	13,030	279	10,325	1,644	(6,011)	28,571
Share in net income of subsidiaries, associates and a JV	—	72	—	—	—	617	689
Provision for income tax	(2,192)	(306)	—	(2,686)	(6)	(2,800)	(7,990)
Non-controlling interest in net income of consolidated subsidiaries	—	—	—	—	—	(3,047)	(3,047)
Net income (loss)	₱7,112	₱12,796	₱279	₱7,639	₱1,638	(₱11,241)	₱18,223
Statement of Financial Position							
Total assets	₱199,070	₱948,654	₱—	₱428,021	₱146,941	₱357,606	₱2,080,292
Total liabilities	₱73,918	₱915,469	₱—	₱462,108	₱241,208	₱183,499	₱1,876,202
Other Segment Information							
Capital expenditures	₱884	₱91	₱—	₱130	₱110	₱3,319	₱4,534
Depreciation and amortization	₱583	₱137	₱—	₱19	₱1,271	₱2,008	₱4,018
Provision for credit and impairment losses	₱5,667	₱1,882	₱—	(₱426)	₱202	₱182	₱7,507



Non-interest income consists of service charges, fees and commissions, profit from assets sold, trading and securities gain (loss) - net, foreign exchange gain (loss) - net, income from trust operations, leasing, dividends and miscellaneous income. Non-interest expense consists of compensation and fringe benefits, taxes and licenses, provision for credit and impairment losses, depreciation and amortization, occupancy and equipment-related costs, amortization of software costs, and miscellaneous expenses.

Geographical Information

The Group operates in four geographic markets: Philippines, Asia other than Philippines, USA and Europe (Note 2).

The following tables show the distribution of Group's external net operating income and non-current assets allocated based on the location of the customers and assets, respectively, for the years ended December 31:

	Philippines	Asia (Other than Philippines)	USA	Europe	Total
2019					
Interest income	₱113,173	₱2,966	₱44	₱–	₱116,183
Interest expense	37,882	1,291	13	–	39,186
Net interest income	75,291	1,675	31	–	76,997
Non-interest income	27,493	1,108	406	47	29,054
Provision for credit and impairment losses	9,871	207	–	–	10,078
Total external net operating income	₱92,913	₱2,576	₱437	₱47	₱95,973
Non-current assets	₱32,636	₱672	₱16	₱4	₱33,328
2018					
Interest income	₱94,670	₱2,461	₱55	₱–	₱97,186
Interest expense	27,269	1,075	20	–	28,364
Net interest income	67,401	1,386	35	–	68,822
Non-interest income	21,189	1,065	602	54	22,910
Provision for credit and impairment losses	7,576	194	–	–	7,770
Total external net operating income	₱81,014	₱2,257	₱637	₱54	₱83,962
Non-current assets	₱31,635	₱653	₱15	₱5	₱32,308
2017					
Interest income	₱78,302	₱1,980	₱40	₱–	₱80,322
Interest expense	18,079	827	10	–	18,916
Net interest income	60,223	1,153	30	–	61,406
Non-interest income	20,768	819	505	55	22,147
Provision for credit and impairment losses	7,388	119	–	–	7,507
Total external net operating income	₱73,603	₱1,853	₱535	₱55	₱76,046
Non-current assets	₱32,233	₱652	₱10	₱5	₱32,900

Non-current assets consist of property and equipment, investment properties, chattel properties acquired in foreclosure, software costs and assets held under joint operations.

7. Interbank Loans Receivable and Securities Purchased Under Resale Agreements

This account consists of:

	Consolidated		Parent Company	
	2019	2018	2019	2018
Interbank loans receivable - net (Note 31)	₱32,488	₱42,652	₱19,231	₱24,712
SPURA	39,686	8,067	36,921	–
	₱72,174	₱50,719	₱56,152	₱24,712



As of December 31, 2019 and 2018, the allowance for credit losses for interbank loans receivable of the Parent Company amounted to ₱0.7 million and ₱11.7 million, respectively (Note 15).

In 2019, 2018 and 2017, the interest rates of the interbank loans receivables ranged from 0.00% to 4.60%, 0.00% to 5.40%, and 0.00% to 5.90%, respectively, for the Group and 0.00% to 4.00%, 0.00% to 3.54%, and 0.00% to 3.50%, respectively, for the Parent Company.

8. Trading and Investment Securities

This account consists of:

	Consolidated		Parent Company	
	2019	2018	2019	2018
Investment securities at:				
FVTPL	₱61,867	₱39,689	₱49,550	₱30,166
FVOCI (Note 29)	202,520	111,288	188,676	92,144
Amortized cost (Note 29)	251,628	265,376	216,644	212,607
	₱516,015	₱416,353	₱454,870	₱334,917

Investment securities at FVTPL consist of the following:

	Consolidated		Parent Company	
	2019	2018	2019	2018
HFT investments				
Debt securities				
Treasury notes and bonds	₱24,145	₱4,285	₱20,210	₱3,394
Government	13,048	6,247	12,838	6,063
Private	7,935	9,257	7,213	8,571
Treasury bills	1,662	2,642	761	1,460
BSP	2	2	2	2
	46,792	22,433	41,024	19,490
Equity securities	6,585	6,605	38	38
	53,377	29,038	41,062	19,528
Derivative assets	8,490	10,651	8,488	10,638
	₱61,867	₱39,689	₱49,550	₱30,166

The following are the fair values of the Parent Company's derivative financial instruments recorded as 'Derivative assets/liabilities', together with the notional amounts. The notional amount is the amount or quantity of a derivative's underlying asset, and is the basis upon which changes in the value are measured. The notional amounts indicate the volume of transactions outstanding as of December 31, 2019 and 2018 and are not indicative of either market risk or credit risk.

	Derivative Assets	Derivative Liabilities	Notional Amount	Average Forward Rate (in every USD 1)
December 31, 2019				
Freestanding derivatives:				
Currency forwards				
BOUGHT:				
USD	₱13	₱992	USD 1,932	₱51.2254
CNY	24	81	CNY 1,010	CNY 0.1435
EUR	1	94	EUR 57	EUR 1.1493
THB	1	—	THB 113	THB 0.0330
TWD	—	77	TWD 2,591	TWD 0.0328
JPY	—	57	JPY 9,049	JPY 0.0093
HKD	22	4	HKD 2,341	HKD 0.1281

(Forward)



	Derivative Assets	Derivative Liabilities	Notional Amount	Average Forward Rate (in every USD 1)
SOLD:				
USD	₱1,550	₱1	USD 1,911	₱51.6015
CNY	42	51	CNY 2,028	CNY 0.1426
JPY	59	1	JPY 9,287	JPY 0.0093
EUR	40	4	EUR 66	EUR 1.1283
MXN	—	0	MXN 1	MXN 0.0526
THB	0	2	THB 189	THB 0.0330
CHF	—	1	CHF 13	CHF 1.0207
NZD	—	1	NZD 2	NZD 0.6605
HKD	3	33	HKD 2,405	HKD 0.1281
SGD	—	2	SGD 48	SGD 0.7381
TRY	—	0	TRY 1	TRY 0.1681
DKK	—	0	DKK 2	DKK 0.1490
Interest rate swaps - PHP	329	157	₱24,258	
Interest rate swaps - FX	382	2,077	USD 2,091	
Cross-currency swaps - PHP	3,559	119	₱61,247	
Cross-currency swaps - FX	2,422	1,907	USD 1,728	
Cross-currency swaps - EUR	25	276	EUR 75	
Cross-currency swaps - JPY	1	39	JPY 1,500	
Credit default swaps - USD	—	1	USD 1	
Over-the-counter FX options	15	17	USD 436	
	₱8,488	₱5,994		
December 31, 2018				
Freestanding derivatives:				
Currency forwards				
BOUGHT:				
USD	₱68	₱1,152	USD 1,774	₱53.1275
CNY	—	28	CNY 515	CNY 0.1463
EUR	—	1	EUR 1	EUR 1.1746
THB	0	—	THB 5	THB 0.0307
TWD	4	7	TWD 67	TWD 436.96
SOLD:				
USD	1,009	133	USD 1,357	₱53.5023
CNY	110	11	CNY 871	CNY 0.1475
JPY	2	47	JPY 6,779	JPY 0.0195
EUR	6	—	EUR 2	EUR 49.1943
MXN	—	0	MXN 1	MXN 0.0487
THB	0	1	THB 60	THB 0.0306
CHF	—	3	CHF 7	CHF 1.0057
AUD	10	0	AUD 16	AUD 0.7168
HKD	1	0	HKD 40	HKD 0.1280
SGD	—	2	SGD 18	SGD 0.7292
TRY	—	0	TRY 1	TRY 0.1699
DKK	—	0	DKK 2	DKK 0.1530
Interest rate swaps - PHP	320	667	₱27,375	
Interest rate swaps - FX	885	623	USD 1,936	
Cross-currency swaps - PHP	159	3,396	₱46,245	
Cross-currency swaps - FX	7,577	109	USD 1,458	
Cross-currency swaps - EUR	486	0	EUR 57	
Cross-currency swaps - JPY	0	—	JPY 10	
Credit default swaps - USD	0	—	USD 1	
Over-the-counter FX options	1	2	USD 41	
	₱10,638	₱6,182		

As of December 31, 2019 and 2018, the Group's derivative assets include currency forwards and FX options entered into by the subsidiaries amounting to ₱1.5 million and ₱13.0 million, respectively. As of December 31, 2019 and 2018, the Group's derivative liabilities include currency forwards, cross-currency swaps and FX options entered into by the subsidiaries amounting to ₱1.4 billion and ₱354.4 million, respectively.



Investment securities at FVOCI as of December 31, 2019 and 2018 consist of the following:

	Consolidated		Parent Company	
	2019	2018	2019	2018
Debt securities				
Treasury notes and bonds (Note 17)	₱111,791	₱40,786	₱109,203	₱37,377
Government (Note 17)	52,870	27,004	52,649	21,221
Private	36,199	42,369	26,324	33,073
	200,860	110,159	188,176	91,671
Equity securities	1,660	1,129	500	473
	₱202,520	₱111,288	₱188,676	₱92,144

The equity securities are irrevocably designated at FVOCI as these are held for long term-strategic purpose rather than for trading. These equity securities include golf club shares and non-marketable equity securities. As part of its risk management, the Group disposed equity securities at FVOCI with total carrying value of ₱771.4 million and recognized a loss on disposal charged against ‘Surplus’ of ₱121.8 million in 2018.

Outstanding equity securities at FVOCI as of December 31, 2019 and 2018 generated dividends amounting to ₱40.0 million and ₱126.5 million, respectively for the Group and ₱11.3 million and ₱23.1 million, respectively, for the Parent Company. No dividends were recognized in 2019 and 2018 for the disposed equity securities at FVOCI.

As of December 31, 2019 and 2018, the ECL on debt securities at FVOCI (included in ‘Net unrealized loss on investment securities at FVOCI’) amounted to ₱148.3 million and ₱247.7 million respectively, for the Group and ₱144.9 million and ₱244.3 million, respectively, for the Parent Company (Note 15).

As of December 31, 2019 and 2018, investment securities at FVOCI include floating and fixed rate private notes with total carrying value of USD11.02 million and USD10.9 million, respectively (with peso equivalent of ₱558.2 million and ₱573.9 million, respectively) which are pledged by the Parent Company’s New York Branch in compliance with the regulatory requirements of the Federal Deposit Insurance Corporation and the Office of the Controller of the Currency in New York.

As of December 31, 2018, investment securities at FVOCI also include US treasury notes with carrying value of USD1.0 million (with peso equivalent of ₱52.6 million) which are pledged by MR USA to the State Treasury Office pursuant to the California Financial Code and in accordance with the requirements of the California Department of Business Oversight relative to its license as a transmitter of money (Note 11). In 2019, upon the merger of MR USA with MRCI, the former is no longer required to pledge securities to the State Treasury Office due to change in its business type (i.e., from money remittance to holding company).

The movements in net unrealized gains/(losses), including share in net unrealized gains/(losses) of subsidiaries (Note 11), presented under ‘Equity’ in the statements of financial position are as follows:

	Consolidated		Parent Company	
	2019	2018	2019	2018
Balance at beginning of the year	(₱3,134)	(₱463)	(₱2,994)	(₱445)
Unrealized gains/(loss) recognized in OCI*	10,201	(2,468)	9,495	(2,294)
Amounts realized in surplus	(19)	122	(19)	122
Amounts realized in profit or loss	(4,403)	115	(3,788)	24
	2,645	(2,694)	2,694	(2,593)
Tax (Note 28)	(70)	(440)	(65)	(401)
Balance at end of the year	₱2,575**	(₱3,134)**	₱2,629	(₱2,994)

* Includes impact of ECL (Note 15)

** Includes share of non-controlling interest in unrealized losses amounting to ₱54.0 million and ₱139.4 million as of December 31, 2019 and 2018, respectively.



Investment securities at amortized cost as of December 31, 2019 and 2018 consist of the following:

	Consolidated		Parent Company	
	2019	2018	2019	2018
Treasury notes and bonds (Note 17)	₱227,442	₱237,476	₱208,514	₱204,176
Government (Notes 17 and 19)	20,232	21,859	8,130	8,479
Private	3,880	6,040	–	–
Treasury bills	100	49	–	–
	251,654	265,424	216,644	212,655
Less allowance for credit losses (Note 15)	26	48	–	48
	₱251,628	₱265,376	₱216,644	₱212,607

In August 2019, the BOD of FMIC approved the disposal of its debt securities portfolio at amortized cost with total face value of ₱15.1 billion and the abandonment of the related Hold-to-Collect (HTC) business models due to external changes that are significant to its operations. Of the ₱15.1 billion disposal, the Parent Company purchased ₱6.6 billion and subsequently sold securities totaling ₱4.1 billion. In 2019, the Group and the Parent Company recognized trading gains (included in ‘Trading and securities gain (loss) – net’) of ₱172.8 million and ₱32.1 million, respectively. As of December 31, 2019, the outstanding balance of these securities in the Parent Company books amounted to ₱124.5 million (classified as ‘Investment Securities at FVTPL’) and ₱2.4 billion (classified as ‘Investment Securities at Amortized Cost’) (Note 31).

Interest income on investment securities at FVOCI/AFS investments and at amortized cost consists of:

	Consolidated			Parent Company		
	2019	2018	2017	2019	2018	2017
Investment securities at amortized cost	₱11,035	₱11,147	₱–	₱9,105	₱8,916	₱–
Investment securities at FVOCI/ AFS investments	5,538	3,463	13,480	4,673	2,676	10,655
	₱16,573	₱14,610	₱13,480	₱13,778	₱11,592	₱10,655

In 2019, 2018 and 2017, foreign currency-denominated trading and investment securities bear nominal annual interest rates ranging from 0.10% to 10.63%, 0.10% to 11.63% and 0.10% to 11.63%, respectively, for the Group and the Parent Company while peso-denominated trading and investment securities bear nominal annual interest rates ranging from 3.25% to 18.25%, 2.13% to 18.25% and 1.63% to 15.00%, respectively, for the Group and from 3.25% to 18.25%, 3.25% to 18.25% and 1.63% to 15.00%, respectively, for the Parent Company.

Trading and securities gain (loss) - net consists of:

	Consolidated			Parent Company		
	2019	2018	2017	2019	2018	2017
Investment securities at FVTPL	₱3,362	(₱1,668)	₱1,915	₱2,774	(₱570)	₱73
Derivative assets/liabilities - net	(2,213)	3,639	(1,706)	(2,210)	3,635	(1,706)
Debt securities at FVOCI/AFS investments	4,403	(115)	641	3,788	(24)	554
Investment securities at amortized cost	150	–	–	–	–	–
	5,702	1,856	850	₱4,352	₱3,041	(₱1,079)
Income (loss) attributable to non-equity non-controlling interests (Note 21)	(230)	685	(1,252)			
	₱5,472	₱2,541	(₱402)			

Trading gains (losses) on debt securities at FVOCI/AFS investments represent realized gains/losses previously reported in OCI.



9. Loans and Receivables

This account consists of:

	Consolidated		Parent Company	
	2019	2018	2019	2018
Receivables from customers (Note 31)				
Commercial loans	₱1,063,146	₱987,186	₱1,012,387	₱947,916
Auto loans	118,409	119,972	24,182	29,681
Residential mortgage loans	109,999	107,947	57,520	57,974
Credit card	86,785	70,487	–	–
Trade loans	63,360	63,126	62,655	63,062
Others	43,937	44,362	14,542	12,571
	1,485,636	1,393,080	1,171,286	1,111,204
Less unearned discounts and capitalized interest	5,149	4,859	238	266
	1,480,487	1,388,221	1,171,048	1,110,938
Accrued interest receivable (Note 31)	13,105	10,667	10,503	7,987
Accounts receivable (Notes 30 and 31)	12,707	13,291	8,972	9,611
Unquoted debt securities - private	1,016	1,018	386	386
Sales contract receivable	145	190	102	119
Other receivables	331	335	12	13
	1,507,791	1,413,722	1,191,023	1,129,054
Less allowance for credit losses (Note 15)	24,223	22,688	13,922	12,797
	₱1,483,568	₱1,391,034	₱1,177,101	₱1,116,257

Receivables from customers consist of:

	Consolidated		Parent Company	
	2019	2018	2019	2018
Loans and discounts	₱1,409,451	₱1,319,442	₱1,095,627	₱1,037,424
Less unearned discounts and capitalized interest	5,149	4,859	238	266
	1,404,302	1,314,583	1,095,389	1,037,158
Customers' liabilities under letters of credit (LC)/trust receipts	62,016	61,590	61,454	61,526
Bills purchased (Note 21)	14,169	12,048	14,205	12,254
	₱1,480,487	₱1,388,221	₱1,171,048	₱1,110,938

Receivables from customers - others of the Group include notes receivables financed and lease contract receivables amounting to ₱24.3 billion and ₱1.5 billion, respectively, as of December 31, 2019 and ₱6.8 billion and ₱6.1 billion, respectively, as of December 31, 2018 (Note 13).

Interest income on loans and receivables consists of:

	Consolidated			Parent Company		
	2019	2018	2017	2019	2018	2017
Receivables from customers (Note 31)	₱72,697	₱60,071	₱47,403	₱56,345	₱44,980	₱34,014
Receivables from cardholders	15,161	13,527	11,550	–	–	–
Lease contract receivables	4,680	4,162	3,299	–	–	–
Customers' liabilities under LC/trust receipts	3,073	1,711	979	3,073	1,711	979
Others	236	188	160	185	169	79
	₱95,847	₱79,659	₱63,391	₱59,603	₱46,860	₱35,072



As of December 31, 2019 and 2018, 82.47% and 83.21%, respectively, of the total receivables from customers of the Group, and 99.92% and 99.91%, respectively, of the total receivables from customers of the Parent Company are subject to periodic interest repricing. In 2019 and 2018, the remaining peso receivables from customers earn annual fixed interest rates ranging from 4.70% to 45.00% and from 4.70% to 42.00%, while foreign currency-denominated receivables from customers earn annual fixed interest rates ranging from 1.32% to 45.00% and from 2.10% to 36.00%, respectively.

BSP Reporting

The following table shows information relating to receivables from customers by collateral, gross of unearned discounts and capitalized interest:

	Consolidated				Parent Company			
	2019		2018		2019		2018	
	Amount	%	Amount	%	Amount	%	Amount	%
Secured by:								
Other securities	₱294,368	19.81	₱286,705	20.58	₱294,362	25.13	₱286,693	25.80
Chattel	159,754	10.75	157,259	11.29	26,950	2.30	28,801	2.59
Real estate	112,107	7.55	110,901	7.96	74,718	6.38	74,860	6.74
Deposit hold-out	31,054	2.09	19,096	1.37	30,004	2.56	18,181	1.64
Equity securities	27,705	1.87	18,525	1.33	11,996	1.02	5,161	0.46
Others	27,366	1.84	18,420	1.32	5,114	0.44	6,450	0.58
	652,354	43.91	610,906	43.85	443,144	37.83	420,146	37.81
Unsecured	833,282	56.09	782,174	56.15	728,142	62.17	691,058	62.19
	₱1,485,636	100.00	₱1,393,080	100.00	₱1,171,286	100.00	₱1,111,204	100.00

Information on the concentration of credit as to industry of receivables from customers, gross of unearned discount and capitalized interest, follows:

	Consolidated				Parent Company			
	2019		2018		2019		2018	
	Amount	%	Amount	%	Amount	%	Amount	%
Wholesale and retail trade, repair of motor vehicles, motorcycles	₱245,670	16.54	₱242,426	17.40	₱215,281	18.38	₱215,353	19.38
Real estate activities	231,358	15.57	209,610	15.05	181,388	15.49	163,386	14.70
Manufacturing	217,654	14.65	215,125	15.44	209,813	17.91	212,451	19.12
Activities of households as employers and undifferentiated goods and services - producing activities of households for own use	164,684	11.09	153,597	11.03	77,456	6.61	82,678	7.44
Financial and insurance activities	149,670	10.07	106,338	7.63	158,407	13.53	117,435	10.57
Transportation and storage, information and communication	104,283	7.02	106,139	7.62	96,078	8.20	98,405	8.86
Electricity, gas, steam and air-conditioning supply and water supply, sewerage, waste management and remediation activities	99,422	6.69	98,857	7.10	93,787	8.01	96,149	8.65
Construction	65,327	4.40	58,405	4.19	49,990	4.27	44,100	3.97
Agricultural, forestry and fishing	41,437	2.79	34,714	2.49	37,294	3.18	29,688	2.67
Accommodation and food service activities	35,105	2.36	32,005	2.30	34,773	2.97	31,657	2.85
Others	131,026	8.82	135,864	9.75	17,019	1.45	19,902	1.79
	₱1,485,636	100.00	₱1,393,080	100.00	₱1,171,286	100.00	₱1,111,204	100.00

The BSP considers that concentration of credit exists when total loan exposure to a particular industry or economic sector exceeds 30.00% of total loan portfolio except for thrift banks.



Non-performing loans (NPLs) included in the total loan portfolio of the Group and the Parent Company, as reported to the BSP, are presented below:

	Consolidated		Parent Company	
	2019	2018	2019	2018
Gross NPLs	₱19,277	₱16,866	₱10,209	₱8,041
Less allowance for credit losses	11,019	8,530	8,236	6,026
Net carrying amount	₱8,258	₱8,336	₱1,973	₱2,015

Under banking regulations, loan accounts shall be considered non-performing, even without any missed contractual payments, when they are considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal or interest is unlikely without foreclosure of collateral, if any. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than ninety (90) days from contractual due date, or accrued interests for more than ninety (90) days have been capitalized, refinanced, or delayed by agreement. Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained. Moreover, NPLs shall remain classified as such until (a) there is sufficient evidence to support that full collection of principal and interests is probable and payments of interest and/or principal are received for at least six (6) months; or (b) written-off. Microfinance and other small loans with similar credit characteristics shall be considered non-performing after contractual due date or after they have become past due.

10. Property and Equipment

The composition and movements in the account follow:

	Consolidated						
	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold Improvements	BUC	ROU Assets	Total
2019							
Cost							
Balance at beginning of year	₱5,824	₱14,952	₱17,542	₱4,588	₱261	₱4,162	₱47,329
Additions	—	47	2,851	128	696	679	4,401
Disposals/early termination	—	(4)	(2,132)	(28)	—	(34)	(2,198)
Reclassification/others	(22)	400	(25)	42	(638)	9	(234)
Balance at end of year	5,802	15,395	18,236	4,730	319	4,816	49,298
Accumulated depreciation and amortization							
Balance at beginning of year	—	5,820	12,039	3,346	—	—	21,205
Depreciation and amortization	—	604	2,166	382	—	1,301	4,453
Disposals/early termination	—	(4)	(1,864)	(24)	—	(25)	(1,917)
Reclassification/others	—	(13)	(15)	(137)	—	14	(151)
Balance at end of year	—	6,407	12,326	3,567	—	1,290	23,590
Allowance for impairment losses	—	8	—	—	—	—	8
Net book value at end of year	₱5,802	₱8,980	₱5,910	₱1,163	₱319	₱3,526	₱25,700
2018							
Cost							
Balance at beginning of year	₱5,908	₱9,647	₱20,817	₱4,309	₱4,846	₱—	₱45,527
Additions	—	20	1,862	147	860	—	2,889
Disposals	(84)	—	(5,166)	(11)	—	—	(5,261)
Reclassification/others	—	5,285	29	143	(5,445)	—	12
Balance at end of year	5,824	14,952	17,542	4,588	261	—	43,167

(Forward)



Consolidated							
	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold Improvements	BUC	ROU Assets	Total
Accumulated depreciation and amortization							
Balance at beginning of year	P=	P5,264	P14,867	P3,010	P=	P=	P23,141
Depreciation and amortization	—	530	2,244	383	—	—	3,157
Disposals	—	—	(5,082)	(11)	—	—	(5,093)
Reclassification/others	—	26	10	(36)	—	—	—
Balance at end of year	—	5,820	12,039	3,346	—	—	21,205
Allowance for impairment losses							
Balance at beginning of year	—	24	—	—	—	—	24
Reclassification/others	—	(16)	—	—	—	—	(16)
Balance at end of year	—	8	—	—	—	—	8
Net book value at end of year	P5,824	P9,124	P5,503	P1,242	P261	P=	P21,954

Parent Company							
	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold Improvements	BUC	ROU Assets	Total
2019							
Cost							
Balance at beginning of year	P4,381	P13,238	P7,334	P2,776	P261	P2,225	P30,215
Additions	—	1	1,294	8	696	338	2,337
Disposals/early termination	—	—	(852)	(1)	—	—	(853)
Reclassification/others	—	440	(1)	170	(638)	14	(15)
Balance at end of year	4,381	13,679	7,775	2,953	319	2,577	31,684
Accumulated depreciation and amortization							
Balance at beginning of year	—	5,072	5,367	1,911	—	—	12,350
Depreciation and amortization	—	547	824	220	—	687	2,278
Disposals	—	—	(821)	(1)	—	—	(822)
Reclassification/others	—	4	3	(9)	—	15	13
Balance at end of year	—	5,623	5,373	2,121	—	702	13,819
Allowance for impairment losses	—	8	—	—	—	—	8
Net book value at end of year	P4,381	P8,048	P2,402	P832	P319	P1,875	P17,857
2018							
Cost							
Balance at beginning of year	P4,465	P7,955	P10,855	P2,627	P4,846	P=	P30,748
Additions	—	—	609	4	860	—	1,473
Disposals	(84)	—	(4,162)	(1)	—	—	(4,247)
Reclassification/others	—	5,283	32	146	(5,445)	—	16
Balance at end of year	4,381	13,238	7,334	2,776	261	—	27,990
Accumulated depreciation and amortization							
Balance at beginning of year	—	4,579	8,662	1,726	—	—	14,967
Depreciation and amortization	—	470	813	223	—	—	1,506
Disposals	—	—	(4,126)	(1)	—	—	(4,127)
Reclassification/others	—	23	18	(37)	—	—	4
Balance at end of year	—	5,072	5,367	1,911	—	—	12,350
Allowance for impairment losses							
Balance at beginning of year	—	24	—	—	—	—	24
Reclassification/others	—	(16)	—	—	—	—	(16)
Balance at end of year	—	8	—	—	—	—	8
Net book value at end of year	P4,381	P8,158	P1,967	P865	P261	P=	P15,632

As of December 31, 2019 and 2018, the cost of fully depreciated property and equipment still in use amounted to P6.2 billion and P4.7 billion, respectively, for the Group and P2.4 billion and P2.2 billion, respectively, for the Parent Company.



11. Investments in Subsidiaries, Associates and a Joint Venture

Investments in subsidiaries consist of:

	2019	2018
Acquisition cost		
MCC	₱15,149	₱15,149
PSBank	13,076	5,237
FMIC	11,751	11,751
MBCL	10,079	10,079
Circa	837	837
MR USA	365	365
ORIX Metro	265	265
MR Japan	102	102
MR UK	31	31
MRHL	26	26
MRSPL	17	17
Others	291	291
	51,989	44,150
Accumulated equity in net income		
Balance at beginning of year	36,457	30,967
Share in net income	8,892	7,928
Dividends	(1,073)	(2,438)
Balance at end of year	44,276	36,457
Equity in net unrealized loss on investment securities at FVOCI	(537)	(1,074)
Equity in net unrealized gain on remeasurement of retirement plan and translation adjustment and others	98	1,777
Excess of share in net losses of subsidiaries over cost included in 'Miscellaneous liabilities' (Note 21)	35	100
Equity in realized loss on sale of equity securities at FVOCI	(122)	(122)
Carrying value		
MCC	29,233	24,586
FMIC	19,647	19,312
MBCL	12,051	12,488
PSBank	30,294	20,467
Circa	250	241
ORIX Metro	3,529	3,294
MR USA	49	122
MR Japan	74	73
MR UK	49	52
MRHL	142	156
MRSPL	154	158
Others	267	339
	₱95,739	₱81,288



The following subsidiaries have material non-controlling interests as of December 31, 2019 and 2018:

	Country of Incorporation and Principal Place of Business	Principal Activities	Effective Ownership of Non-Controlling Interest	
			2019	2018
ORIX Metro	Philippines	Leasing, Financing	40.15%	40.15%
PSBank	Philippines	Banking	11.62%	17.32%

The following table presents financial information of subsidiaries with material non-controlling interests as of December 31, 2019 and 2018.

	2019		2018	
	PSBank	ORIX Metro	PSBank	ORIX Metro
Statement of Financial Position				
Total assets	₱224,907	₱52,821	₱237,894	₱55,627
Total liabilities	190,450	43,998	213,597	47,392
Non-controlling interest	5,187	3,562	4,240	3,319
Statement of Income				
Gross income	20,656	7,745	19,241	7,095
Operating income	14,602	5,248	14,199	5,121
Net income	3,028	1,147	2,652	1,230
Net income attributable to non-controlling interest	352	460	459	738
Total comprehensive income	3,401	710	2,271	1,304
Statement of Cash Flows				
Net cash provided by (used in) operating activities	(35,641)	3,320	223	(16,755)
Net cash provided by (used in) investing activities	12,614	(791)	287	(960)
Net cash provided by (used in) financing activities	10,752	(2,662)	787	16,894
Net increase (decrease) in cash and cash equivalents	(12,275)	(133)	1,297	(821)
Cash and cash equivalents at beginning of year	22,510	6,279	21,213	7,100
Cash and cash equivalents at end of year	10,235	6,146	22,510	6,279

Investment in PSBank

On January 11, 2019, PSBank concluded its ₱8.0 billion SRO, involving 142,856,925 common shares priced at ₱56.0 per share and listed at the PSE on January 18, 2019. This was approved by the BOD of PSBank on October 15, 2018 and noted by the BSP on October 19, 2018. The Parent Company exercised its rights to purchase thus increasing its ownership in PSBank to 88.38% (Note 2).

Investment in MCC

On October 18, 2017, with the approval of the Parent Company's BOD, the Parent Company has entered into an agreement with its JV partner ANZ Funds Pty. Ltd. (ANZ) to:

- Purchase 20% of MCC for a consideration of ₱7.4 billion upon the approval of the BSP of the transaction, and
- Grant ANZ the option to sell the remaining 20% of MCC to the Parent Company at the same consideration of ₱7.4 billion ("Put Option") which can be exercised at any time within the period beginning July 10, 2018 until September 2018 ("Option Exercise Period"). If in the ordinary course of business, MCC pays dividend to the stockholders during the Option Exercise Period, ANZ will exercise the Put Option by serving an exercise notice ("Exercise Notice") to the Parent Company within ten (10) banking days of receiving that dividend ("Dividend Exercise Period"). If ANZ fails to serve an Exercise Notice by the end of the Dividend Exercise Period, the Put Option is deemed exercised by ANZ on the end of the Dividend Exercise Period.

On December 28, 2017, the BSP approved the acquisition of 40% of MCC. With this BSP approval, the purchase of the 20% stake in MCC is deemed completed for accounting purposes in the financial statements as of December 31, 2017 and the acquisition was completed on January 8, 2018 ("first tranche") while the remaining 20% was completed on September 4, 2018 ("second tranche"). In the consolidated financial statements, the Group recognized equity reserves (included in 'Translation



adjustment and others') for the difference between the acquisition price and the acquired non-controlling interest amounting to ₱4.7 billion (for the first tranche) and ₱5.1 billion (for the second tranche).

On March 13, 2019, the respective BODs of the Parent Company and MCC approved the proposal to merge MCC into the Parent Company which will unlock the value of MCC and help realize the following objectives: (1) improve synergy and cross-sell; (2) increase the profitability and improve capital efficiency; and (3) enable the Parent Company to be more competitive in the credit card business. The proposed merger was ratified by the stockholders of the Parent Company on April 24, 2019, and was approved by the BSP on October 23, 2019.

Investment in MR USA

On August 17, 2017, the New York State Department of Financial Services has approved the merger of MR USA and Metro Remittance Center, Inc. (MRCI) with MR USA being the surviving entity. The merger, as agreed upon by both parties, took effect on December 31, 2017, MRCI's two wholly-owned subsidiaries, Metro Remittance (Canada), Inc. and MB Remittance Center Hawaii, Ltd. became subsidiaries of MR USA. On August 1, 2019, the BOD of MR USA approved the reclassification of the business type of MR USA from a Money Transmission Business to a Holding Company.

Investment in Metrobank Bahamas

On April 17, 2018, Metrobank Bahamas has advised The Central Bank of The Bahamas (CBTB) of its intention to discontinue its operations effective June 30, 2018. On October 11 and October 12, 2018, it has surrendered its securities and banking licenses, respectively, to CBTB and has been placed into a voluntary liquidation. On June 30, 2019, the Register General's Department advised that the Metrobank Bahamas has been removed from the Register of Companies as of April 8, 2019.

As of December 31, 2019 and 2018, the carrying amount of goodwill of the Group amounted to ₱5.2 billion, of which ₱5.0 billion pertains to the goodwill arising from the acquisition of the then Solidbank Corporation which was merged with FMIC.

Investments in associates and a JV consist of:

	Consolidated		Parent Company	
	2019	2018	2019	2018
Acquisition cost:				
Lepanto Consolidated Mining Company (LCMC) (13.45% effectively owned)	₱2,527	₱2,527		
SMFC (30% effectively owned)*	610	610		
Northpine Land, Inc. (NLI) (20.00% owned)	232	232	₱232	₱232
Taal Land Inc. (TLI) (35.00% owned)	178	178	178	178
Cathay International Resources Corporation (CIRC) (34.74% effectively owned)	175	175		
Philippine AXA Life Insurance Corporation (PALIC) (28.18% owned)	172	172		
SMBC Metro Investment Corporation (SMBC Metro) (30.00% owned)	180	180	180	180
Others	42	33		
	4,116	4,107	590	590
Accumulated equity in net income:				
Balance at beginning of year	2,122	1,710	159	130
Share in net income	868	874	46	39
Dividends	(169)	(462)	—	(10)
Balance at end of year	2,821	2,122	205	159
Equity in other comprehensive income (losses)	348	(27)	2	—
Return of investment - SMBC Metro	(180)	(180)	(180)	(180)
Allowance for impairment losses (Note 15)	(514)	(75)	(75)	(75)

(Forward)



	Consolidated		Parent Company	
	2019	2018	2019	2018
Carrying value				
LCMC	₱1,546	₱2,107		
SMFC	756	685		
NLI	474	429	₱474	₱429
TLI	21	16	21	16
CIRC	177	199		
PALIC	3,535	2,419		
SMBC Metro	47	49	47	49
Others	35	43		
	₱6,591	₱5,947	₱542	₱494

* Represents investment in a JV of the Group and effective ownership interest of the Parent Company through PSBank.

Investment of FMIC in LCMC

FMIC has the ability to exercise significant influence through a 5-year agreement with Philex Mining Corporation to jointly vote their 16.7% ownership. As of December 31, 2019 and 2018, LCMC-A shares are trading at ₱0.091 per share and ₱0.112 per share, respectively and LCMC-B shares are trading at ₱0.101 per share and ₱0.115 per share, respectively. As of December 31, 2019, there has been a significant decline in the fair value of the shares compared to the acquisition cost. Based on management's assessment, the investment in LCMC is impaired by ₱439.2 million (Note 3).

Investment in SMBC Metro

On March 2, 2018, the Board of Liquidating Trustees of SMBC Metro declared the liquidation of its entire paid-up capital to its stockholders on record as of December 31, 2017 due to the expiration of its corporate term on the same date. On March 28, 2018, the Parent Company received a total amount of ₱180.0 million representing partial liquidation.

The following tables present financial information of significant associates and a JV:

	Statements of Financial Position		Statements of Income and Other Comprehensive Income				
	Total Assets	Total Liabilities	Gross Income	Operating Income (Loss)	Net Income (Loss)	OCI	Total Comprehensive Income
December 31, 2019							
PALIC	₱141,938	₱129,320	₱17,813	₱4,017	₱2,669	₱—	₱2,669
LCMC	16,664	9,426	1,566	(639)	(642)	—	(642)
NLI	3,825	1,556	516	245	222	—	222
SMFC	7,125	4,606	1,465	510	353	(7)	346
CIRC	2,131	608	233	59	(71)	—	(71)
December 31, 2018							
PALIC	₱126,794	₱117,559	₱14,120	₱4,310	₱3,084	₱—	₱3,084
LCMC	9,754	3,067	2,093	(702)	(687)	—	(687)
NLI	3,538	1,510	482	197	186	—	186
SMFC	5,054	2,749	1,267	390	262	6	268
CIRC	2,290	1,426	324	143	6	—	6

Major assets of significant associates and a JV include the following:

	2019	2018
PALIC		
Cash and cash equivalents	₱4,734	₱4,392
Loans and receivables - net	940	912
Investment securities at FVTPL	1,960	1,454
Investment securities at FVOCI	16,282	12,744
Investment in unit-linked funds	58	56
Property and equipment	614	726
LCMC		
Inventories	538	415
Investments and advances	579	997
Mine exploration cost	6,720	6,684
Property, plant and equipment - net	6,956	6,879

(Forward)



	2019	2018
NLI		
Cash and cash equivalents	₱406	₱241
Real estate properties	1,956	1,933
Receivables - net	1,214	1,151
SMFC		
Cash and cash equivalents	209	109
Receivables - net	6,637	4,776
CIRC		
Cash and cash equivalents	140	162
Receivables - net	520	441
Property, plant and equipment - net	1,275	1,370
Condominium units for sale/inventories	109	213

Dividends declared by investee companies of the Parent Company follow:

Subsidiary/Associate	Date of Declaration	Per Share	Total Amount	Record Date	Payment Date
2019					
Subsidiaries					
Cash Dividend					
PSBank	January 17, 2019	₱0.75	₱287	February 1, 2019	February 18, 2019
PSBank	April 15, 2019	0.75	287	May 3, 2019	May 15, 2019
PSBank	July 19, 2019	0.75	287	August 5, 2019	August 19, 2019
PSBank	October 14, 2019	0.75	287	October 29, 2019	November 13, 2019
Stock Dividend					
ORIX Metro	November 27, 2019	₱100.00	₱932	November 27, 2019	January 31, 2020
2018					
Subsidiaries					
Cash Dividend					
PSBank	January 18, 2018	₱0.75	₱180	February 2, 2018	February 19, 2018
PSBank	April 23, 2018	0.75	180	May 9, 2018	May 23, 2018
PSBank	July 20, 2018	0.75	180	August 6, 2018	August 20, 2018
PSBank	October 15, 2018	0.75	180	October 30, 2018	November 14, 2018
MCC	June 29, 2018	1.98	1,975	June 29, 2018	August 29, 2018
Metrobank Bahamas	July 16, 2018	USD 0.30	USD 1.5	July 16, 2018	December 4, 2018
Stock Dividend					
ORIX Metro	October 28, 2018	₱100.00	₱647	October 28, 2018	January 31, 2019
ORIX Metro	October 28, 2018	100.00	1,250	May 20, 2019	May 31, 2019
Associates					
Cash Dividend					
NLI	March 21, 2018	₱4.35	₱53	December 31, 2017	April 5, 2018

Dividends declared by significant investee companies of PSBank and FMIC follow:

Subsidiary/Associate	Date of Declaration	Per Share	Total Amount	Record Date	Payment Date
2019					
Associates					
Cash Dividend					
PALIC	November 6, 2019	₱40.90	₱409	October 24, 2019	December 17, 2019
Travel Services, Inc. (TSI)	March 20, 2019	34.00	47	December 31, 2018	December 13, 2019
SMFC	June 21, 2019	6.56	131	June 21, 2019	July 19, 2019
Stock Dividend					
ORIX Metro	November 27, 2019	₱100.00	₱932	November 27, 2019	January 31, 2020
2018					
Subsidiaries					
Cash Dividend					
FAMI	December 12, 2018	₱18.00	₱27	December 14, 2018	December 21, 2018
FMSBC	February 1, 2018	29.59	50	February 15, 2018	March 15, 2018
FMSBC	December 17, 2018	15.00	25	December 31, 2018	March 15, 2019
Associates					
Cash Dividend					
PALIC	November 26, 2018	₱159.50	₱1,595	November 23, 2018	December 18, 2018
Stock Dividend					
ORIX Metro	October 28, 2018	₱100.00	₱647	October 28, 2018	January 31, 2019
ORIX Metro	October 28, 2018	100.00	1,250	May 20, 2019	May 31, 2019



12. Investment Properties

This account consists of foreclosed real estate properties and investments in real estate:

	Consolidated					
	2019			2018		
	Land	Buildings and Improvements	Total	Land	Buildings and Improvements	Total
Cost						
Balance at beginning of year	₱5,360	₱4,857	₱10,217	₱5,997	₱4,577	₱10,574
Additions	1,009	644	1,653	327	660	987
Disposals	(673)	(877)	(1,550)	(685)	(683)	(1,368)
Reclassification/others	22	27	49	(279)	303	24
Balance at end of year	5,718	4,651	10,369	5,360	4,857	10,217
Accumulated depreciation and amortization						
Balance at beginning of year	—	1,148	1,148	—	1,174	1,174
Depreciation and amortization	—	140	140	—	148	148
Disposals	—	(188)	(188)	—	(167)	(167)
Reclassification/others	—	17	17	—	(7)	(7)
Balance at end of year	—	1,117	1,117	—	1,148	1,148
Allowance for impairment losses (Note 15)						
Balance at beginning of year	1,313	256	1,569	1,490	193	1,683
Provision for (reversal of) impairment loss	(8)	8	—	1	26	27
Disposals	(6)	(65)	(71)	(131)	(2)	(133)
Reclassification/others	(1)	(7)	(8)	(47)	39	(8)
Balance at end of year	1,298	192	1,490	1,313	256	1,569
Net book value at end of year	₱4,420	₱3,342	₱7,762	₱4,047	₱3,453	₱7,500

	Parent Company					
	2019			2018		
	Land	Buildings and Improvements	Total	Land	Buildings and Improvements	Total
Cost						
Balance at beginning of year	₱3,099	₱1,453	₱4,552	₱3,317	₱1,617	₱4,934
Additions	758	111	869	67	92	159
Disposals	(286)	(148)	(434)	(288)	(277)	(565)
Reclassification/others	—	2	2	3	21	24
Balance at end of year	3,571	1,418	4,989	3,099	1,453	4,552
Accumulated depreciation and amortization						
Balance at beginning of year	—	665	665	—	726	726
Depreciation and amortization	—	39	39	—	43	43
Disposals	—	(64)	(64)	—	(104)	(104)
Reclassification/others	—	2	2	—	—	—
Balance at end of year	—	642	642	—	665	665
Allowance for impairment losses (Note 15)						
Balance at beginning of year	1,022	40	1,062	1,143	52	1,195
Disposals	(5)	(2)	(7)	(131)	(2)	(133)
Reclassification/others	(1)	2	1	10	(10)	—
Balance at end of year	1,016	40	1,056	1,022	40	1,062
Net book value at end of year	₱2,555	₱736	₱3,291	₱2,077	₱748	₱2,825

As of December 31, 2019 and 2018, foreclosed investment properties still subject to redemption period by the borrowers amounted to ₱1.0 billion and ₱1.1 billion, respectively, for the Group and ₱150.8 million and ₱121.5 million, respectively, for the Parent Company.

As of December 31, 2019 and 2018, aggregate market value of investment properties amounted to ₱14.3 billion and ₱14.2 billion, respectively, for the Group and ₱7.2 billion and ₱6.2 billion, respectively, for the Parent Company, of which ₱8.1 billion for the Group and ₱7.1 billion for the Parent Company were determined by independent external appraisers. Information about the fair value measurement of investment properties are also presented in Note 5.

Rental income on investment properties (included in 'Leasing income' in the statements of income) in 2019, 2018 and 2017 amounted to ₱85.1 million, ₱67.3 million and ₱59.9 million, respectively, for the Group and nil, ₱1.0 million and ₱1.4 million, respectively, for the Parent Company (Note 13).



Direct operating expenses on investment properties that generated rental income (included under 'Litigation expenses') in 2019, 2018 and 2017 amounted to ₱0.1 million, ₱0.4 million and ₱1.0 million, respectively, for the Group and nil, ₱0.3 million and ₱1.0 million, respectively, for the Parent Company. Direct operating expenses on investment properties that did not generate rental income (included under 'Litigation expenses') in 2019, 2018 and 2017 amounted to ₱286.4 million, ₱257.9 million and ₱219.4 million, respectively, for the Group and ₱90.6 million, ₱102.5 million and ₱66.9 million, respectively, for the Parent Company (Note 25).

Net gains from sale of investment properties (included in 'Profit from assets sold' in the statements of income) in 2019, 2018 and 2017 amounted to ₱605.4 million, ₱883.3 million and ₱960.0 million, respectively, for the Group and ₱189.5 million, ₱322.4 million and ₱497.0 million, respectively, for the Parent Company (Note 31).

13. Leases

Group as a Lessee

As of December 31, 2019 and 2018, 59.69% and 59.55% of the Parent Company's branch sites are under lease arrangements. Also, some of its subsidiaries lease the premises occupied by their Head Offices and most of their branches. The lease contracts are for periods ranging from one to 29 years and some are renewable at the Group's option under certain terms and conditions. Various lease contracts include escalation clauses, which bear an annual rent increase of 2% to 20%. As of December 31, 2019 and 2018, the Group has no contingent rent payable.

As of December 31, 2019, the carrying amounts of lease liabilities (included in 'Other Liabilities' in Note 21) are as follows:

	Consolidated	Parent Company
Balance at beginning of year	₱4,530	₱2,407
Additions	657	338
Expiry/termination	(31)	—
Accretion of interest	319	170
Payments	(1,436)	(754)
Others	(1)	(1)
	₱4,038	₱2,160

With the adoption of PFRS 16, as of December 31, 2019, the Group and the Parent Company recognized interest expense on lease liabilities (included in 'Interest and Finance Charges' in the Statement of Income) amounting to ₱319.3 million and ₱169.9 million, respectively, and rent expense from short-term leases and leases of low-value assets amounting to ₱736.0 million and ₱413.9 million, respectively. Prior to PFRS 16 adoption, rent expense (included in 'Occupancy and equipment-related costs' in the statements of income) in 2018 and 2017 amounted to ₱2.4 billion and ₱2.2 billion, respectively, for the Group and ₱1.3 billion and ₱1.2 billion, respectively, for the Parent Company.



Future minimum rentals payable under non-cancelable leases follows:

	Consolidated		Parent Company	
	2019	2018	2019	2018
Within one year	₱1,553	₱1,322	₱824	₱708
After one year but not more than five years	3,075	3,346	1,659	1,963
More than five years	903	750	595	402
	₱5,531	₱5,418	₱3,078	₱3,073

As of December 31, 2019, the Group and the Parent Company has undiscounted potential future rental payments arising from extension options expected not to be exercised and thus, not included in the calculation of lease liability amounting to ₱89.3 million and ₱89.1 million, respectively. In addition, the Group has undiscounted potential future rental payments amounting to ₱6.6 million which were not included in the calculation of lease liability due to expected exercise of termination options.

Group as a Lessor

The Group has entered into commercial property leases on its investment property portfolio, consisting of the Group's available office spaces and investment properties and lease agreements over various items of machinery and equipment which are non-cancelable and have remaining non-cancelable lease terms of between 1 to 20 years. In 2019, 2018 and 2017, leasing income amounted to ₱2.1 billion, ₱2.3 billion and ₱2.1 billion, respectively, for the Group and ₱210.5 million, ₱223.6 million and ₱215.2 million, respectively, for the Parent Company.

Future minimum rentals receivable under non-cancelable operating leases follows:

	Consolidated		Parent Company	
	2019	2018	2019	2018
Within one year	₱875	₱1,655	₱86	₱114
After one year but not more than five years	776	1,638	121	184
More than five years	—	1	—	1
	₱1,651	₱3,294	₱207	₱299

Finance Leases

Lease contract receivables under finance leases, which are accounts of ORIX Metro, are due in monthly installments with terms ranging from one to five years. These are broken down as follows (Note 9):

	2019	2018
Within one year	₱218	₱607
After one year but not more than five years	1,301	5,476
	₱1,519	₱6,083



14. Other Assets

This account consists of:

	Consolidated		Parent Company	
	2019	2018	2019	2018
Investment in SPVs	₱8,857	₱8,857	₱8,857	₱8,857
Software costs - net	2,080	1,800	1,011	665
Creditable withholding tax	1,692	1,505	1,150	956
Interoffice float items	1,643	2,536	1,654	2,619
Customized system development cost	1,616	1,753	1,616	1,753
Residual value of leased assets	1,135	1,130	—	—
Chattel properties acquired in foreclosure - net	1,093	835	32	24
Prepaid expenses	730	832	193	165
Documentary and postage stamps on hand	486	491	339	355
Returned checks and other cash items	407	417	378	397
Assets held under joint operations (Note 31)	219	219	219	219
Miscellaneous (Note 27)	5,927	5,654	4,671	4,258
	25,885	26,029	20,120	20,268
Less allowance for impairment losses	10,311	10,308	10,282	10,285
	₱15,574	₱15,721	₱9,838	₱9,983

Investment in SPVs represents subordinated notes issued by Cameron Granville 3 Asset Management, Inc. and LNC 3 Asset Management, Inc. with face amount of ₱9.4 billion and ₱2.6 billion, respectively. These notes are non-interest bearing and payable over five (5) years starting April 1, 2006, with rollover of two (2) years at the option of the note issuers. These were received by the Parent Company on April 1, 2006 in exchange for the subordinated note issued by Asia Recovery Corporation (ARC) in 2003 with face amount of ₱11.9 billion. The subordinated note issued by ARC represents payment on the non-performing assets (NPAs) sold by the Parent Company to ARC in 2003. The related deed of absolute sale was formalized on September 17, 2003 and approved by the BSP on November 28, 2003, having qualified as a true sale. The subordinated notes have gross carrying amount of ₱8.9 billion and are fully provided with allowance for impairment losses.

Movements in software costs account follow:

	Consolidated		Parent Company	
	2019	2018	2019	2018
Cost				
Balance at beginning of year	₱5,164	₱4,653	₱2,165	₱1,925
Additions	1,050	636	606	233
Others	(151)	(125)	(61)	7
Balance at end of year	6,063	5,164	2,710	2,165
Accumulated amortization				
Balance at beginning of year	3,364	2,906	1,500	1,353
Amortization	632	512	241	131
Others	(13)	(54)	(42)	16
Balance at end of year	3,983	3,364	1,699	1,500
Net book value at end of year	₱2,080	₱1,800	₱1,011	₱665



Movements in chattel properties acquired in foreclosure follow:

	Consolidated		Parent Company	
	2019	2018	2019	2018
Cost				
Balance at beginning of year	₱1,036	₱979	₱49	₱61
Additions	3,750	2,824	29	19
Disposals/others	(3,476)	(2,767)	(21)	(31)
Balance at end of year	1,310	1,036	57	49
Accumulated depreciation and amortization				
Balance at beginning of year	192	155	22	25
Depreciation and amortization	313	267	10	10
Disposals/others	(297)	(230)	(9)	(13)
Balance at end of year	208	192	23	22
Allowance for impairment losses	9	9	2	3
Net book value at end of year	₱1,093	₱835	₱32	₱24

Assets held under joint operations are parcels of land and former branch sites of the Parent Company which were contributed to separate joint operations with FLI and Federal Land Orix Corporation (Note 31). These are carried at costs which are lower than the net realizable values.

15. Allowance for Credit and Impairment Losses

An analysis of changes in the ECL allowances in 2019 and 2018 is as follows:

	Consolidated					
	Due from Other Banks	Interbank Loans Receivable	Investment Securities at FVOCI			Investment Securities at Amortized Cost
			Stage 1	Stage 3	Total	
2019						
ECL allowance, January 1, 2019	₱6	₱12	₱248	₱—	₱248	₱48
New assets originated	5	1	176	—	176	1
Assets derecognized or repaid	(6)	(12)	(87)	—	(87)	—
Transfers to/(from) Stage 1	—	—	(2)	—	(2)	—
Transfers to/(from) Stage 3	—	—	—	30	30	—
Changes in assumptions	—	—	(217)	—	(217)	(23)
ECL allowance, December 31, 2019	₱5	₱1	118	30	₱148	₱26
2018						
ECL allowance, January 1, 2018	₱18	₱25	₱140	₱—	₱140	₱2
New assets originated	6	12	69	—	69	46
Assets derecognized or repaid	—	(25)	(20)	—	(20)	—
Changes in assumptions	(18)	—	59	—	59	—
ECL allowance, December 31, 2018	₱6	₱12	₱248	₱—	₱248	₱48

	Consolidated			
	Receivables from Customers			
	Stage 1	Stage 2	Stage 3	Total
2019				
Commercial loans				
ECL allowance, January 1, 2019	₱2,093	₱781	₱5,639	₱8,513
New assets originated	3,408	—	—	3,408
Assets derecognized or repaid	(762)	(497)	(631)	(1,890)
Amounts written off	—	—	(293)	(293)
Transfers to/(from) Stage 1	(1,730)	—	—	(1,730)
Transfers to/(from) Stage 2	—	724	—	724
Transfers to/(from) Stage 3	—	—	1,878	1,878
Changes in assumptions	(37)	(188)	692	467
ECL allowance, December 31, 2019	2,972	820	7,285	11,077

(Forward)



	Consolidated			
	Receivables from Customers			
	Stage 1	Stage 2	Stage 3	Total
Auto loans				
ECL allowance, January 1, 2019	₱538	₱1,077	₱1,048	₱2,663
New assets originated	1,466	—	—	1,466
Assets derecognized or repaid	(1,147)	(134)	(708)	(1,989)
Amounts written off	(1)	(45)	(111)	(157)
Transfers to/(from) Stage 1	(122)	—	—	(122)
Transfers to/(from) Stage 2	—	(358)	—	(358)
Transfers to/(from) Stage 3	—	—	424	424
Changes in assumptions	(1)	(1)	49	47
ECL allowance, December 31, 2019	733	539	702	1,974
Residential mortgage loans				
ECL allowance, January 1, 2019	122	280	466	868
New assets originated	51	—	—	51
Assets derecognized or repaid	(21)	(31)	(56)	(108)
Transfers to/(from) Stage 1	(17)	—	—	(17)
Transfers to/(from) Stage 2	—	(61)	—	(61)
Transfers to/(from) Stage 3	—	—	2	2
Changes in assumptions	(11)	(2)	(15)	(28)
ECL allowance, December 31, 2019	124	186	397	707
Trade loans				
ECL allowance, January 1, 2019	224	21	95	340
New assets originated	96	—	—	96
Assets derecognized or repaid	(52)	(16)	—	(68)
Transfers to/(from) Stage 1	(12)	—	—	(12)
Transfers to/(from) Stage 2	—	7	—	7
Transfers to/(from) Stage 3	—	—	5	5
Changes in assumptions	(107)	(1)	7	(101)
ECL allowance, December 31, 2019	149	11	107	267
Credit card				
ECL allowance, January 1, 2019	917	1,841	1,328	4,086
New assets originated	58	—	—	58
Amounts written off	—	—	(4,758)	(4,758)
Transfers to/(from) Stage 1	427	—	—	427
Transfers to/(from) Stage 2	—	(65)	—	(65)
Transfers to/(from) Stage 3	—	—	5,043	5,043
Changes in assumptions	(10)	(93)	(107)	(210)
ECL allowance, December 31, 2019	1,392	1,683	1,506	4,581
Other loans				
ECL allowance, January 1, 2019	148	289	722	1,159
New assets originated	609	—	—	609
Assets derecognized or repaid	(349)	(27)	(223)	(599)
Amounts written off	(1)	(96)	(866)	(963)
Transfers to/(from) Stage 1	(306)	—	—	(306)
Transfers to/(from) Stage 2	—	171	—	171
Transfers to/(from) Stage 3	—	—	444	444
Changes in assumptions	156	(79)	665	742
ECL allowance, December 31, 2019	257	258	742	1,257
Total receivables from customers				
ECL allowance, January 1, 2019	4,042	4,289	9,298	17,629
New assets originated	5,688	—	—	5,688
Assets derecognized or repaid	(2,331)	(705)	(1,618)	(4,654)
Amounts written off	(2)	(141)	(6,028)	(6,171)
Transfers to/(from) Stage 1	(1,760)	—	—	(1,760)
Transfers to/(from) Stage 2	—	418	—	418
Transfers to/(from) Stage 3	—	—	7,796	7,796
Changes in assumptions	(10)	(364)	1,291	917
ECL allowance, December 31, 2019	₱5,627	₱3,497	₱10,739	₱19,863
2018				
Commercial loans				
ECL allowance, January 1, 2018	₱1,995	₱852	₱4,745	₱7,592
New assets originated	1,418	—	—	1,418
Assets derecognized or repaid	(985)	(323)	(258)	(1,566)
Amounts written off	—	—	(52)	(52)
Transfers to/(from) Stage 1	(422)	—	—	(422)
Transfers to/(from) Stage 2	—	251	—	251
Transfers to/(from) Stage 3	—	—	1,060	1,060
Changes in assumptions	87	1	144	232
ECL allowance, December 31, 2018	2,093	781	5,639	8,513

(Forward)



	Consolidated			
	Receivables from Customers			
	Stage 1	Stage 2	Stage 3	Total
Auto loans				
ECL allowance, January 1, 2018	₱520	₱1,232	₱1,218	₱2,970
New assets originated	881	—	—	881
Assets derecognized or repaid	(306)	(288)	(278)	(872)
Amounts written off	—	(12)	(447)	(459)
Transfers to/(from) Stage 1	(258)	—	—	(258)
Transfers to/(from) Stage 2	—	(45)	—	(45)
Transfers to/(from) Stage 3	—	—	191	191
Changes in assumptions	(299)	190	364	255
ECL allowance, December 31, 2018	538	1,077	1,048	2,663
Residential mortgage loans				
ECL allowance, January 1, 2018	129	580	449	1,158
New assets originated	82	—	—	82
Assets derecognized or repaid	(46)	(147)	(76)	(269)
Transfers to/(from) Stage 1	(25)	—	—	(25)
Transfers to/(from) Stage 2	—	(165)	—	(165)
Transfers to/(from) Stage 3	—	—	85	85
Changes in assumptions	(18)	12	8	2
ECL allowance, December 31, 2018	122	280	466	868
Trade loans				
ECL allowance, January 1, 2018	145	56	88	289
New assets originated	280	—	—	280
Assets derecognized or repaid	(145)	(41)	(7)	(193)
Transfers to/(from) Stage 1	(10)	—	—	(10)
Transfers to/(from) Stage 2	—	10	—	10
Transfers to/(from) Stage 3	—	—	(3)	(3)
Changes in assumptions	(46)	(4)	17	(33)
ECL allowance, December 31, 2018	224	21	95	340
Credit card				
ECL allowance, January 1, 2018	836	1,739	1,059	3,634
New assets originated	23	—	—	23
Amounts written off	—	—	(3,980)	(3,980)
Transfers to/(from) Stage 1	(330)	—	—	(330)
Transfers to/(from) Stage 2	—	59	—	59
Transfers to/(from) Stage 3	—	—	4,339	4,339
Changes in assumptions	388	43	(90)	341
ECL allowance, December 31, 2018	917	1,841	1,328	4,086
Other loans				
ECL allowance, January 1, 2018	118	145	625	888
New assets originated	620	—	—	620
Assets derecognized or repaid	(59)	(15)	(16)	(90)
Amounts written off	(3)	(66)	(173)	(242)
Transfers to/(from) Stage 1	(512)	—	—	(512)
Transfers to/(from) Stage 2	—	225	—	225
Transfers to/(from) Stage 3	—	—	287	287
Changes in assumptions	(16)	—	(1)	(17)
ECL allowance, December 31, 2018	148	289	722	1,159
Total receivables from customers				
ECL allowance, January 1, 2018	3,743	4,604	8,184	16,531
New assets originated	3,304	—	—	3,304
Assets derecognized or repaid	(1,541)	(814)	(635)	(2,990)
Amounts written off	(3)	(78)	(4,652)	(4,733)
Transfers to/(from) Stage 1	(1,557)	—	—	(1,557)
Transfers to/(from) Stage 2	—	335	—	335
Transfers to/(from) Stage 3	—	—	5,959	5,959
Changes in assumptions	96	242	442	780
ECL allowance, December 31, 2018	₱4,042	₱4,289	₱9,298	₱17,629



	Consolidated			
	Other Receivables			
	Stage1	Stage 2	Stage 3	Total
2019				
ECL allowance, January 1, 2019	₱194	₱80	₱1,039	₱1,313
New assets originated	262	—	—	262
Assets derecognized or repaid	(29)	(40)	(178)	(247)
Amounts written off	—	—	(1)	(1)
Transfers to/(from) Stage 1	(386)	—	—	(386)
Transfers to/(from) Stage 2	—	(20)	—	(20)
Transfers to/(from) Stage 3	—	—	273	273
Changes in assumptions	(36)	(8)	65	21
ECL allowance, December 31, 2019	₱5	₱12	₱1,198	₱1,215
2018				
ECL allowance, January 1, 2018	₱43	₱42	₱716	₱801
New assets originated	390	—	—	390
Assets derecognized or repaid	(18)	(10)	(158)	(186)
Transfers to/(from) Stage 1	(397)	—	—	(397)
Transfers to/(from) Stage 2	—	23	—	23
Transfers to/(from) Stage 3	—	—	378	378
Changes in assumptions	176	25	103	304
ECL allowance, December 31, 2018	₱194	₱80	₱1,039	₱1,313

	Consolidated			
	Loan Commitments and Financial Guarantees			
	Stage1	Stage 2	Stage 3	Total
2019				
ECL allowance, January 1, 2019	₱943	₱3	₱—	₱946
New assets originated or purchased	41	—	—	41
Assets derecognized or repaid	(14)	—	—	(14)
Transfers to/(from) Stage 1	(3)	—	—	(3)
Transfers to/(from) Stage 2	—	4	—	4
Changes in assumptions	(142)	—	—	(142)
ECL allowance, December 31, 2019	₱825	₱7	₱—	₱832
2018				
ECL allowance, January 1, 2018	₱874	₱13	₱—	₱887
New assets originated	97	—	—	97
Assets derecognized or repaid	(19)	(4)	—	(23)
Transfers to/(from) Stage 1	—	—	—	—
Transfers to/(from) Stage 2	—	(6)	—	(6)
Changes in assumptions	(9)	—	—	(9)
ECL allowance, December 31, 2018	₱943	₱3	₱—	₱946

	Parent Company					Investment Securities at Amortized Cost
	Due from Other Banks	Interbank Loans Receivable	Investment Securities at FVOCI			
			Stage 1	Stage 3	Total	
2019						
ECL allowance, January 1, 2019	₱—	₱12	₱244	₱—	₱244	₱48
New assets originated	—	1	177	—	177	—
Assets derecognized or repaid	—	(12)	(87)	—	(87)	—
Transfers to/(from) Stage 1	—	—	(2)	—	(2)	—
Transfers to/(from) Stage 3	—	—	—	30	30	—
Changes in assumptions	—	—	(217)	—	(217)	(48)
ECL allowance, December 31, 2019	₱—	₱1	₱115	₱30	₱145	₱—
2018						
ECL allowance, January 1, 2018	₱18	₱25	₱140	₱—	₱140	₱2
New assets originated	—	12	69	—	69	46
Assets derecognized or repaid	—	(25)	(20)	—	(20)	—
Changes in assumptions	(18)	—	55	—	55	—
ECL allowance, December 31, 2018	₱—	₱12	₱244	₱—	₱244	₱48



	Parent Company				
	Receivables from Customers				
	Stage1	Stage 2	Stage 3	POCI	Total
2019					
Commercial loans					
ECL allowance, January 1, 2019	₱1,563	₱700	₱2,604	₱2,656	₱7,523
New assets originated	2,889	—	—	—	2,889
Assets derecognized or repaid	(678)	(488)	(381)	(95)	(1,642)
Amounts written off	—	—	(233)	—	(233)
Transfers to/(from) Stage 1	(1,489)	—	—	—	(1,489)
Transfers to/(from) Stage 2	—	629	—	—	629
Transfers to/(from) Stage 3	—	—	1,651	—	1,651
Changes in assumptions	(199)	(123)	301	430	409
ECL allowance, December 31, 2019	2,086	718	3,942	2,991	9,737
Auto loans					
ECL allowance, January 1, 2019	66	86	85	—	237
New assets originated	7	—	—	—	7
Assets derecognized or repaid	(53)	(18)	(15)	—	(86)
Amounts written off	—	—	(5)	—	(5)
Transfers to/(from) Stage 1	(1)	—	—	—	(1)
Transfers to/(from) Stage 2	—	(62)	—	—	(62)
Transfers to/(from) Stage 3	—	—	6	—	6
Changes in assumptions	—	—	48	—	48
ECL allowance, December 31, 2019	19	6	119	—	144
Residential mortgage loans					
ECL allowance, January 1, 2019	68	106	300	—	474
New assets originated	10	—	—	—	10
Assets derecognized or repaid	(1)	(13)	(22)	—	(36)
Transfers to/(from) Stage 1	4	—	—	—	4
Transfers to/(from) Stage 2	—	(70)	—	—	(70)
Transfers to/(from) Stage 3	—	—	(11)	—	(11)
Changes in assumptions	(11)	(2)	(14)	—	(27)
ECL allowance, December 31, 2019	70	21	253	—	344
Trade loans					
ECL allowance, January 1, 2019	223	22	95	—	340
New assets originated	96	—	—	—	96
Assets derecognized or repaid	(51)	(17)	—	—	(68)
Transfers to/(from) Stage 1	(12)	—	—	—	(12)
Transfers to/(from) Stage 2	—	7	—	—	7
Transfers to/(from) Stage 3	—	—	5	—	5
Changes in assumptions	(107)	(1)	7	—	(101)
ECL allowance, December 31, 2019	149	11	107	—	267
Other loans					
ECL allowance, January 1, 2019	1	—	40	—	41
New assets originated	14	—	—	—	14
Assets derecognized or repaid	(1)	—	(18)	—	(19)
Transfers to/(from) Stage 1	(14)	—	—	—	(14)
Transfers to/(from) Stage 3	—	—	13	—	13
Changes in assumptions	1	—	1	—	2
ECL allowance, December 31, 2019	1	—	36	—	37
Total receivables from customers					
ECL allowance, January 1, 2019	1,921	914	3,124	2,656	8,615
New assets originated	3,016	—	—	—	3,016
Assets derecognized or repaid	(784)	(536)	(436)	(95)	(1,851)
Amounts written off	—	—	(238)	—	(238)
Transfers to/(from) Stage 1	(1,512)	—	—	—	(1,512)
Transfers to/(from) Stage 2	—	504	—	—	504
Transfers to/(from) Stage 3	—	—	1,664	—	1,664
Changes in assumptions	(316)	(126)	343	430	331
ECL allowance, December 31, 2019	₱2,325	₱756	₱4,457	₱2,991	₱10,529
2018					
Commercial loans					
ECL allowance, January 1, 2018	₱1,292	₱813	₱1,563	₱2,775	₱6,443
New assets originated	1,180	—	—	—	1,180
Assets derecognized or repaid	(693)	(311)	(155)	(60)	(1,219)
Transfers to/(from) Stage 1	(302)	—	—	—	(302)
Transfers to/(from) Stage 2	—	197	—	—	197
Transfers to/(from) Stage 3	—	—	993	—	993
Changes in assumptions	86	1	203	(59)	231
ECL allowance, December 31, 2018	1,563	700	2,604	2,656	7,523

(Forward)



	Parent Company				
	Receivables from Customers				
	Stage1	Stage 2	Stage 3	POCI	Total
2018					
Auto loans					
ECL allowance, January 1, 2018	₱124	₱387	₱65	₱–	₱576
New assets originated	33	–	–	–	33
Assets derecognized or repaid	(84)	(56)	(21)	–	(161)
Transfers to/(from) Stage 1	3	–	–	–	3
Transfers to/(from) Stage 2	–	(255)	–	–	(255)
Transfers to/(from) Stage 3	–	–	40	–	40
Changes in assumptions	(10)	10	1	–	1
ECL allowance, December 31, 2018	66	86	85	–	237
Residential mortgage loans					
ECL allowance, January 1, 2018	57	319	277	–	653
New assets originated	39	–	–	–	39
Assets derecognized or repaid	(16)	(40)	(26)	–	(82)
Transfers to/(from) Stage 1	5	–	–	–	5
Transfers to/(from) Stage 2	–	(185)	–	–	(185)
Transfers to/(from) Stage 3	–	–	42	–	42
Changes in assumptions	(17)	12	7	–	2
ECL allowance, December 31, 2018	68	106	300	–	474
Trade loans					
ECL allowance, January 1, 2018	145	56	88	–	289
New assets originated	280	–	–	–	280
Assets derecognized or repaid	(145)	(41)	(7)	–	(193)
Transfers to/(from) Stage 1	(10)	–	–	–	(10)
Transfers to/(from) Stage 2	–	11	–	–	11
Transfers to/(from) Stage 3	–	–	(2)	–	(2)
Changes in assumptions	(47)	(4)	16	–	(35)
ECL allowance, December 31, 2018	223	22	95	–	340
Other loans					
ECL allowance, January 1, 2018	4	–	42	–	46
New assets originated	1	–	–	–	1
Assets derecognized or repaid	(3)	–	(1)	–	(4)
Changes in assumptions	(1)	–	(1)	–	(2)
ECL allowance, December 31, 2018	1	–	40	–	41
Total receivables from customers					
ECL allowance, January 1, 2018	1,622	1,575	2,035	2,775	8,007
New assets originated	1,533	–	–	–	1,533
Assets derecognized or repaid	(941)	(448)	(210)	(60)	(1,659)
Transfers to/(from) Stage 1	(304)	–	–	–	(304)
Transfers to/(from) Stage 2	–	(232)	–	–	(232)
Transfers to/(from) Stage 3	–	–	1,073	–	1,073
Changes in assumptions	11	19	226	(59)	197
ECL allowance, December 31, 2018	₱1,921	₱914	₱3,124	₱2,656	₱8,615

	Parent Company			
	Other Receivables			
	Stage1	Stage 2	Stage 3	Total
2019				
ECL allowance, January 1, 2019	₱188	₱54	₱672	₱914
New assets originated	218	–	–	218
Assets derecognized or repaid	(12)	(44)	(150)	(206)
Amounts written off	–	–	(1)	(1)
Transfers to/(from) Stage 1	(353)	–	–	(353)
Transfers to/(from) Stage 2	–	3	–	3
Transfers to/(from) Stage 3	–	–	218	218
Changes in assumptions	(36)	(8)	65	21
ECL allowance, December 31, 2019	₱5	₱5	₱804	₱814
2018				
ECL allowance, January 1, 2018	₱7	₱28	₱704	₱739
New assets originated	21	–	–	21
Assets derecognized or repaid	(1)	(10)	(45)	(56)
Transfers to/(from) Stage 1	(15)	–	–	(15)
Transfers to/(from) Stage 2	–	10	–	10
Transfers to/(from) Stage 3	–	–	8	8
Changes in assumptions	176	26	5	207
ECL allowance, December 31, 2018	₱188	₱54	₱672	₱914



	Parent Company			
	Loan Commitments and Financial Guarantees			
	Stage 1	Stage 2	Stage 3	Total
2019				
ECL allowance, January 1, 2019	₱28	₱2	₱—	₱30
New assets originated	41	—	—	41
Assets derecognized or repaid	(14)	—	—	(14)
Transfers to/(from) Stage 1	(4)	—	—	(4)
Transfers to/(from) Stage 2	—	5	—	5
Changes in assumptions	(2)	—	—	(2)
ECL allowance, December 31, 2019	₱49	₱7	₱—	₱56
2018				
ECL allowance, January 1, 2018	₱43	₱13	₱—	₱56
New assets originated	13	—	—	13
Assets derecognized or repaid	(19)	(4)	—	(23)
Transfers to/(from) Stage 1	—	—	—	—
Transfers to/(from) Stage 2	—	(6)	—	(6)
Changes in assumptions	(9)	(1)	—	(10)
ECL allowance, December 31, 2018	₱28	₱2	₱—	₱30

The amounts of “transfers to/(from)” include the changes in the ECL on the exposures transferred from one stage to another during the year.

As of December 31, 2019 and 2018, the ECL allowances on loan commitments and financial guarantees are included in ‘Miscellaneous liabilities’ under ‘Other liabilities’ (Note 21).

The increase in the ECL allowances was driven by an increase in the gross size of the portfolio and movements between stages as a result of increase in credit risk.

The ECL allowance on accounts receivables of the Group and the Parent Company based on their aging as of December 31, 2019 and 2018 follows:

Age of accounts receivables	Consolidated		Parent Company	
	2019	2018	2019	2018
Up to 1 month	₱563	₱19	₱62	₱—
> 1 to 2 months	15	1	15	—
> 2 to 3 months	9	1	7	0
More than 3 months	2,558	3,725	2,495	3,268
Total ECL	₱3,145	₱3,746	₱2,579	₱3,268

Below is the breakdown of provision for (reversal of) credit and impairment losses:

	Consolidated			Parent Company		
	2019	2018	2017	2019	2018	2017
Financial assets and other credit-related exposures:						
Loans and receivables	₱9,627	₱7,676	₱7,969	₱1,645	₱748	₱1,821
Investment securities at FVOCI/AFS investments	11	94	1	—	92	—
Investment securities at amortized cost	—	49	—	—	49	—
Interbank loans receivable	(1)	(17)	—	(1)	(17)	—
Due from other banks	—	4	(7)	—	—	—
Loan commitments and financial guarantees	1	(65)	—	—	(65)	—
	9,638	7,741	7,963	1,644	807	1,821
Non-financial assets:						
Investment properties	—	27	(32)	—	—	—
Chattel properties acquired in foreclosure	—	—	2	—	—	—
Investments in associates and a joint venture	439	—	—	—	—	—
Other assets	1	2	(426)	—	—	(426)
	440	29	(456)	—	—	(426)
	₱10,078	₱7,770	₱7,507	₱1,644	₱807	₱1,395



With the foregoing level of allowance for credit and impairment losses, management believes that the Group has sufficient allowance to take care of any losses that the Group may incur from the non-collection or non-realization of its receivables and other risk assets.

16. Deposit Liabilities

The LTNCDs of the Group and the Parent Company consist of the following:

BSP Approval	Interest Rate	Issue Date	Maturity Date	2019	2018
Parent Company					
September 18, 2014	4.00%	October 24, 2014	April 24, 2020	₱8,000	₱8,000
September 18, 2014	4.25%	November 21, 2014	November 22, 2021	6,250	6,250
August 12, 2016	3.50%	September 19, 2016	September 19, 2023	8,650	8,650
August 12, 2016	3.88%	July 20, 2017	July 20, 2024	3,750	3,750
July 19, 2018	5.38%	October 4, 2018	April 4, 2024	8,680	8,680
				35,330	35,330
PSBank					
December 8, 2016	3.50%	January 30, 2017	April 30, 2022	3,363	3,375
July 13, 2018	5.00%	August 9, 2018	February 9, 2024	5,047	5,085
				8,410	8,460
				₱43,740	₱43,790

On September 18, 2019, the BOD of the Parent Company approved the issuance of PHP LTNCDs of up to ₱25.0 billion in one or more tranches of at least ₱2.0 billion per tranche, and tenors of 5.5 years up to 10 years, subject to market conditions.

As of December 31, 2019 and 2018, 34.25% and 33.51%, respectively, of the total interest-bearing deposit liabilities of the Group and 31.94% and 30.69%, respectively, of the total interest-bearing deposit liabilities of the Parent Company are subject to periodic interest repricing. In 2019, 2018 and 2017 the remaining peso deposit liabilities (excluding LTNCDs above) earn annual fixed interest rates ranging from 0.00% to 4.50%, while the remaining foreign currency-denominated deposit liabilities earn annual fixed interest rates ranging from 0.00% to 3.00%, from 0.00% to 7.56%, and from 0.00% to 3.80%, respectively.

Interest expense on deposit liabilities consists of:

	Consolidated			Parent Company		
	2019	2018	2017	2019	2018	2017
CASA	₱2,388	₱2,351	₱2,155	₱1,987	₱1,948	₱1,795
Time	19,126	15,240	9,389	13,806	10,353	6,029
LTNCD	1,893	1,377	1,069	1,500	1,146	953
	₱23,407	₱18,968	₱12,613	₱17,293	₱13,447	₱8,777

Reserve Requirement

In 2019, BSP Circular Nos. 1041, 1056 and 1063 were issued reducing the reserve requirements against deposit and deposit substitute liabilities. As of December 31, 2019, non-FCDU deposit liabilities of the Parent Company and deposit substitutes of FMIC, ORIX Metro and MCC are subject to required reserves of 14% from 18% in 2018 while non-FCDU deposit liabilities of PSBank are subject to required reserves of 4% from 8% in 2018. Peso-denominated LTNCDs are subject to reserves equivalent to 4% from 7% in 2018. The required reserves can be kept in the form of deposits maintained in the demand deposit accounts with the BSP and any government securities used as compliance until they mature. The Parent Company, PSBank, FMIC, MCC and ORIX Metro were in compliance with such regulations as of December 31, 2019 and 2018.



The total statutory and liquidity reserves (under ‘Due from BSP’ account), as reported to the BSP are as follows:

	2019	2018
Parent Company	₱166,770	₱206,289
PSBank	6,798	15,178
MCC	5,994	9,527
ORIX Metro	5,682	5,669
FMIC	1,255	3,490
	₱186,499	₱240,153

17. Bills Payable and Securities Sold Under Repurchase Agreements

This account consists of borrowings from:

	Consolidated		Parent Company	
	2019	2018	2019	2018
SSURA	₱91,492	₱95,247	₱90,780	₱95,247
Deposit substitutes	61,197	53,225	–	–
Foreign banks	55,799	35,895	46,212	27,335
Local banks	29,793	53,740	2,080	8,497
BSP	–	21,500	–	20,000
	₱238,281	₱259,607	₱139,072	₱151,079

Interbank borrowings with foreign and local banks are mainly short-term borrowings. Deposit substitutes pertain to borrowings of PSBank, FMIC, ORIX Metro and MCC from the public. The following are the carrying values of government debt securities (Note 8) pledged and transferred under SSURA transactions of the Group and the Parent Company:

	Consolidated				Parent Company			
	2019		2018		2019		2018	
	Transferred Securities	SSURA	Transferred Securities	SSURA	Transferred Securities	SSURA	Transferred Securities	SSURA
Investment securities at amortized cost	₱71,073	₱53,635	₱111,504	₱70,217	₱71,073	₱53,635	₱111,504	₱70,217
Investment securities at FVOCI	46,678	37,857	32,166	25,030	45,965	37,145	32,166	25,030
	₱117,751	₱91,492	₱143,670	₱95,247	₱117,038	₱90,780	₱143,670	₱95,247

The Group’s peso borrowings are subject to annual fixed interest rates ranging from 0.88% to 7.25%, from 0.88% to 7.45% and from 0.06% to 6.45% in 2019, 2018 and 2017, respectively, while the Group’s foreign currency-denominated borrowings are subject to annual fixed interest rates ranging from 1.30% to 4.28%, from 1.38% to 8.00% and from 0.05% to 3.76% in 2019, 2018 and 2017, respectively.

Interest expense on bills payable (included in the ‘Interest expense on bills payable and SSURA, bonds payable, subordinated debts and others’ in the statements of income) in 2019, 2018 and 2017 amounted to ₱10.4 billion, ₱7.2 billion and ₱4.2 billion, respectively, for the Group and ₱4.2 billion, ₱2.8 billion and ₱1.4 billion, respectively, for the Parent Company.



18. Accrued Interest and Other Expenses

This account consists of:

	Consolidated		Parent Company	
	2019	2018	2019	2018
Accrued interest (Note 31)	₱3,916	₱4,288	₱2,481	₱2,375
Accrued other expenses	6,583	5,331	4,173	3,250
	₱10,499	₱9,619	₱6,654	₱5,625

Accrued other expenses include accruals for compensation and fringe benefits, rentals, percentage and other taxes, professional fees, advertising and information technology expenses and other expenses.

19. Bonds Payable

This account consists of the following scripless fixed rate bonds:

Issue Date	Maturity Date	Interest Rate	Face Value	Carrying Value	
				2019	2018
Parent Company					
November 9, 2018	November 9, 2020	7.15%	₱10,000	₱9,962	₱9,922
December 17, 2018	November 9, 2020	7.15%	18,000	17,952	17,904
April 11, 2019	April 11, 2022	6.30%	17,500	17,384	—
July 3, 2019	July 3, 2021	5.50%	11,250	11,178	—
October 24, 2019	April 24, 2023	4.50%	13,750	13,634	—
			70,500	70,110	27,826
PSBank					
July 24, 2019	July 24, 2021	5.60%	6,300	6,255	—
ORIX Metro					
November 15, 2019	November 15, 2021	4.55%	4,160	4,121	—
FMIC					
August 10, 2012	August 10, 2019	5.75%	2,920	—	2,917
			₱83,880	₱80,486	₱30,743

Parent Company Fixed Rate Bonds

On November 9, 2018, the Parent Company issued ₱10.0 billion fixed rate bonds with issue price at 100% face value, which bear an interest rate of 7.15% per annum and will mature on November 9, 2020 and further issued ₱18.0 billion fixed rate bonds (Additional Bonds) on December 17, 2018 at an issue price of 100.26% plus an amount corresponding to accrued interest from, and including, November 9, 2018, but excluding the new issue date. The interest of the bonds for the entire term are payable quarterly in arrears on February 9, May 9, August 9 and November 9 of each year, commencing on February 9, 2019. Total bond issuance costs, net of bonds premium, amounted to ₱184.9 million.

On April 11, 2019, the Parent Company issued ₱17.5 billion fixed rate bonds with an issue price at 100% face value, which bear an interest rate of 6.30% per annum and will mature on April 11, 2022. The interest of the bonds for the entire term are payable quarterly in arrears on January 11, April 11, July 11 and October 11 of each year, commencing on July 11, 2019. Total bond issuance costs amounted to ₱148.47 million. On July 3, 2019, the Parent Company also issued ₱11.25 billion fixed rate bonds with an issue price at 100% face value, which bear an interest rate of 5.50% per annum and will mature on July 3, 2021. The interest of the bonds for the entire term are payable quarterly in arrears on January 3, April 3, July 3 and October 3 of each year, commencing on July 3, 2019. Total bond issuance costs amounted to ₱94.55 million. Further, on October 24, 2019, ₱13.75 billion fixed



rate bonds were issued at 100% face value. The bonds bear an interest rate of 4.50% per annum and will mature on April 24, 2023. The interest of the bonds for the entire term are payable quarterly in arrears on January 24, April 24, July 24 and October 24 of each year, commencing on October 24, 2019. Total bond issuance costs amounted to ₱122.1 million.

PSBank Fixed Rate Bonds due 2021

On July 24, 2019, PSBank issued ₱6.30 billion fixed rate bonds with issue price at 100% face value. The bonds bear an interest rate of 5.60% per annum and will mature on July 24, 2021. The interest of the bonds for the entire term are payable quarterly in arrears on January 24, April 24, July 24 and October 24 of each year, commencing on July 24, 2019. Total bond issuance costs amounted to ₱56.9 million.

ORIX Metro Fixed Rate Bonds due 2021

On November 15, 2019, ORIX Metro issued ₱4.16 billion fixed rate bonds with issue price at 100% face value. The bonds bear an interest rate of 4.55% per annum and will mature on November 15, 2021. The interest of the bonds for the entire term are payable quarterly in arrears on February 15, May 15, August 15 and November 15 of each year, commencing on November 15, 2019. Total bond issuance costs amounted to ₱44.2 million.

FMIC Fixed Rate Corporate Bonds due 2019

These bonds were issued in principal amounts of ₱50,000 and in multiples of ₱5,000 in excess of ₱50,000 with an option to redeem in whole, but not in part, on any quarterly interest payment after the fourth or fifth anniversary of the issue date at 102.00% of its face value plus accrued interest. These are exempt securities pursuant to certain provisions of the Securities Regulation Code (SRC) and are covered by deeds of assignment on government securities held in trust by a collateral agent which shall have aggregate market value of 100.00% of the issued amount, otherwise, additional government securities shall be offered to increase and maintain the cover at 100.00%. The carrying amount of government securities assigned as collateral amounted to ₱3.9 billion classified under 'Investment securities at amortized cost' as of December 31, 2018. FMIC has complied with the terms of the issuance in 2019 and 2018.

Interest expense on bonds payable (included in 'Interest expense on bills payable and SSURA, bonds payable, subordinated debts and others') in 2019, 2018 and 2017 amounted to ₱3.6 billion, ₱336.7 million and ₱399.9 million, respectively for the Group and ₱3.4 billion in 2019 and ₱163.9 million in 2018 for the Parent Company. As of December 31, 2019 and 2018, unamortized bond issue costs amounted to ₱474.2 million and ₱174.3 million for the Group, and ₱389.9 million and ₱174.3 million for the Parent Company.

Reserve Requirement

Peso-denominated bonds are subject to reserves equivalent to 3% and 4% in 2019 and 2018, respectively. The Parent Company, PSBank and Orix Metro were in compliance with such regulations as of December 31, 2019. The Parent and FMIC were in compliance with such regulations as of December 31, 2018.



20. Subordinated Debts

This account consists of the following Peso Notes:

	Maturity Date	Face Value	Carrying Value		Market Value	
			2019	2018	2019	2018
Parent Company						
2025	August 8, 2025	P6,500	P6,494	P6,484	P6,502	P6,234
2024	June 27, 2024	16,000	—	15,987	—	15,813
		22,500	6,494	22,471	6,502	22,047
MCC-2023	December 20, 2023	1,170	1,166	1,165	1,195	1,113
PSBank-2024	August 23, 2024	3,000	—	2,982	—	2,243
		P26,670	P7,660	P26,618	P7,697	P25,403

On April 15, 2013, of the BOD of the Parent Company approved the issuance of Basel III-compliant Tier 2 capital notes of up to USD500 million in one or more tranches, issued as part of its regulatory capital compliance and to proactively manage its capital base for growth and refinancing of maturing capital securities which was also approved by the BSP on July 26, 2013 and the amendment to the terms and conditions on January 30, 2014. Specifically, the BSP approved the issuance of up to USD500 million equivalent in either USD or PHP or combination in one or more tranches over the course of one (1) year. The Peso Notes issued by the Parent Company are unsecured and subordinated obligations and will rank *pari passu* and without any preference among themselves and at least equally with all its other present and future unsecured and subordinated obligations. These Peso Notes have a term of 10.25 and 11 years and are redeemable at the option of the Parent Company (but not the holders) on the call option date in whole but not in part at redemption price equal to 100.00% of the principal amount together with accrued and unpaid interest on the call option date, upon prior approval of the BSP and at least 30-banking day prior written notice to the Noteholders of record, subject to the following conditions: (1) the capital adequacy of the Issuer is at least equal to the required minimum ratio; (2) the note is simultaneously replaced with the issues of new capital which are neither smaller in size nor lower in quality than the original issue. Furthermore, upon the occurrence of a Tax Redemption Event or a Regulatory Redemption Event, the Parent Company may, upon prior approval of the BSP and at least a 30-banking day prior written notice to the Noteholders on record, redeem all and not less than all of the outstanding Notes prior to the stated maturity by paying the Noteholder the Redemption Option Amount which, (a) in the case of a Tax Redemption Event is an amount equal to 100.00% of the face value of the Note plus accrued Interest at the Interest Rate relating to the then current Interest Period up to but excluding the date of such redemption, and (b) in the case of a Regulatory Redemption Event is an amount equal to 101.00% of the face value of the Note plus accrued Interest at the Interest Rate relating to the then current Interest Period up to but excluding the date of such redemption. The Notes have a loss absorption feature which are subject to a Non-Viability Write-Down in case of the occurrence of a Non-Viability Trigger Event, subject to certain conditions as set out in “Terms and Conditions of the Notes - Loss Absorption Measure”, when the Issuer is considered non-viable as determined by the BSP. Non-Viability is a deviation from a certain level of CET1 Ratio or the inability of the Issuer to continue business (closure) or any other event as determined by the BSP, whichever comes earlier. A Non-Viability Trigger Event shall be deemed to have occurred if the BSP notifies the Issuer in writing that it has determined that a: (i) a Write-Down (as defined in “Terms and Conditions of the Notes”) of the Notes and other capital instruments of the Issuer is necessary because, without such Write-Down, the Issuer would become non-viable, (ii) public sector injection of capital, or equivalent support, is necessary because, without such injection or support, the Issuer would become non-viable, or (iii) Write-Down of the Notes and other capital instruments of the Issuer is necessary because, as a result of the closure of the Issuer, the Issuer has become non-viable.



Each Noteholder may not exercise or claim any right of set-off in respect of any amount owed to it by the Parent Company arising under or in connection with the Peso Notes and to the fullest extent permitted by applicable law, waive and be deemed to have waived all such rights of set-off. These Notes are not deposits and are not insured by the Philippine Deposit Insurance Corporation.

Specific terms of these Basel III-compliant Peso Notes follow:

Parent Company

2024 Peso Notes - issued on March 27, 2014 at 100.00% of the principal amount of ₱16.0 billion

- Bear interest at 5.375% per annum from March 27, 2014 to but excluding June 27, 2019. Interest will be payable quarterly in arrears on March 27, June 27, September 27 and December 27 of each year, commencing on June 27, 2014. Unless the Notes are previously redeemed, the initial interest rate will be reset at the equivalent of the five-year PDST-F as of reset date plus a spread of 1.51% per annum and such interest will be payable commencing on June 27, 2019 (call option date) up to and including June 27, 2024. As approved by the BSP on April 25, 2019, on June 27, 2019, the Parent Company redeemed the Notes ahead of its maturity.

2025 Peso Notes - issued on August 8, 2014 at 100.00% of the principal amount of ₱6.5 billion

- Bear interest at 5.25% per annum from August 8, 2014 to but excluding August 8, 2020. Interest will be payable quarterly in arrears on February 8, May 8, August 8 and November 8 of each year, commencing on November 8, 2014. Unless the Notes are previously redeemed, the initial interest rate will be reset at equivalent of the five-year PDST-R2 as of reset date plus a spread of 1.67% per annum and such interest will be payable commencing on August 8, 2020 (call option date) up to and including August 8, 2025.

MCC

2023 Peso Notes - issued on December 20, 2013 at 100.00% of the principal amount of ₱1.2 billion

- Bear interest at 6.21% per annum payable quarterly in arrears every 20th of March, June, September and December each year, commencing on March 20, 2014.
- Basel III - compliant unsecured subordinated notes qualified as Tier 2 capital as approved by the BSP on February 17, 2013.
- In case of insolvency or liquidation of MCC, the notes will be subordinated in the right of payment of principal and interest to all depositors and other creditors of MCC, except those creditors expressed to rank equally with, or behind holders of the notes.
- If a non-viability trigger event occurs, MCC shall immediately write down some or all of the notes in accordance with the BSP's determination.
- Subject to the written approval of the BSP, MCC may redeem all and not less than the entire outstanding 2023 Notes, at a redemption price equal to the face value together with the accrued and unpaid interest based on the interest rate.

PSBank

2024 Peso Notes - issued on May 23, 2014 at 100.00% of the face value of ₱3.0 billion

- Bear interest at the rate 5.50% per annum for the first 5 years and 3 months. Interest will be payable quarterly in arrears on August 23, November 23, February 23 and May 23 of each year, commencing on August 23, 2014. Unless the Notes are previously redeemed, the initial interest rate will be reset at the equivalent of the five-year PDST-F as of reset date plus a spread of 1.4438% per annum.
- Basel III - compliant unsecured subordinated notes qualified as Tier 2 capital as approved by the BSP on April 14, 2014.
- May be redeemed by PSBank in full, but not in part, on the call option date upon prior approval of the BSP and subject to certain conditions.



- May be redeemed by PSBank in full, but not in part, upon the occurrence of a Tax Redemption or Regulatory Redemption Event prior to maturity by paying the Holders the following:
 - a) In the case of a Tax Redemption Event, 100.00% of the face value of the Note plus accrued interest
 - b) In the case of a Regulatory Redemption Event, 101.00% of the face value of the Note plus accrued interest.
- Have a loss absorption feature which means the Notes are subject to a Non-Viability Write-Down in case of the occurrence of a Non-Viability Trigger Event, subject to certain conditions.

As approved by the BSP on April 25, 2019, on August 23, 2019, PSBank redeemed the Notes ahead of its maturity.

As of December 31, 2019 and 2018, the Parent Company, PSBank and MCC are in compliance with the terms and conditions upon which these subordinated notes have been issued.

In 2019, 2018 and 2017, interest expense on subordinated debts included in 'Interest expense on bills payable and SSURA, bonds payable, subordinated debts and others' amounted to ₱983.0 million, ₱1.5 billion and ₱1.5 billion (including amortization of debt issue cost and premium of ₱41.9 million, ₱38.2 million and ₱35.3 million), respectively, for the Group, and ₱0.8 billion, ₱1.2 billion and ₱1.2 billion, respectively (including amortization of debt issue cost and premium of ₱22.5 million, ₱34.4 million and ₱32.6 million, respectively) for the Parent Company.

21. Non-equity Non-controlling Interest and Other Liabilities

Non-equity Non-controlling Interest

This account arises when mutual funds are consolidated and where the Group holds less than 100.00% of the investment in these funds. When this occurs, the Group acquires a liability in respect of non-controlling interests in the funds of which the Group has control. Such non-controlling interests are distinguished from equity non-controlling interests in that the Group does not hold an equity stake in such funds. Further, income (loss) attributable to non-equity non-controlling interests amounting to (₱0.2 billion), ₱0.7 billion, and (₱1.3 billion) in 2019, 2018 and 2017, respectively, is included under 'Trading and securities gain (loss) - net' in the statements of income (Note 8).

Other Liabilities

This account consists of:

	Consolidated		Parent Company	
	2019	2018	2019	2018
Accounts payable	₱17,436	₱15,629	₱8,269	₱7,104
Bills purchased - contra (Note 9)	14,089	12,171	14,080	12,158
Marginal deposits	6,374	4,232	236	166
Lease liability (Note 13)	4,038	—	2,160	—
Notes payable	2,592	2,600	—	—
Other credits	1,800	1,887	853	726
Deposits on lease contracts	1,725	1,643	—	—
Outstanding acceptances	1,611	1,793	1,611	1,793
Deferred revenues (Note 25)	1,486	1,398	63	64
Retirement liability (Note 27)	938	277	—	—
Withholding taxes payable	742	897	448	564
Miscellaneous (Notes 11 and 15)	3,339	3,086	2,340	1,532
	₱56,170	₱45,613	₱30,060	₱24,107



Notes payable represent unsecured notes issued by ORIX Metro on October 29, 2018 maturing on April 29, 2020 and October 29, 2020 with annual interest rates of 7.02% and 7.45%, respectively, payable quarterly in arrears every January 29, April 29, July 29 and October 29 until their maturity. In 2019 and 2018, interest expense on notes payable included in 'Interest expense on bills payable and SSURA, bonds payable, subordinated debts and others' amounted to ₱188.8 million and ₱32.6 million, respectively.

Deferred revenues include deferral and release of MCC's loyalty points program transactions and membership fees and dues.

As of December 31, 2019 and 2018, miscellaneous liabilities of the Group include dividends payable amounting to ₱90.0 million and ₱90.4 million, respectively.

22. Maturity Profile of Assets and Liabilities

The following tables present the assets and liabilities by contractual maturity and settlement dates:

	Consolidated					
	2019			2018		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
Financial Assets - at gross						
Cash and other cash items	₱32,956	₱—	₱32,956	₱33,091	₱—	₱33,091
Due from BSP	219,994	—	219,994	240,134	—	240,134
Due from other banks	54,772	—	54,772	45,808	—	45,808
Interbank loans receivable and SPURA (Note 7)	72,175	—	72,175	50,731	—	50,731
Investment securities at FVTPL (Note 8)	61,867	—	61,867	39,689	—	39,689
Investment securities at FVOCI (Note 8)	16,418	186,102	202,520	25,167	86,121	111,288
Investment securities at amortized cost (Note 8)	24,075	227,579	251,654	2,684	262,740	265,424
Loans and receivables (Note 9)						
Receivables from customers	697,171	788,465	1,485,636	631,150	761,930	1,393,080
Unquoted debt securities	150	866	1,016	—	1,018	1,018
Accrued interest receivable	13,102	3	13,105	10,661	6	10,667
Accounts receivable	9,382	84	9,466	9,574	81	9,655
Sales contract receivable	62	83	145	119	71	190
Other receivables	313	18	331	335	—	335
Other assets (Note 14)						
Investments in SPVs	8,857	—	8,857	8,857	—	8,857
Interoffice float items	1,643	—	1,643	2,536	—	2,536
Returned checks and other cash items	407	—	407	417	—	417
Other investments	—	31	31	—	26	26
	1,213,344	1,203,231	2,416,575	1,100,953	1,111,993	2,212,946
Non-Financial Assets - at gross						
Investments in associates and a JV (Note 11)	—	7,105	7,105	—	6,022	6,022
Property and equipment (Note 10)	—	49,298	49,298	—	43,167	43,167
Investment properties (Note 12)	—	10,369	10,369	—	10,217	10,217
Deferred tax assets (Note 28)	—	10,512	10,512	—	10,238	10,238
Goodwill (Note 11)	—	5,200	5,200	—	5,200	5,200
Assets held under joint operations (Note 14)	—	219	219	—	219	219
Accounts receivable (Note 9)	—	3,241	3,241	—	3,636	3,636
Residual value of leased asset	390	745	1,135	354	776	1,130
Other assets (Note 14)	2,908	14,885	17,793	2,828	13,581	16,409
	3,298	101,574	104,872	3,182	93,056	96,238
	<u>₱1,216,642</u>	<u>₱1,304,805</u>	<u>2,521,447</u>	<u>₱1,104,135</u>	<u>₱1,205,049</u>	<u>2,309,184</u>
Less:						
Unearned discounts and capitalized interest (Note 9)			5,149			4,859
Accumulated depreciation and amortization (Notes 10, 12 and 14)			28,898			25,909
Allowance for credit and impairment losses (Notes 10, 11, 12, 14, and 15)			36,587			34,723
			<u>₱2,450,813</u>			<u>₱2,243,693</u>



	Consolidated					
	2019			2018		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
Financial Liabilities						
Deposit liabilities						
CASA	₱1,077,507	₱—	₱1,077,507	₱964,944	₱—	₱964,944
Time	565,982	26,915	592,897	527,635	20,384	548,019
LTNCD (Note 16)	8,000	35,740	43,740	—	43,790	43,790
	1,651,489	62,655	1,714,144	1,492,579	64,174	1,556,753
Bills payable and SSURA (Note 17)	195,762	42,519	238,281	212,478	47,129	259,607
Derivative liabilities (Note 8)	6,322	1,105	7,427	6,537	—	6,537
Manager's checks and demand drafts outstanding	6,806	—	6,806	7,565	—	7,565
Accrued interest and other expenses	8,412	43	8,455	8,155	95	8,250
Bonds payable (Note 19)	27,914	52,572	80,486	2,917	27,826	30,743
Subordinated debts (Note 20)	6,494	1,166	7,660	15,987	10,631	26,618
Non-equity non-controlling interest (Note 21)	6,553	—	6,553	6,747	—	6,747
Other liabilities (Note 21)						
Bills purchased – contra	14,089	—	14,089	12,171	—	12,171
Accounts payable	17,226	210	17,436	15,629	—	15,629
Marginal deposits	6,374	—	6,374	4,232	—	4,232
Notes payable	—	2,592	2,592	—	2,600	2,600
Outstanding acceptances	1,588	23	1,611	1,793	—	1,793
Deposits on lease contracts	627	1,098	1,725	540	1,103	1,643
Dividends payable	90	—	90	90	—	90
	1,949,746	163,983	2,113,729	1,787,420	153,558	1,940,978
Non-Financial Liabilities						
Retirement liability (Note 21 and 27)	—	938	938	—	277	277
Income taxes payable	4,188	—	4,188	2,830	—	2,830
Lease liability	779	3,259	4,038	—	—	—
Accrued other expenses	2,044	—	2,044	1,369	—	1,369
Withholding taxes payable (Note 21)	742	—	742	897	—	897
Deferred tax and other liabilities (Notes 21 and 28)	4,735	1,908	6,643	4,394	2,244	6,638
	12,488	6,105	18,593	9,490	2,521	12,011
	₱1,962,234	₱170,088	₱2,132,322	₱1,796,910	₱156,079	₱1,952,989
	Parent Company					
	2019			2018		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
Financial Assets - at gross						
Cash and other cash items	₱30,659	₱—	₱30,659	₱29,280	₱—	₱29,280
Due from BSP	195,770	—	195,770	206,289	—	206,289
Due from other banks	38,698	—	38,698	35,218	—	35,218
Interbank loans receivable and SPURA (Note 7)	56,153	—	56,153	24,724	—	24,724
Investment securities at FVTPL (Note 8)	7,551	41,999	49,550	30,166	—	30,166
Investment securities at FVOCI (Note 8)	8,262	180,414	188,676	16,647	75,497	92,144
Investment securities at amortized cost (Note 8)	22,420	194,224	216,644	471	212,184	212,655
Loans and receivables (Note 9)						
Receivables from customers	596,047	575,239	1,171,286	547,558	563,646	1,111,204
Unquoted debt securities	—	386	386	—	386	386
Accrued interest receivable	10,500	3	10,503	7,981	6	7,987
Accounts receivable	5,731	—	5,731	5,975	—	5,975
Sales contract receivable	55	47	102	47	72	119
Other receivables	12	—	12	13	—	13
Other assets (Note 14)						
Investments in SPVs	8,857	—	8,857	8,857	—	8,857
Interoffice float items	1,654	—	1,654	2,619	—	2,619
Returned checks and other cash items	378	—	378	397	—	397
	982,747	992,312	1,975,059	916,242	851,791	1,768,033
Non-Financial Assets - at gross						
Investments in subsidiaries (Note 11)	—	95,739	95,739	—	81,288	81,288
Investments in associates (Note 11)	—	617	617	—	569	569
Property and equipment (Note 10)	—	31,684	31,684	—	27,990	27,990
Investment properties (Note 12)	—	4,989	4,989	—	4,552	4,552
Deferred tax assets (Note 28)	—	6,918	6,918	—	6,769	6,769
Assets held under joint operations (Note 14)	—	219	219	—	219	219
Accounts receivable (Note 9)	—	3,241	3,241	—	3,636	3,636
Other assets (Note 14)	1,682	9,054	10,736	1,477	8,224	9,701
	1,682	152,461	154,143	1,477	133,247	134,724
	₱984,429	₱1,144,773	2,129,202	₱917,719	₱985,038	1,902,757
Less:						
Unearned discounts and capitalized interest (Note 9)			238			266
Accumulated depreciation and amortization (Notes 10, 12 and 14)			16,183			14,537
Allowance for credit and impairment losses (Notes 10, 11, 12, 14, and 15)			25,346			24,290
			₱2,087,435			₱1,863,664



	Parent Company					
	2019			2018		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
Financial Liabilities						
Deposit liabilities						
CASA	₱1,003,249	₱—	₱1,003,249	₱900,186	₱—	₱900,186
Time	460,529	1,184	461,713	389,008	1,467	390,475
LTNCD (Note 16)	8,000	27,330	35,330	—	35,330	35,330
	1,471,778	28,514	1,500,292	1,289,194	36,797	1,325,991
Bills payable and SSURA (Note 17)	117,755	21,317	139,072	131,870	19,209	151,079
Derivative liabilities (Note 8)	5,994	—	5,994	6,182	—	6,182
Manager's checks and demand drafts outstanding	5,508	—	5,508	5,950	—	5,950
Accrued interest and other expenses	4,567	43	4,610	3,863	93	3,956
Bonds payable (Note 19)	27,914	42,196	70,110	—	27,826	27,826
Subordinated debts (Note 20)	6,494	—	6,494	15,987	6,484	22,471
Other liabilities (Note 21)						
Bills purchased – contra	14,080	—	14,080	12,158	—	12,158
Accounts payable	8,269	—	8,269	7,104	—	7,104
Marginal deposits	236	—	236	166	—	166
Outstanding acceptances	1,588	23	1,611	1,793	—	1,793
	1,664,183	92,093	1,756,276	1,474,267	90,409	1,564,676
Non-Financial Liabilities						
Income taxes payable	3,259	—	3,259	1,670	—	1,670
Lease liability	615	1,545	2,160	—	—	—
Accrued other expenses	2,044	—	2,044	1,669	—	1,669
Withholding taxes payable (Note 21)	448	—	448	564	—	564
Other liabilities (Note 21)	2,403	853	3,256	1,596	726	2,322
	8,769	2,398	11,167	5,499	726	6,225
	₱1,672,952	₱94,491	₱1,767,443	₱1,479,766	₱91,135	₱1,570,901

23. Capital Stock

As of December 31, 2019 and 2018, this account consists of (amounts in millions, except par value and number of shares):

	Shares		Amount	
	2019	2018	2019	2018
Authorized				
Common stock – ₱20.00 par value	6,000,000,000	4,000,000,000		
Preferred stock – ₱20.00 par value	1,000,000,000	1,000,000,000		
Common stock issued and outstanding				
Balance at beginning of year	3,980,015,036	3,180,172,786	₱79,600	₱63,603
Issuance of stock rights	—	799,842,250	—	15,997
Issuance of stock dividend	517,400,519	—	10,348	—
Balance at the end of year	4,497,415,555	3,980,015,036	₱89,948	₱79,600

As of December 31, 2019 and 2018, treasury shares totaling 959,257 and 825,000, respectively, represent shares of the Parent Company held by FMIC's mutual fund subsidiary (Note 31).

Preferred shares are non-voting except as provided by law; have preference over Common Shares in the distribution of dividends; subject to such terms and conditions as may be determined by the BOD and to the extent permitted by applicable law, may or may not be redeemable; and shall have such other features as may be determined by the BOD at the time of issuance.

On March 15, 2013, the BOD of the Parent Company approved (a) the amendment of the Articles of Incorporation (AOI) to increase the authorized capital stock and (b) the declaration of 30.00% stock dividend, which were ratified by the stockholders representing at least 2/3 of the outstanding capital stock on April 15, 2013. These were subsequently approved by the BSP on May 15, 2013 and by the SEC on August 13, 2013. Following this, the authorized capital stock of the Parent Company increased from ₱50.0 billion to ₱100.0 billion consisting of 4.0 billion Common Shares and 1.0 billion Preferred Shares, both with par value of ₱20.00 per share. The 30.00% stock dividend



equivalent to 633,415,049 common shares amounting to ₱12.7 billion represents at least the minimum 25.00% subscribed and paid-up capital for the increase in the authorized capital stock referred to above which was issued/paid on September 16, 2013 with record date on September 3, 2013. On September 10, 2013, the PSE approved the listing of such additional common shares.

On January 21, 2015, the Parent Company's BOD approved the Stock Rights Offer (SRO) by way of issuance from the unissued portion of the authorized capital stock which was noted by BSP with the issuance of a letter of no objection to the Rights Issue on February 17, 2015. On February 24, 2015, the SEC confirmed the exemption of this issuance of ₱32.0 billion worth of common shares from the registration requirements under Section 8 of the SRC. On February 25, 2015, the PSE approved the listing of up to 500.0 million common shares to cover the SRO to all stockholders of record as of March 18, 2015. On April 7, 2015, following regulatory approvals, the Parent Company concluded the ₱32.0 billion SRO, involving 435,371,720 common shares with par value of ₱20.00 priced at ₱73.50 per share and listed with the PSE on the same date. The difference between the issued price and the par value is recognized as 'Capital paid in excess of par value'.

On January 17, 2018, the Parent Company's BOD approved the SRO by way of issuance of up to a maximum of 819,827,214 common shares to raise additional capital of up to ₱60.0 billion. This was noted by the BSP with the issuance of a letter of no objection to the rights issue on January 29, 2018. On April 4, 2018, following the regulatory approvals, the Parent Company concluded the ₱60.0 billion SRO, involving 799,842,250 common shares with par value of ₱20.00 priced at ₱75.00 per share and listed on the PSE on April 12, 2018. Transaction costs on SRO amounting to ₱878.2 million were charged against 'Capital paid in excess of par value'.

On February 13, 2019, the BOD of the Parent Company approved (a) the amendment of the AOI to increase the authorized capital stock from ₱100.0 billion to ₱140.0 billion and (b) the declaration of a 13% stock dividend equivalent to 517,401,955 shares amounting to ₱10.3 billion representing the minimum 25% subscription and paid-up capital for the increase in the authorized capital stock which were ratified by the stockholders representing at least 2/3 of the outstanding capital stock on April 24, 2019. These were approved by the BSP on August 8, 2019 and by the SEC on October 4, 2019. Following this, the authorized capital stock of the Parent Company increased from ₱100.0 billion to ₱140.0 billion consisting of 6.0 billion common shares and 1.0 billion preferred shares, both with par values of ₱20.0 per share. On October 16, 2019, the Parent Company received the SEC Order fixing the Record Date of the 13% stock dividend on October 31, 2019. The 13% stock dividend was issued on November 26, 2019 with record date on October 31, 2019. On November 19, 2019, the PSE approved the listing of such stock dividend.

All issued and outstanding shares of the Parent Company are listed with the PSE (Note 1). As of December 31, 2019 and 2018, there are 2,986 and 3,031 holders, respectively, of the listed shares of the Parent Company, with share price closed at ₱66.30 and ₱80.95 a share, respectively.

The history of share issuances during the last ten years follows:

Year	Issuance	Listing Date	Number of Shares Issued
2019	Stock dividend	November 26, 2019	517,400,519
2018	Stock rights	April 12, 2018	799,842,250
2015	Stock rights	April 7, 2015	435,371,720
2013	Stock dividend	September 16, 2013	633,415,049
2011	Stock rights	January 24, 2011	200,000,000



Details of the Parent Company's cash dividend distributions from 2017 to 2019 follow:

Date of Declaration	Per Share	Total Amount	Record Date	Payment Date
February 13, 2019	₱1.00	₱3,980	March 1, 2019	March 14, 2019
February 21, 2018	1.00	3,180	March 8, 2018	March 16, 2018
February 22, 2017	1.00	3,180	March 9, 2017	March 23, 2017

The computation of surplus available for dividend declaration in accordance with SEC Memorandum Circular No. 11 issued in December 2008 differs to a certain extent from the computation following BSP guidelines.

24. Surplus Reserves

This account consists of:

	2019	2018
Reserve for trust business (Note 29)	₱1,596	₱1,475
Reserve for self-insurance	502	481
	₱2,098	₱1,956

In compliance with existing BSP regulations, 10.0% of the Parent Company's income from trust business is appropriated to surplus reserves. This yearly appropriation is required until the surplus reserve for trust business equals 20.0% of the Parent Company's regulatory net worth.

Reserve for self-insurance represents the amount set aside to cover losses due to fire, defalcation by and other unlawful acts of the Parent Company's personnel or third parties.

25. Other Operating Income and Expenses

Service Charges, Fees and Commissions

The table below presents the disaggregation of service charges, fees and commission by business segment:

	Consolidated			Parent Company		
	2019	2018	2017	2019	2018	2017
Consumer banking	₱5,724	₱5,694	₱5,094	₱110	₱125	₱93
Branch banking	3,679	3,418	2,711	2,589	2,482	1,957
Corporate banking	1,639	791	585	936	812	635
Investment banking/treasury	855	680	599	357	297	267
Others	2,369	2,112	2,056	1,153	1,238	1,219
	₱14,266	₱12,695	₱11,045	₱5,145	₱4,954	₱4,171

Others include the remittance business of the Group and the Parent Company.

The remaining performance obligations on revenue contracts with customers of the Group under PFRS 15, which are expected to be recognized beyond one year amounting to ₱832.0 million and ₱722.1 million (included in 'Deferred revenues' under 'Other liabilities') as of December 31, 2019 and 2018, respectively, relate to the customer loyalty program of MCC. The customer loyalty points have no expiration and redemptions can go beyond one year.



Miscellaneous Income and Expenses

In 2019, 2018 and 2017, miscellaneous income includes gain on initial recognition of investment properties and other non-financial assets amounting to ₱486.5 million, ₱638.5 million and ₱1.1 billion, respectively, for the Group and ₱33.2 million, ₱22.8 million and ₱25.5 million, respectively, for the Parent Company; recovery on charged-off assets amounting to ₱866.8 million, ₱874.9 million and ₱1.1 billion, respectively, for the Group and ₱12.0 million, ₱8.8 million and ₱28.9 million, respectively, for the Parent Company; and information technology and other fees amounting to ₱44.9 million, ₱895.9 million and ₱307.6 million, respectively, for the Group and ₱38.1 million, ₱365.9 million and ₱369.2 million, respectively, for the Parent Company (Note 31).

Miscellaneous expenses consist of:

	Consolidated			Parent Company		
	2019	2018	2017	2019	2018	2017
Insurance	₱3,420	₱3,422	₱3,220	₱2,764	₱2,684	₱2,457
Security, messengerial and janitorial	2,581	2,433	2,359	2,054	1,837	1,779
Management, professional and supervision fees	1,569	1,530	1,302	1,308	1,151	936
Information technology (Note 31)	1,385	1,066	769	911	684	520
Advertising	1,161	986	895	340	221	284
Litigation (Note 12)	904	781	794	390	276	309
Communications	634	647	616	115	115	96
Repairs and maintenance	569	538	608	222	190	292
Transportation and travel	569	527	497	428	382	344
Stationery and supplies used	520	446	403	337	261	240
Entertainment, amusement and representation (EAR) (Note 28)	488	340	302	440	295	261
Others (Note 31)	2,776	2,519	1,965	1,777	1,477	1,035
	₱16,576	₱15,235	₱13,730	₱11,086	₱9,573	₱8,553

26. Notes to Statements of Cash Flows

The amounts of interbank loans receivable and SPURA, gross of allowance for credit losses, considered as cash and cash equivalents follow:

	Consolidated			Parent Company		
	2019	2018	2017	2019	2018	2017
Interbank loans receivable and SPURA	₱72,175	₱50,731	₱45,475	₱56,153	₱24,724	₱27,208
Interbank loans receivable and SPURA not considered as cash and cash equivalents	(4,862)	(11,351)	(12,739)	(1,575)	(1,982)	(7,966)
	₱67,313	₱39,380	₱32,736	₱54,578	₱22,742	₱19,242

Significant non-cash transactions of the Group and the Parent Company (other than the impact of PFRS 9 and PFRS 16 adoption) include; additions to ROU assets as disclosed in Note 10; foreclosures of properties or additions to investment and chattel properties as disclosed in Notes 12 and 14, respectively; accrual of cash dividends from subsidiaries and SMBC Metro as disclosed in Notes 11 and 31; reclassifications of BUC (Note 10); and issuance of stock dividends (Note 23).



The table below provides for the changes in liabilities arising from financing activities in 2019 and 2018:

	Consolidated			
	Beginning	Net cash flows	Others	Ending
2019				
Bills payable and SSURA (Note 17)	₱259,607	(₱29,298)	₱7,972	₱238,281
Bonds payable (Note 19)	30,743	49,499	244	80,486
Subordinated debts (Note 20)	26,618	(19,000)	42	7,660
Notes payable (Note 21)	2,600	—	(8)	2,592
Dividends payable (Note 21)	90	—	—	90
Total liabilities from financing activities	₱319,658	₱1,201	₱8,250	₱329,109
2018				
Bills payable and SSURA (Note 17)	₱227,835	₱46,724	(₱14,952)	₱259,607
Bonds payable (Note 19)	2,910	27,826	7	30,743
Subordinated debts (Note 20)	26,580	—	38	26,618
Notes payable (Note 21)	—	2,600	—	2,600
Dividends payable (Note 21)	91	(3,180)	3,179	90
Total liabilities from financing activities	₱257,416	₱73,970	(₱11,728)	₱319,658

	Parent Company			
	Beginning	Net cash flows	Others	Ending
2019				
Bills payable and SSURA (Note 17)	₱151,079	(₱12,007)	₱—	₱139,072
Bonds payable (Note 19)	27,826	42,135	149	70,110
Subordinated debts (Note 20)	22,471	(16,000)	23	6,494
Total liabilities from financing activities	₱201,376	₱14,128	₱172	₱215,676
2018				
Bills payable and SSURA (Note 17)	₱106,482	₱44,597	₱—	₱151,079
Bonds payable (Note 19)	—	27,826	—	27,826
Subordinated debts (Note 20)	22,437	—	34	22,471
Dividends payable	—	(3,180)	3,180	—
Total liabilities from financing activities	₱128,919	₱69,243	₱3,214	₱201,376

Others include the effect of cash flows of liabilities arising from operating activities, declaration of dividends, and effect of amortization of transaction costs.

27. Retirement Plan and Other Employee Benefits

The Parent Company and most of its subsidiaries have funded non-contributory defined benefit retirement plan covering all their respective permanent and full-time employees. Benefits are based on the employee's years of service and final plan salary.

For employees of the Parent Company, retirement from service is compulsory upon the attainment of the 55th birthday or 30th year of service, whichever comes first.

The existing regulatory framework, Republic Act (RA) 7641 (Retirement Pay Law) requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided, however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan. The Parent Company and most of its subsidiaries meet the minimum retirement benefit specified under RA 7641.



The principal actuarial assumptions used in determining retirement liability of the Parent Company and significant subsidiaries are shown below:

	Parent Company	MCC	FMIC	PSBank	ORIX Metro
As of January 1, 2019					
Average remaining working life	9.6 years	10 years	7 years	12 years	14 to 27 years
Discount rate	7.29%	7.28%	7.16% to 7.32%	7.33%	6.80% to 7.80%
Future salary increases	7.00%	8.00%	5.00%	6.00%	7.00% to 8.00%
As of January 1, 2018					
Average remaining working life	9 years	12 years	7 to 10 years	11 years	12 to 27 years
Discount rate	5.39%	5.74%	5.62% to 5.77%	5.73%	4.84% to 5.40%
Future salary increases	7.00%	8.00%	5.00%	5.00%	7.00% to 8.00%

Discount rates used in computing for the present value of the DBO of the Parent Company and significant subsidiaries as of December 31, 2019 and 2018 follow:

	Parent Company	MCC	FMIC	PSBank	ORIX Metro
2019	4.74%	4.88%	4.61% to 4.84%	4.86%	5.10% to 5.20%
2018	7.29%	7.28%	7.16% to 7.32%	7.33%	6.80% to 7.83%

The net retirement liability (asset) of the Group and the Parent Company is presented in the following accounts in the statement of financial position:

	Consolidated		Parent Company	
	2019	2018	2019	2018
Other assets (Note 14)	(P3,930)	(P3,654)	(P3,930)	(P3,606)
Other liabilities (Note 21)	938	277	—	—
	(P2,992)	(P3,377)	(P3,930)	(P3,606)

The defined benefit plan exposes the Group and the Parent Company to actuarial risk, such as longevity risk, interest rate risk and market (investment risk).

The fair value of plan assets by each class as at the end of the reporting year are as follows:

	Consolidated		Parent Company	
	2019	2018	2019	2018
Cash and cash equivalents	P974	P1,500	P4	P417
Investment securities				
Debt securities (Note 31)	21,415	14,648	17,997	12,318
Equity securities (Note 31)	4,855	4,078	4,640	3,811
Unit investment trust fund and others (Note 31)	573	1,960	415	1,838
Total investment securities	26,843	20,686	23,052	17,967
Other assets	266	453	245	423
Total assets	28,083	22,639	23,301	18,807
Total liabilities	(6)	(8)	—	(6)
Fair value of net plan assets	P28,077	P22,631	P23,301	P18,801



Changes in net defined benefit liability (asset) in 2019 are as follows:

Consolidated	Present Value of DBO	Fair Value of Plan Assets	Net retirement liability/(asset)
January 1, 2019	₱19,254	(₱22,631)	(₱3,377)
Net benefit cost			
Current service cost	1,558	—	1,558
Past service cost	4	—	4
Net interest	1,326	(1,658)	(332)
Sub-total	2,888	(1,658)	1,230
Benefits paid	(1,474)	1,474	—
Remeasurement in OCI			
Return on plan assets (excluding amount included in net interest)	—	(1,509)	(1,509)
Actuarial changes arising from experience adjustments	734	—	734
Actuarial changes arising from changes in financial/demographic assumptions	3,683	—	3,683
Sub-total	4,417	(1,509)	2,908
Benefits paid from previous year separation	—	8	8
Settlement	1	—	1
Effect of curtailment	(1)	—	(1)
Contributions paid	—	(3,761)	(3,761)
December 31, 2019	₱25,085	(₱28,077)	(₱2,992)

Parent Company	Present Value of DBO	Fair Value of Plan Assets	Net retirement liability/(asset)
January 1, 2019	₱15,195	(₱18,801)	(₱3,606)
Net benefit cost			
Current service cost	1,169	—	1,169
Net interest	1,039	(1,369)	(330)
Sub-total	2,208	(1,369)	839
Benefits paid	(1,291)	1,291	—
Remeasurement in OCI			
Return on plan assets (excluding amount included in net interest)	—	(1,507)	(1,507)
Actuarial changes arising from experience adjustments	647	—	647
Actuarial changes arising from changes in financial/demographic assumptions	2,612	—	2,612
Sub-total	3,259	(1,507)	1,752
Contributions paid	—	(2,915)	(2,915)
December 31, 2019	₱19,371	(₱23,301)	(₱3,930)

Changes in net defined benefit liability (asset) in 2018 are as follows:

Consolidated	Present Value of DBO	Fair Value of Plan Assets	Net retirement liability/(asset)
January 1, 2018	₱20,281	(₱16,674)	₱3,607
Net benefit cost			
Current service cost	1,641	—	1,641
Past service cost	55	—	55
Net interest	1,048	(923)	125
Sub-total	2,744	(923)	1,821
Benefits paid	(1,498)	1,498	—
Remeasurement in OCI			
Return on plan assets (excluding amount included in net interest)	—	1,559	1,559
Actuarial changes arising from experience adjustments	(70)	—	(70)
Actuarial changes arising from changes in financial/demographic assumptions	(2,203)	—	(2,203)
Sub-total	(2,273)	1,559	(714)
Contributions paid	—	(8,091)	(8,091)
December 31, 2018	₱19,254	(₱22,631)	(₱3,377)



Parent Company	Present Value of DBO	Fair Value of Plan Assets	Net retirement liability/(asset)
January 1, 2018	₱16,279	(₱13,461)	₱2,818
Net benefit cost			
Current service cost	1,225	—	1,225
Net interest	830	(735)	95
Sub-total	2,055	(735)	1,320
Benefits paid	(1,273)	1,273	—
Remeasurement in OCI			
Return on plan assets (excluding amount included in net interest)	—	1,414	1,414
Actuarial changes arising from experience adjustments	(97)	—	(97)
Actuarial changes arising from changes in financial/demographic assumptions	(1,769)	—	(1,769)
Sub-total	(1,866)	1,414	(452)
Contributions paid	—	(7,292)	(7,292)
December 31, 2018	₱15,195	(₱18,801)	(₱3,606)

In 2019, 2018 and 2017, deferred tax on remeasurements on retirement plans credited (charged) to OCI amounted to (₱873.1 million), (₱214.2 million), and ₱11.1 million, respectively, for the Group, and (₱525.6 million), (₱135.6 million) and (₱7.6 million), respectively, for the Parent Company (Note 28).

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the balance of defined benefit obligation as of December 31, 2019 and 2018, assuming all other assumptions were held constant:

	Parent Company	MCC	FMIC	PSBank	ORIX Metro
As of December 31, 2019					
Discount rate					
+100 basis points (bps)	₱18,192	₱1,309	₱311	₱3,033	₱527
- 100 bps	20,703	1,593	358	3,697	675
Salary increase rate					
+100 bps	20,593	1,562	359	3,706	672
- 100 bps	18,259	1,328	310	3,020	527
Turnover rate					
+300 bps	18,824	—	—	—	—
+ 20 bps	—	1,402	322	3,280	—
- 300 bps	20,068	—	—	—	—
- 20 bps	—	1,484	346	3,407	—
As of December 31, 2018					
Discount rate					
+100 basis points (bps)	₱14,368	₱890	₱231	₱2,240	₱295
- 100 bps	16,117	1,069	259	2,699	367
Salary increase rate					
+100 bps	16,082	1,052	261	2,717	364
- 100 bps	14,380	901	229	2,220	297
Turnover rate					
+300 bps	14,930	—	—	—	—
+100 bps	—	—	—	2,448	—
+ 25 bps	—	952	239	—	—
- 300 bps	15,494	—	—	—	—
- 100 bps	—	—	—	2,457	—
- 25 bps	—	998	250	—	—

The Group expects to contribute to the defined benefit retirement plans the required funding for normal cost in 2020 amounting to ₱522.5 million.



The average duration of the DBO of the Group as of December 31, 2019 and 2018 are as follows:

	Parent Company	FMIC	PSBank	MCC	ORIX Metro
2019	12.15 years	10.57 to 14.94 years	15.43 years	14.26 years	11.40 to 12.60 years
2018	12.55 years	10.14 to 15.90 years	16.69 years	14.81 years	9.00 to 11.50 years

Shown below is the maturity analysis of the undiscounted benefit payments:

	Parent Company	FMIC	PSBank	MCC	ORIX Metro
As of December 31, 2019					
Less than 1 year	₱2,165	₱28	₱184	₱58	₱—
More than 1 year to 5 years	9,782	156	968	353	157
More than 5 years to 10 years	11,066	316	1,984	1,025	344
More than 10 years to 15 years	8,517	217	2,385	1,432	—
More than 15 years to 20 years	10,755	189	3,515	1,934	—
More than 20 years	11,762	199	3,999	1,123	—
As of December 31, 2018					
Less than 1 year	₱1,877	₱28	₱130	₱33	₱4
More than 1 year to 5 years	8,425	123	788	274	120
More than 5 years to 10 years	11,363	292	1,699	867	265
More than 10 years to 15 years	7,631	161	2,396	1,204	—
More than 15 years to 20 years	9,664	134	3,547	1,918	—
More than 20 years	11,954	125	5,280	1,124	—

In addition, the Parent Company has a Provident Plan which is a supplementary contributory retirement plan to and forms part of the main plan, the Retirement Plan, for the exclusive benefit of eligible employees of the Parent Company in the Philippines. Based on the provisions of the plan, upon retirement or resignation, a member shall be entitled to receive as retirement or resignation benefits 100.00% of the accumulated value of the personal contribution plus a percentage of the accumulated value arising from the Parent Company's contributions in accordance with the completed number of years serviced. The Parent Company's contribution to the Provident Fund in 2019 and 2018 amounted to ₱265.3 million and ₱273.1 million, respectively.

As of December 31, 2019 and 2018, the retirement funds of the Group's employees amounting to ₱28.1 billion and ₱22.6 billion, respectively, are being managed by its trust banking units. The Parent Company has a Trust Committee that is mandated to approve, the plan, trust agreement, investment plan, including any amendments or modifications thereto, and other activities of the retirement plan. Certain members of the BOD of the Parent Company are represented in the Trust Committee. Directors' fees and bonuses of the Parent Company in 2019, 2018 and 2017 amounted to ₱66.1 million, ₱57.8 million and ₱65.7 million, respectively, while, officers' compensation and benefits of the Parent Company aggregated to ₱8.5 billion, ₱7.8 billion and ₱7.3 billion, respectively.

28. Income and Other Taxes

Under Philippine tax laws, the RBU of the Parent Company and its domestic subsidiaries are subject to percentage and other taxes (presented as 'Taxes and licenses' in the statement of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax (GRT) and documentary stamp tax (DST). Income taxes include 30.00% regular corporate income tax (RCIT) and 20.00% final taxes paid, which is a final withholding tax on gross interest income from government securities and other deposit substitutes. Interest allowed as a deductible expense is reduced by an amount equivalent to 33.00% of interest income subjected to final tax.



Current tax regulations also provide for the ceiling on the amount of EAR expense (Note 25) that can be claimed as a deduction against taxable income. Under the regulation, EAR expense allowed as a deductible expense for a service company like the Parent Company and some of its subsidiaries is limited to the actual EAR paid or incurred but not to exceed 1.00% of net revenue. The regulations also provide for MCIT of 2.00% on modified gross income and allow a NOLCO. The MCIT and NOLCO may be applied against the Group's income tax liability and taxable income, respectively, over a three-year period from the year of inception.

FCDU offshore income (income from non-residents) is tax-exempt while gross onshore income (income from residents) is subject to 10.00% income tax. In addition, interest income on deposit placements with other FCDUs and offshore banking units (OBUs) is taxed at 15.00%. Income derived by the FCDU from foreign currency-denominated transactions with non-residents, OBUs, local commercial banks including branches of foreign banks is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10.00% income tax.

Following are the applicable taxes and tax rates for the foreign branches of the Parent Company:

Foreign Branches	Tax Rates
USA - New York Branch	2019 - 21.00% federal income tax; 8.85% state tax; 6.50% city tax
Japan - Tokyo and Osaka Branches	2018 - 21.00% federal income tax; 7.10% state tax; 6.50% city tax 23.40% income tax; various rates for business taxes - income tax, local business, sheet value and sheet capital allocations
Korea - Seoul and Pusan Branches	Various rates; 0.50% education tax
Taiwan - Taipei Branch	20.00% income tax; 5.00% gross business receipts tax; 5.0% value-added tax

The provision for income tax consists of:

	Consolidated			Parent Company		
	2019	2018	2017	2019	2018	2017
Current:						
Final tax	₱3,442	₱2,928	₱2,875	₱2,915	₱2,389	₱2,286
RCIT*	6,631	5,010	5,374	3,772	2,090	2,318
	10,073	7,938	8,249	6,687	4,479	4,604
Deferred*	(12)	(193)	(259)	(78)	5	(89)
	₱10,061	₱7,745	₱7,990	₱6,609	₱4,484	₱4,515

* Includes income taxes of foreign subsidiaries.

Components of net deferred tax assets of the Group and the Parent Company follow:

	Consolidated		Parent Company	
	2019	2018	2019	2018
Deferred tax asset on:				
Allowance for credit and impairment losses	₱7,692	₱7,650	₱4,785	₱4,774
Unamortized past service cost	2,744	2,629	2,437	2,382
Retirement asset/liability	1,255	861	996	791
Deferred membership/awards	334	340	—	—
Accumulated depreciation of investment properties	272	284	160	169
Unrealized foreign exchange and mark-to-market losses	7	—	—	—
Fair value loss on securities	—	299	—	390
Others	189	461	47	98
	12,493	12,524	8,425	8,604
Deferred tax liability on:				
Unrealized foreign exchange and mark-to-market losses	1,386	1,522	1,384	1,677
Unrealized gain on initial measurement of investment properties	433	546	58	158
Fair value gain on securities	70	50	65	—
Retirement asset/liability	17	14	—	—
Others	75	154	—	—
	1,981	2,286	1,507	1,835
Net deferred tax assets	₱10,512	₱10,238	₱6,918	₱6,769



Components of net deferred tax liabilities of the Group follow:

	2019	2018
Deferred tax asset on:		
Allowance for credit and impairment losses	₱287	₱231
Unamortized past service cost	4	3
Others	256	49
	547	283
Deferred tax liability on:		
Leasing income differential on lease accounting methods	581	559
Fair value gain on securities	4	5
Retirement asset/liability	–	2
Others	70	74
	655	640
Net deferred tax liabilities	₱108	₱357

In 2019 and 2018, deferred tax credited to OCI amounted to ₱511.0 million and ₱225.7 million for the Group, respectively, and ₱70.9 million and ₱259.7 million for the Parent Company, respectively.

As of December 31, 2019 and 2018, no deferred tax asset was recognized on the following temporary differences: (a) allowance for credit and impairment losses amounting to ₱16.8 million and ₱341.9 million, respectively, for the Group; (b) NOLCO of ₱813.8 million and ₱816.5 million, respectively, for the Group, (c) MCIT of ₱19.7 million and ₱8.5 million, respectively, for the Group, and ₱5.4 million in 2019 for the Parent Company. The Group believes that it is not reasonably probable that the tax benefits of these temporary differences will be realized in the future.

There are no income tax consequences attaching to the payment of dividends by the Group to the shareholders of the Group. There are no temporary differences arising from undistributed profits of subsidiaries, branches, associates and a JV.

Details of the excess MCIT credits follow:

	Consolidated				Parent Company			
	Amount	Used/Expired	Balance	Expiry Year	Amount	Used/Expired	Balance	Expiry Year
2018	₱9	₱–	₱9	2021	₱–	₱–	₱–	2021
2019	11	–	11	2022	5	–	5	2022
	₱20	₱–	₱20		₱5	₱–	₱5	

Details of the consolidated NOLCO follow:

Inception Year	Amount	Used/Expired	Balance	Expiry Year
2016	₱258	₱258	₱–	2019
2017	266	–	266	2020
2018	281	–	281	2021
2019	267	–	267	2022
	₱1,072	₱258	₱814	



A reconciliation of the statutory income tax rates and the effective income tax rates follows:

	Consolidated			Parent Company		
	2019	2018	2017	2019	2018	2017
Statutory income tax rate	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%
Tax effect of:						
Tax-paid, tax-exempt and other non-taxable income	(10.41)	(12.13)	(14.52)	(8.16)	(12.02)	(14.23)
Non-deductible interest expense	4.14	4.94	3.33	3.82	4.08	3.04
FCDU income	(1.51)	(1.89)	(2.29)	(1.43)	(1.94)	(2.52)
Others - net	3.62	3.92	10.79	(5.16)	(3.19)	3.57
Effective income tax rate	25.84%	24.84%	27.31%	19.07%	16.93%	19.86%

29. Trust Operations

Properties held by the Parent Company and PSBank in fiduciary or agency capacity for their customers are not included in the accompanying statements of financial position since these are not their resources (Note 30).

In compliance with current banking regulations relative to the Parent Company and PSBank's trust functions, the following are government securities deposited with the BSP.

	Consolidated		Parent Company	
	2019	2018	2019	2018
Investment securities at amortized cost	₱5,000	₱5,000	₱5,000	₱5,000
Investment securities at FVOCI	143	84	—	—
	₱5,143	₱5,084	₱5,000	₱5,000

30. Commitments and Contingent Liabilities

In the normal course of the Group's operations, there are various outstanding commitments and contingent liabilities which are not reflected in the accompanying financial statements. No material losses are anticipated as a result of these transactions.

BSP Reporting

The following is a summary of contingencies and commitments at their peso-equivalent contractual amounts arising from off-balance sheet items:

	Consolidated		Parent Company	
	2019	2018	2019	2018
Trust Banking Group accounts (Note 29)	₱491,659	₱429,162	₱484,586	₱422,761
Credit card lines	209,766	188,211	—	—
Unused commercial letters of credit (Note 31)	44,036	43,051	41,342	42,123
Undrawn commitments - facilities to lend	21,980	6,890	21,980	6,890
Bank guaranty with indemnity agreement (Note 31)	9,904	11,708	9,904	11,708
Credit line certificate with bank commission	5,984	5,509	5,984	5,492
Outstanding shipside bonds/airway bills	1,931	6,350	1,931	6,350
Late deposits/payments received	1,539	1,376	1,530	1,366
Inward bills for collection	991	1,141	991	1,141
Confirmed export letters of credits	935	235	44	83
Outward bills for collection	850	747	849	746
Outstanding guarantees	139	209	139	209
Others	12,933	9,080	835	612
	₱802,647	₱703,669	₱570,115	₱499,481



Upon its own discovery, the Bank immediately caused the arrest of its Corporate Service Management Division Head, Ma. Victoria S. Lopez on July 17, 2017 for qualified theft through falsification of commercial documents. Both the Motion to Fix Bail and Motion for Reconsideration were denied. On July 24, 2017, another criminal complaint for qualified theft through falsification of commercial documents and violation of Section 55 of the General Banking Law (GBL) was filed against her and her cohorts for the abstraction of ₱900.0 million before the Regional Trial Court (RTC) of Makati City. On December 5, 2017, a third criminal case for the qualified theft through falsification of commercial documents and violation of Section 55 of GBL was filed against her, her cohorts and family members relative to the abstraction of ₱850.0 million. In addition, foreign proceedings are ongoing on the cases which were filed in the United States of America and in Singapore to preserve and recover their identified properties. Accounts receivable classified under 'Loans and Receivables' includes total identified claims of ₱1.75 billion with provisioning. Relative to this incident, the Monetary Board (MB) approved the imposition of certain sanctions to the Bank (Note 4) and added that the MB took into consideration the strong financial condition and immediate corrective actions of the Bank as well as its safety and soundness given the medium to long-term initiatives that improve governance, controls and compliance. The Bank does not expect this isolated incident to have long term material impact on its financial statements. Further, the Bank is reinforcing its commitment to the highest standards of integrity and upholds the protection of its customers as its main priority.

In June 2019, Ms. Lopez was found guilty of qualified theft and was sentenced accordingly. Two more convictions followed in September 2019 and October 2019. Ms. Lopez is serving her prison sentence at the Correctional Institute for Women as her convictions are already final and unappealable. Two counts of qualified theft are still pending with the RTC. In the civil case, the RTC issued judgment ordering Ms. Lopez to restitute the Bank.

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

31. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions or if they are subjected to common control or common significant influence such as subsidiaries and associates of subsidiaries or other related parties. Related parties may be individuals or corporate entities and are classified as entities with significant influence, subsidiaries, associates, other related parties and key personnel (Notes 2 and 11).

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

The Parent Company has a Related Party Transactions Committee (RPTC) and a Related Party Transactions Management Committee (RPTMC), both of which are created to assist the BOD in ensuring that transactions with related parties are reviewed to assess risks and are subjected to appropriate restrictions to ensure that these are conducted at arm's-length terms and that corporate or business resources of the Parent Company are not misappropriated or misapplied. After appropriate review, RPTMC (through RPTC) and RPTC disclose all information and endorses to the BOD with



recommendations, the proposed related party transactions. The members of the RPTC are appointed annually by the BOD, composed of at least three (3) Board non-executive members, two (2) of whom should be independent directors, including the Chairman. Currently, RPTC is composed of three (3) independent directors (including the Committee's Chairman); the head of Internal Audit Group (as Resource Person); and the Compliance Officer (as the Committee Secretary) and meets bi-monthly or as the need arises. On the other hand, RPTMC members are appointed annually by the President, composed of four (4) members. RPTC's and RPTMC's review of the proposed related party transactions considers the following: (a) identity and relationship of the parties involved in the transaction; (b) terms of the transaction 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; (d) approximate monetary value of the transaction and the approximate monetary value of the related party's interest in the transaction; (e) valuation methodology used and alternative approaches to valuation of the transaction; (f) information concerning potential counterparties in the transaction; (g) description of provisions or limitations imposed as a result of entering into the transaction; (h) whether the proposed transaction includes any potential reputational risk issues that may arise as a result of or in connection with the transaction; (i) impact to a director's independence; (j) extent that such transaction or relationship would present an improper conflict of interest; and (k) the availability of other sources of comparable products or services. Further, no director or officer participates in any discussion of a related party transaction for which he, she, or any member of his or her immediate family is a related party, including transactions of subordinates except in order to provide material information on the related party transaction to RPTC.

Major subsidiaries, which include FMIC, PSBank, MCC and MBCL, have their own respective RPTCs which assist their respective BODs in ensuring that transactions with related parties are reviewed to assess risks and are subjected to appropriate restrictions to ensure that these are conducted at arm's-length terms and that their corporate or business resources are not misappropriated or misapplied.

In the ordinary course of business, the Group has loan transactions with investees and with certain directors, officers, stockholders and related interests (DOSRI) based on BSP Circular No. 423 dated March 15, 2004, as amended. Existing banking regulations limit the amount of individual loans to DOSRI, 70.00% of which must be secured, to the total of their respective deposits and book value of their respective investments in the lending company within the Group. In the aggregate, loans to DOSRI generally should not exceed the respective total equity or 15.00% of the respective total loan portfolio, whichever is lower, of the Parent Company, MCC, PSBank, FMIC, and ORIX Metro.

The following table shows information on related party loans as reported to the BSP:

	Consolidated			
	2019		2018	
	DOSRI Loans	Related Party Loans	DOSRI Loans	Related Party Loans
Total outstanding loans	₱13,837	₱69,244	₱8,218	₱59,772
Percent of DOSRI/ Related Party Loans to total loan portfolio	0.89%	4.46%	0.57%	4.15%
Percent of unsecured DOSRI/Related Party Loans to total DOSRI/Related Party Loans	22.10%	83.93%	31.51%	84.27%
Percent of past due DOSRI/Related Party Loans to total DOSRI/Related Party Loans	0.00%	0.00%	0.00%	0.04%
Percent of non-performing DOSRI/Related Party Loans to total DOSRI/Related Party Loans	0.00%	0.00%	0.00%	0.02%



	Parent Company			
	2019		2018	
	DOSRI Loans	Related Party Loans	DOSRI Loans	Related Party Loans
Total outstanding loans	₱13,571	₱67,944	₱7,869	₱59,772
Percent of DOSRI/ Related Party Loans to total loan portfolio	1.11%	5.54%	0.69%	5.26%
Percent of unsecured DOSRI/Related Party Loans to total DOSRI/Related Party Loans	20.73%	83.62%	28.69%	84.27%
Percent of past due DOSRI/Related Party Loans to total DOSRI/Related Party Loans	0.00%	0.00%	0.00%	0.04%
Percent of non-performing DOSRI/Related Party Loans to total DOSRI/Related Party Loans	0.00%	0.00%	0.00%	0.02%

BSP Circular Nos. 560 and 654 provide the rules and regulations that govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks which require that the total outstanding loans, other credit accommodations and guarantees to each of the bank's/quasi-bank's subsidiaries and affiliates shall not exceed 10.00% while a separate individual limit of 25.00% for those engaged in energy and power generation, of the net worth of the lending bank/quasi-bank, provided that the unsecured portion of which shall not exceed 5.00% or 12.50%, respectively, of such net worth. Further, the total outstanding loans, credit accommodations and guarantees to all subsidiaries and affiliates shall not exceed 20.00% of the net worth of the lending bank/quasi-bank; and the subsidiaries and affiliates of the lending bank/quasi-bank are not related interest of any director, officer and/or stockholder of the lending institution, except where such director, officer or stockholder sits in the BOD or is appointed officer of such corporation as representative of the bank/quasi-bank as reported to the BSP. As of December 31, 2019 and 2018, the total outstanding loans, other credit accommodations and guarantees to each of the Parent Company's subsidiaries and affiliates did not exceed 10.00% of the Parent Company's net worth, as reported to the BSP, and the unsecured portion did not exceed 5.00% of such net worth wherein the total outstanding loans, other credit accommodations and guarantees to all such subsidiaries and affiliates represent 16.59% and 17.61%, respectively, of the Parent Company's net worth. The Parent Company has no outstanding loans, other credit accommodations and guarantees to subsidiaries and affiliates engaged in energy and power generation.

Total interest income on DOSRI loans in 2019, 2018 and 2017 amounted to ₱485.8 million, ₱276.5 million and ₱52.3 million, respectively, for the Group and ₱468.7 million, ₱262.8 million and ₱37.2 million, respectively, for the Parent Company.

Details on significant related party transactions of the Group and the Parent Company follow (transactions with subsidiaries have been eliminated in the consolidated financial statements):

Category	Consolidated	
	Amount	Terms and Conditions/Nature
2019		
Entity with Significant Influence Over the Group		
<u>Outstanding Balance:</u>		
Deposit liabilities*	₱2,371	With annual fixed interest rates ranging from 0.00% to 3.00% including time deposits with maturity terms from 10 to 30 days (Note 16)
Bills payable*	212	Peso borrowings subject to annual fixed interest rates ranging from 3.63% to 4.00% with maturity term of 60 days (Note 17)
<u>Amount/Volume:</u>		
Deposit liabilities	1,891	Generally similar to terms and conditions above
Bills payable	8	Generally similar to terms and conditions above
Service charges, fees and commissions	129	Financial advisory fees

(Forward)



Category	Consolidated	
	Amount	Terms and Conditions/Nature
Interest expense	₱16	Interest expense on deposit liabilities and bills payable (Notes 16 and 17)
Subsidiaries		
<u>Outstanding Balance:</u>		
Interbank loans receivable*	6,878	Foreign currency-denominated lending which earn annual fixed interest rates ranging from 0.00% to 4.00% with maturity terms from 7 to 366 days (Note 7)
Investment securities at FVTPL	125	Treasury notes and private bonds purchased from FMIC (Note 8)
Amortized cost	2,368	Treasury note purchased from FMIC (Note 8)
Receivables from customers*	16,079	Secured - ₱14.1 million and unsecured - ₱16.0 billion, with ECL of ₱1.7 million; with annual fixed interest rates ranging from 2.94% to 4.25% and maturity terms from 6 days to 3 years (Note 9)
Accounts receivable	194	Non-interest bearing receivables on service fees, underwriting fees, remittance, rental fees and common use service area fees (Note 9)
Derivative assets	726	Cross-currency swaps with various terms (Note 8)
Deposit liabilities*	4,229	With annual fixed interest rates ranging from 0.00% to 3.00% including time deposits with maturity terms from 6 to 126 days (Note 16)
Bills payable*	139	Peso borrowings subject to annual fixed interest rates ranging from 3.00% to 5.88% with maturity terms from 90 to 365 days (Note 17)
Treasury stock	72	Parent Company's shares held by FMIC's mutual fund subsidiary (Note 23)
Dividends declared	1,073	Dividend declared by PSBank and MB Bahamas (Note 11)
<u>Amount/Volume:</u>		
Interbank loans receivable	2,244	Generally similar to terms and conditions above
Receivables from customers	2,394	Generally similar to terms and conditions above
Accounts receivable	(139)	Generally similar to terms and conditions above
Deposit liabilities	954	Generally similar to terms and conditions above
Bills payable	12	Generally similar to terms and conditions above
Bonds payable	(81)	Generally similar to terms and conditions above
Interest income	826	Interest income on receivables from customers and interbank loan receivables (Notes 7 and 9)
Service charges, fees and commissions	102	Income on transactional fees, including underwriting fees
Trading and securities gain - net	300	Net gain from securities transactions (Note 8)
Foreign exchange loss - net	(123)	Net loss from foreign exchange transactions
Leasing income	58	Income from leasing agreements with various lease terms
Miscellaneous income	344	Information technology and other fees
Interest expense	73	Interest expense on deposit liabilities, bills payable and bonds payable (Notes 16, 17 and 19)
Contingent - derivatives	8,473	Cross-currency swaps with various terms
Securities transactions		
Purchases	13,100	Outright purchases of investment securities at FVTPL, FVOCI and at amortized cost
Sales	77,841	Outright sale of investment securities at FVTPL and FVOCI
Foreign currency		
Buy	28,461	Outright purchases of foreign currency
Sell	18,638	Outright sale of foreign currency
Associates		
<u>Outstanding Balance:</u>		
Receivables from customers*	₱1,307	Unsecured with ECL of ₱0.1 million; with annual fixed interest rates ranging from 5.00% to 6.85% and maturity terms from 94 to 360 days (Note 9)
Accounts receivable	1	Non-interest bearing receivable on rental fees (Note 9)
Deposit liabilities*	1,415	With annual fixed interest rates ranging from 0.00% to 3.63% including time deposits with maturity terms from 31 to 35 days (Note 16)

(Forward)



Category	Consolidated	
	Amount	Terms and Conditions/Nature
Dividends declared	₱169	Dividends declared by PALIC, SMFC and TSI
<u>Amount/Volume:</u>		
Receivables from customers	604	Generally similar to terms and conditions above
Accounts receivable	(1)	Generally similar to terms and conditions above
Deposit liabilities	579	Generally similar to terms and conditions above
Interest Income	57	Interest income on receivables from customers (Note 9)
Trading and securities gain - net	5	Net gain from securities transactions (Note 8)
Foreign exchange loss - net	(13)	Net loss from foreign exchange transactions
Leasing income	17	Income from leasing agreements with various lease terms
Interest expense	2	Interest expense on deposit liabilities (Note 16)
Securities transactions		
Outright sales	1,664	Outright sale of investment securities at FVTPL and FVOCI
Foreign currency		
Buy	168	Outright purchases of foreign currency
Sell	374	Outright sale of foreign currency
Other Related Parties		
<u>Outstanding Balance:</u>		
Receivables from customers*	₱32,227	Secured - ₱6.6 billion and unsecured - ₱25.6 billion, with ECL of ₱11.4 million; with annual fixed interest rates ranging from 3.88% to 5.20% and maturity terms from 28 days to 5 years (Note 9)
Accounts receivable	2	Credit card receivables, current and non-revolving (Note 9)
Assets held under joint operations	219	Parcels of land and former branch sites of the Parent Company contributed to joint operations (Note 14)
Deposit liabilities*	13,890	With annual fixed interest rates ranging from 0.00% to 3.50% including time deposits with maturity terms from 1 day to 357 days (Note 16)
<u>Amount/Volume:</u>		
Receivables from customers	2,755	Generally similar to terms and conditions above
Accounts receivable	(1)	Generally similar to terms and conditions above
Deposit liabilities	69	Generally similar to terms and conditions above
Bills payable	(51)	Generally similar to terms and conditions above
Interest income	1,025	Interest income on receivables from customers (Note 9)
Foreign exchange gain - net	2	Net gain from foreign exchange transactions
Leasing income	21	Income from leasing agreements with various lease terms
Interest expense	605	Interest expense on deposit liabilities and bills payable (Notes 16 and 17)
Contingent		
Unused commercial LCs	5	LC transactions with various terms
Securities transactions		
Outright sales	572	Outright sale of investment securities at FVTPL and FVOCI
Foreign currency		
Buy	308	Outright purchases of foreign currency
Sell	1,140	Outright sale of foreign currency
Key Personnel		
<u>Outstanding Balance:</u>		
Receivables from customers	₱85	Secured - ₱62.5 million unsecured - ₱22.1 million, no impairment; with annual fixed interest rates ranging from 0.00% to 10.00% and maturity terms from 1 year to 15 years (Note 9)
Deposit liabilities	167	With various terms and minimum annual interest rate of 0.00% (Note 16)
<u>Amount/Volume:</u>		
Deposit liabilities	1	Generally similar to terms and conditions above
Interest income	3	Interest income on receivables from customers (Note 9)
2018		
Entity with Significant Influence Over the Group		
<u>Outstanding Balance:</u>		
Deposit liabilities*	₱480	With annual fixed interest rates ranging from 0.00% to 4.00% including time deposits with maturity terms from 21 to 30 days (Note 16)
Bills payable*	204	Peso borrowings subject to annual fixed interest rates ranging from 4.25% to 4.38% with maturity term of 45 days (Note 17)

(Forward)



Category	Consolidated	
	Amount	Terms and Conditions/Nature
<u>Amount/Volume:</u>		
Deposit liabilities	P464	Generally similar to terms and conditions above
Bills payable	204	Generally similar to terms and conditions above
Interest expense	40	Interest expense on deposit liabilities and bills payable (Notes 16 and 17)
<u>Subsidiaries</u>		
<u>Outstanding Balance:</u>		
Interbank loans receivable*	P4,634	Foreign currency-denominated lending which earn annual fixed interest rates ranging from 2.61% to 3.54% with maturity terms from 32 to 184 days with minimal ECL (Note 7)
Receivables from customers*	13,685	Unsecured, with ECL of P3.0 million; with annual fixed interest rates ranging from 3.43% to 5.45% and maturity terms from 5 days to 3 years (Note 9)
Accounts receivable	333	Non-interest bearing receivables on service fees, underwriting fees, remittance, rental fees and common use service area fees (Note 9)
Derivative assets	118	Fair value of forward and swaps bought with various terms
Deposit liabilities*	3,275	With annual fixed interest rates ranging from 0.00% to 1.25% including time deposits with maturity terms from 5 to 31 days (Note 16)
Bills payable*	127	Peso borrowings subject to annual fixed interest rates ranging from 4.00% to 6.25% with maturity terms from 30 to 185 days (Note 17)
Bonds payable*	81	Issued by FMIC with interest rate of 5.75% and maturity term of 5 years (Note 19)
Treasury stock	67	Parent Company's shares held by FMIC's mutual fund subsidiary (Note 23)
Dividends declared	2,255	Dividend declared by PSBank, MCC and Metrobank Bahamas
<u>Amount/Volume:</u>		
Interbank loans receivable	1,195	Generally similar to terms and conditions above
Receivables from customers	13,450	Generally similar to terms and conditions above
Accounts receivable	(167)	Generally similar to terms and conditions above
Deposit liabilities	(3,936)	Generally similar to terms and conditions above
Bills payable	(761)	Generally similar to terms and conditions above
Treasury stock	10	Proceeds from disposal of Parent Company's shares held by FMIC's mutual fund subsidiaries
Interest income	406	Interest income on receivables from customers and interbank loan receivables (Note 9)
Service charges, fees and commissions	323	Income on transactional fees, including underwriting fees
Trading and securities loss - net	(6)	Net loss from securities transactions (Note 8)
Foreign exchange gain - net	7	Net gain from foreign exchange transactions
Leasing income	77	Income from leasing agreements with various lease terms
Miscellaneous income	248	Information technology and other fees
Interest expense	29	Interest expense on deposit liabilities, bills payable and bonds payable (Notes 16, 17 and 19)
Miscellaneous expense	45	Other fees (Note 25)
Contingent - derivatives	989	Swap bought with various terms
Securities transactions		
Purchases	7,040	Outright purchases of investment securities at FVTPL and FVOCI
Sales	13,715	Outright sale of investment securities at FVTPL and FVOCI
Foreign currency		
Buy	43,162	Outright purchases of foreign currency
Sell	37,744	Outright sale of foreign currency
<u>Associates</u>		
<u>Outstanding Balance:</u>		
Receivables from customers*	P703	Unsecured with ECL of P0.01 million; with annual fixed interest rates ranging from 4.33% to 6.18% and maturity terms from 346 to 360 days (Note 9)
Accounts receivable	2	Non-interest bearing receivable on rental fees (Note 9)
Investments in associates	180	Liquidating dividends from SMBC Metro (Note 11)
Deposit liabilities*	836	With annual fixed interest rates ranging from 0.00% to 3.38% including time deposits with maturity terms from 31 to 36 days (Note 16)
Dividends declared	10	Dividend declared by NLI
(Forward)		



Category	Consolidated	
	Amount	Terms and Conditions/Nature
<u>Amount/Volume:</u>		
Receivables from customers	₱703	Generally similar to terms and conditions above
Deposit liabilities	(289)	Generally similar to terms and conditions above
Interest Income	19	Interest income on receivables from customers (Note 9)
Foreign exchange loss - net	1	Net loss from foreign exchange transactions
Leasing income	33	Income from leasing agreements with various lease terms
Interest expense	1	Interest expense on deposit liabilities (Note 16)
Securities transactions		
Outright sales	1,561	Outright sale of investment securities at FVTPL and FVOCI
Foreign currency		
Buy	1,924	Outright purchases of foreign currency
Sell	1,054	Outright sale of foreign currency
<u>Other Related Parties</u>		
<u>Outstanding Balance:</u>		
Receivables from customers*	₱29,472	Secured - ₱5.2 billion and unsecured - ₱24.2 billion, with ECL of ₱3.1 million; with annual fixed interest rates ranging from 3.88% to 6.00% and maturity terms from 14 days to 5 years (Note 9)
Accounts receivable	3	Credit card receivables, current and non-revolving (Note 9)
Assets held under joint operations	219	Parcels of land and former branch sites of the Parent Company contributed to joint operations (Note 14)
Deposit liabilities*	13,821	With annual fixed interest rates ranging from 0.00% to 4.00% including time deposits with maturity terms from 6 to 359 days (Note 16)
Bills payable*	51	Peso-denominated borrowings subject to annual fixed interest rates ranging from 2.25% to 4.00% with maturity terms from 90 to 122 days (Note 17)
<u>Amount/Volume:</u>		
Receivables from customers	9,769	Generally similar to terms and conditions above
Accounts receivable	(1)	Generally similar to terms and conditions above
Deposit liabilities	(13,149)	Generally similar to terms and conditions above
Bills payable	(146)	Generally similar to terms and conditions above
Interest income	713	Interest income on receivables from customers (Note 9)
Foreign exchange gain - net	1	Net gain from foreign exchange transactions
Leasing income	22	Income from leasing agreements with various lease terms
Interest expense	678	Interest expense on deposit liabilities and bills payable (Notes 16 and 17)
Contingent - others	3	Bank guaranty with indemnity agreement (Note 30)
Securities transactions		
Outright sales	219	Outright sale of investment securities at FVTPL and FVOCI investments
Foreign currency		
Buy	422	Outright purchases of foreign currency
Sell	967	Outright sale of foreign currency
<u>Key Personnel</u>		
<u>Outstanding Balance:</u>		
Receivables from customers	₱85	Secured - ₱59.5 million unsecured - ₱25.1 million, no impairment; with annual fixed interest rates ranging from 0.00% to 10.00% and maturity terms from 1 year to 15 years (Note 9)
Deposit liabilities	166	With various terms and with annual interest rates ranging from 0.00% to 6.00%; with interest of ₱0.7 million (Note 16)
<u>Amount/Volume:</u>		
Receivables from customers	9	Generally similar to terms and conditions above
Deposit liabilities	2	Generally similar to terms and conditions above
Interest income	4	Interest income on receivables from customers (Note 9)

*including accrued interest



Category	Parent Company	
	Amount	Terms and Conditions/Nature
2019		
Entities with Significant Influence		
<u>Outstanding Balance:</u>		
Deposit liabilities*	₱2,371	With annual fixed interest rate ranging from 0.00% to 3.00% (including time deposits) and maturity terms of 10 to 30 days (Note 16)
<u>Amount/Volume:</u>		
Deposit liabilities	1,891	Generally similar to terms and conditions above
Interest expense	6	Interest expense on deposit liabilities (Note 16)
Subsidiaries		
<u>Outstanding Balance:</u>		
Interbank loans receivable*	₱5,678	Foreign currency-denominated lending which earn annual fixed interest rates ranging from 0.00% to 3.17% and maturity terms of 7 to 366 days with minimal ECL (Note 7)
Investment Securities at		
FVTPL	125	Treasury notes and private bonds purchased from FMIC (Note 8)
Amortized Cost	2,368	Treasury notes purchased from FMIC (Note 8)
Receivables from customers*	16,079	Secured - ₱14.1 million and unsecured – ₱16.0 billion, with ECL of ₱1.7 million; with annual fixed interest rates ranging from 2.94% to 4.25% and maturity terms of 6 days to 3 years (Note 9)
Accounts receivable	136	Non-interest bearing receivables on service fees, underwriting fees, remittance, rental fees and common use service area fees (Note 9)
Derivative assets	726	Cross-currency swaps with various terms (Note 8)
Deposit liabilities*	4,229	With annual fixed interest rates ranging from 0.00% to 3.00% (including time deposits) and maturity terms of 6 days to 126 days (Note 16)
Treasury stocks	72	Parent Company's shares held by FMIC's mutual fund subsidiary (Note 23)
Dividend declared	1,073	Dividend declared by PSBank and MB Bahamas (Note 11)
<u>Amount/Volume:</u>		
Interbank loans receivable	1,044	Generally similar to terms and conditions above
Receivables from customers	2,394	Generally similar to terms and conditions above
Accounts receivable	(138)	Generally similar to terms and conditions above
Deposit liabilities	1,136	Generally similar to terms and conditions above
Interest income	767	Interest income on receivables from customers and interbank loans receivables (Note 9)
Service charges, fees and commissions	38	Income from transactional fees
Trading and securities gain - net	167	Net gain from securities transactions (Note 8)
Foreign exchange loss - net	(123)	Net loss from foreign exchange transactions
Leasing income	31	Income from leasing agreements with various lease terms
Miscellaneous income	305	Information technology and other fees (Note 25)
Interest expense	53	Interest expense on deposit liabilities, bills payable and interbank loans payable (Notes 16 and 17)
Contingent - derivatives	8,473	Cross-currency swaps with various terms
Securities transactions		
Purchases	13,100	Outright purchases of investment securities at FVTPL, FVOCI and at amortized cost
Sales	77,541	Outright sale of investment securities at FVTPL and FVOCI
Foreign currency		
Buy	28,461	Outright purchases of foreign currency
Sell	18,638	Outright sale of foreign currency
Associates		
<u>Outstanding Balance:</u>		
Receivables from customers*	₱1,307	Unsecured with ECL; with annual fixed rates ranging from 5.00% to 6.85% and maturity terms of 94 to 360 days (Note 9)
Deposit liabilities*	1,391	With annual fixed interest rates ranging from 0.00% to 3.63% (including time deposits) and maturity terms of 31 to 35 days (Note 16)
<u>Amount/Volume:</u>		
Receivables from customers	604	Generally similar to terms and conditions above
Deposit liabilities	570	Generally similar to terms and conditions above
Interest Income	57	Interest income on receivables from customers (Note 9)
Foreign exchange loss - net	(13)	Net loss from foreign exchange transactions
Leasing income	3	Income from leasing agreements with various lease terms
Interest expense	2	Interest expense on deposit liabilities (Note 16)

(Forward)



Category	Parent Company	
	Amount	Terms and Conditions/Nature
Outright sale of securities	₱268	Outright sale of investment securities at FVTPL and FVOCI
Foreign currency		
Buy	168	Outright purchases of foreign currency
Sell	374	Outright sale of foreign currency
Other Related Parties		
<u>Outstanding Balance:</u>		
Receivables from customers*	₱32,227	Secured - ₱6.6 billion and unsecured - ₱25.6 billion, with ECL of ₱11.4 million; with annual fixed interest rates ranging from 3.88% to 5.20% and maturity terms of 28 days to 5 years (Note 9)
Assets held under joint operations	219	Parcels of land and former branch sites of the Parent Company contributed to joint operations (Note 14)
Deposit liabilities*	13,377	With annual fixed interest rates ranging from 0.00% to 3.50% (including time deposits) and maturity terms of 6 to 357 days (Note 16)
<u>Amount/Volume:</u>		
Receivables from customers	2,755	Generally similar to terms and conditions above
Deposit liabilities	194	Generally similar to terms and conditions above
Interest income	1,025	Interest income on receivables from customers
Foreign exchange gain - net	2	Net gain from foreign exchange transactions
Leasing income	21	Income from leasing agreements with various lease terms
Interest expense	591	Interest expense on deposit liabilities (Note 16)
Contingent		
Unused commercial LCs	5	LC transactions with various terms
Securities transactions		
Sales	200	Outright sale of investment securities at FVTPL and FVOCI
Foreign currency		
Buy	308	Outright purchases of foreign currency
Sell	1,140	Outright sale of foreign currency
Key Personnel		
<u>Outstanding Balance:</u>		
Receivables from customers	₱70	Secured - ₱58.8 million and unsecured - ₱10.8 million, no impairment; with annual fixed interest rates ranging from 0.00% to 10.00% and maturity terms of 5 to 15 years (Note 9)
Deposit liabilities	167	With various terms and with annual interest rates of 0.00% (Note 16)
<u>Amount/Volume:</u>		
Receivables from customers	2	Generally similar to terms and conditions above
Deposit liabilities	1	Generally similar to terms and conditions above
Interest income	2	Interest income on receivables from customers (Note 9)
2018		
Entities with Significant Influence		
<u>Outstanding Balance:</u>		
Deposit liabilities*	₱480	With annual fixed interest rate ranging from 0.00% to 4.00% including time deposits with maturity terms of 21 to 30 days (Note 16)
<u>Amount/Volume:</u>		
Deposit liabilities	464	Generally similar to terms and conditions above
Interest expense	36	Interest expense on deposit liabilities (Note 16)
Subsidiaries		
<u>Outstanding Balance:</u>		
Interbank loans receivable*	₱4,634	Foreign currency-denominated lending which earn annual fixed interest rates ranging from 2.61% to 3.54% with maturity terms of 32 to 184 days with minimal ECL (Note 7)
Receivables from customers*	13,685	Unsecured, with ECL of ₱3.0 million; with annual fixed interest rates ranging from 3.43% to 5.45% and maturity terms of 5 days to 3 years (Note 9)
Accounts receivable	274	Non-interest bearing receivables on service fees, underwriting fees, remittance, rental fees and common use service area fees (Note 9)
Derivative assets	118	Fair value of forward and swaps bought with various terms (Note 8)
Deposit liabilities*	3,093	With annual fixed interest rates ranging from 0.00% to 0.50% including time deposits with maturity terms of 3 days to 357 days (Note 16)

(Forward)



Category	Parent Company	
	Amount	Terms and Conditions/Nature
Treasury stock	₱67	Parent Company's shares held by FMIC's mutual fund subsidiary (Note 23)
Dividend declared	2,255	Dividend declared by PSBank, MCC and MB Bahamas (Note 11)
<u>Amount/Volume:</u>		
Interbank loans receivable	2,496	Generally similar to terms and conditions above
Receivables from customers	13,450	Generally similar to terms and conditions above
Accounts receivable	(171)	Generally similar to terms and conditions above
Deposit liabilities	(2,661)	Generally similar to terms and conditions above
Treasury stock	10	Proceeds from disposal of Parent Company's shares held by FMIC's mutual fund subsidiaries
Interest income	365	Interest income on receivables from customers and interbank loans receivables
Service charges, fees and commissions	35	Income from transactional fees
Trading and securities loss - net	(17)	Net loss from securities transactions
Foreign exchange gain - net	7	Net gain from foreign exchange transactions
Leasing income	36	Income from leasing agreements with various lease terms
Miscellaneous income	212	Information technology and other fees (Note 25)
Interest expense	16	Interest expense on deposit liabilities and bills payable (Notes 16 and 17)
Miscellaneous expense	45	Other fees (Note 25)
Contingent - derivatives	989	Swap bought with various terms
Securities transactions		
Purchases	6,907	Outright purchases of investment securities at FVTPL and FVOCI
Sales	13,566	Outright sale of investment securities at FVTPL and FVOCI
Foreign currency		
Buy	43,162	Outright purchases of foreign currency
Sell	37,744	Outright sale of foreign currency
Associates		
<u>Outstanding Balance:</u>		
Receivables from customers*	₱703	Unsecured with ECL of ₱0.01 million; with annual fixed rates ranging from 4.33% to 6.18% and maturity terms of 346 to 360 days (Note 9)
Investment in associates	180	Liquidating dividends from SMBC Metro (Note 11)
Deposit liabilities*	821	With annual fixed interest rates ranging from 0.00% to 3.38% (including time deposits) and maturity terms of 31 to 36 days (Note 16)
Dividends declared	10	Dividend declared by NLI (Note 11)
<u>Amount/Volume:</u>		
Receivables from customers	703	Generally similar to terms and conditions above
Deposit liabilities	(290)	Generally similar to terms and conditions above
Interest Income	19	Interest income on receivables from customers (Note 9)
Foreign exchange gain - net	1	Net gain from foreign exchange transactions
Leasing income	8	Income from leasing agreements with various lease terms
Interest expense	1	Interest expense on deposit liabilities (Note 16)
Outright sale of securities	340	Outright sale of investment securities at FVTPL and FVOCI
Foreign currency		
Buy	1,924	Outright purchases of foreign currency
Sell	1,054	Outright sale of foreign currency
Other Related Parties		
<u>Outstanding Balance:</u>		
Receivables from customers*	₱29,472	Secured - ₱5.2 billion and unsecured - ₱24.2 billion, with ECL of ₱3.1 million; with annual fixed interest rates ranging from 3.88% to 6.00% and maturity terms of 14 days to 5 years (Note 9)
Assets held under joint operations	219	Parcels of land and former branch sites of the Parent Company contributed to joint operations (Note 14)
Deposit liabilities*	13,183	With annual fixed interest rates ranging from 0.00% to 4.00% (including time deposits) and maturity terms of 6 to 359 days (Note 16)
<u>Amount/Volume:</u>		
Receivables from customers	9,770	Generally similar to terms and conditions above
Deposit liabilities	(12,237)	Generally similar to terms and conditions above
Interest income	713	Interest income on receivables from customers (Note 9)
Foreign exchange gain - net	1	Net gain from foreign exchange transactions
Leasing income	22	Income from leasing agreements with various lease terms
Interest expense	636	Interest expense on deposit liabilities (Note 16)

(Forward)



Category	Parent Company	
	Amount	Terms and Conditions/Nature
Contingent		
Others	₱3	Bank guaranty with indemnity agreement
Securities transactions		
Sales	70	Outright sale of FVTPL and AFS investments
Foreign currency		
Buy	422	Outright purchases of foreign currency
Sell	967	Outright sale of foreign currency
Key Personnel		
<u>Outstanding Balance:</u>		
Receivables from customers	₱68	Secured - ₱55.9 million and unsecured - ₱11.9 million, no impairment; with annual fixed interest rates ranging from 0.00% to 10.00% and maturity terms of 5 to 15 years (Note 9)
Deposit liabilities	166	With various terms and with annual interest rates ranging from 0.00% to 6.00%; with interest expense of ₱0.7 million (Note 16)
<u>Amount/Volume:</u>		
Receivables from customers	8	Generally similar to terms and conditions above
Deposit liabilities	2	Generally similar to terms and conditions above
Interest income	2	Interest income on receivables from customers (Note 9)

*including accrued interest

As of December 31, 2019 and 2018, government bonds with total face value of ₱60.0 million (classified as 'Investment securities at amortized cost') are pledged by PSBank to the Parent Company to secure the latter's payroll account with PSBank. Also, the Parent Company has assigned to PSBank government securities with total face value of ₱4.0 billion (classified as 'Investment securities at amortized cost') to secure PSBank's deposits to the Parent Company.

As of December 31, 2018, government securities classified as 'Investment securities at amortized cost' amounting to ₱40.9 billion for the Group and the Parent Company are pledged to various funds managed by the Trust Banking Group of the Parent Company to secure borrowings from these funds.

Receivables from customers and deposit liabilities and their related statement of financial position and statement of income accounts resulted from the lending and deposit-taking activities of the Group and the Parent Company. Together with the sale of investment properties, borrowings, contingent accounts including derivative transactions, outright purchases and sales of securities and foreign currency buy and sell, leasing of office premises, securing of insurance coverage on loans and property risk, and other management services rendered, these are conducted in the normal course of business, at arm's-length transactions and are generally settled in cash. The amounts and related volumes and changes are presented in the summary above. Terms of receivables from customers, deposit liabilities and borrowings are also disclosed in Notes 9, 16 and 17, respectively, while other related party transactions above have been referred to their respective note disclosures.

The compensation of the key management personnel of the Group and the Parent Company follows:

	Consolidated			Parent Company		
	2019	2018	2017	2019	2018	2017
Short-term employee benefits	₱3,446	₱3,222	₱2,910	₱2,500	₱2,334	₱2,165
Post-employment benefits	140	197	132	56	80	46
	₱3,586	₱3,419	₱3,042	₱2,556	₱2,414	₱2,211

Transactions with Retirement Plans

Under PFRS, certain post-employment benefit plans are considered as related parties. The Parent Company has business relationships with a number of related party retirement plans pursuant to which it provides trust and management services to these plans. Certain trustees of the plans are either officers or directors of the Parent Company and/or the subsidiaries. Income earned by the Parent Company from such services amounted to ₱98.3 million, ₱69.1 million and ₱65.2 million in



2019, 2018 and 2017, respectively. In 2019 and 2018, the Parent Company sold securities totaling ₱4.5 billion and ₱2.2 billion, respectively, to its related party retirement plans and recognized net trading losses of ₱11.3 million and ₱94 thousand in 2019 and 2018, respectively, and has also purchased securities totaling ₱2.1 billion and ₱266.9 million, respectively. Further, as of December 31, 2019 and 2018, the total outstanding deposit liabilities of the Group to these related party retirement funds amounted to ₱103.6 million and ₱433.6 million, respectively. Interest expense on deposit liabilities amounted to ₱23.7 million, ₱17.7 million and ₱13.8 million in 2019, 2018 and 2017, respectively.

As of December 31, 2019 and 2018, the related party retirement plans also hold investments in the equity shares of various companies within the Group amounting to ₱278.8 million and ₱196.3 million, respectively, with unrealized trading losses of ₱20.1 million and ₱14.3 million, respectively, and investments in mutual funds and trust funds of various companies within the Group amounting to ₱672.4 million and ₱2.0 billion, respectively, with unrealized trading gains of ₱19.5 million and ₱48.7 million, respectively. Further as of December 31, 2019 and 2018, investments in the corporate bonds of the Parent Company by the related party retirement plans amounted to ₱3.7 billion and ₱2.1 billion, respectively, with unrealized trading gain of ₱109.1 million and minimal unrealized trading loss in 2019 and 2018, respectively. In 2019, 2018 and 2017, realized trading gains amounted to ₱92 million, ₱48.6 million and ₱7.8 million, respectively. The related party retirement plans also recognized dividend income amounting to ₱0.7 million in 2019.

32. Financial Performance

The basis of calculation for earnings per share attributable to equity holdings of the Parent Company follows (amounts in millions except for earnings per share):

	2019	2018	2017
a. Net income attributable to equity holders of the Parent Company	₱28,055	₱22,008	₱18,223
b. Weighted average number of outstanding common shares of the Parent Company	4,496	4,267	3,665
c. Basic/diluted earnings per share (a/b)	₱6.24	₱5.16*	₱4.97*

*Restated to show the effect of stock dividends issued in 2019 and stock rights issued in 2018.

The following basic ratios measure the financial performance of the Group and the Parent Company:

	Consolidated			Parent Company		
	2019	2018	2017	2019	2018	2017
Return on average equity ⁽¹⁾	9.47%	9.08%	9.16%	9.16%	8.81%	9.05%
Return on average assets ⁽²⁾	1.20%	1.02%	0.92%	1.42%	1.23%	1.12%
Net interest margin on average earning assets ⁽³⁾	3.84%	3.82%	3.75%	3.09%	2.98%	2.85%

⁽¹⁾ Net income attributable to equity holders of the Parent Company for the year divided by average total equity attributable to the Parent Company.

⁽²⁾ Net income attributable to equity holders of the Parent Company for the year divided by average total assets.

⁽³⁾ Net interest income for the year divided by average interest-earning assets.



33. Foreign Exchange

Closing rates as of December 31 and WAR for each of the year ended December 31 are as follows:

	BAP		PDS
	2019	2018	2017
Closing	₱50.64	₱52.58	₱49.93
WAR	51.79	52.68	50.41

34. Other Matters

The Group has no significant matters to report in 2019 on the following:

- Known trends, events or uncertainties that would have material impact on liquidity and on the sales or revenues.
- Explanatory comments about the seasonality or cyclicalities of operations.
- Issuances, repurchases and repayments of debt and equity securities except for the issuances of ₱17.5 billion, ₱11.25 billion and ₱13.75 billion fixed rate bonds and the redemption of the 2024 Peso Notes by the Parent Company; the issuance of ₱6.3 billion fixed rate bonds and the redemption of the 2024 Peso Notes by PSBank; and the issuance of ₱4.16 billion fixed rate bonds by ORIX Metro as discussed in Notes 19 and 20.
- Unusual items as to nature, size or incidents affecting assets, liabilities, equity, net income or cash flows except for the payments of cash dividends by the Parent Company as discussed in Note 23; and
- Effect of changes in the composition of the Group during the year, including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinuing operations (except as discussed in Notes 2 and 11).

35. Subsequent Events

- The SEC approved the merger of MCC into the Parent Company effective January 3, 2020.
- As discussed in Note 16, on January 10, 2020, the BSP approved the Parent Company's application to issue up to ₱25.0 billion LTNCD over a period of one year from BSP approval.
- On January 16, 2020, the BOD of PSBank declared a 7.50% regular cash dividend for the fourth quarter of 2019 amounting to ₱287.3 million or ₱0.75 per share, payable on February 17, 2020 to all stockholders of record as of January 31, 2020.
- On January 16, 2020, PSBank received the SEC Order fixing the Record Date of the 11.42% stock dividend involving 43,750,000 shares on January 31, 2020. Payment date of February 21, 2020 was set in accordance with the BOD approval and the rules of the PSE.
- On February 4, 2020, PSBank issued ₱4.65 billion fixed rate bonds with an issue price at 100% face value, which bear an interest rate of 4.50% per annum and will mature on February 4, 2023.



- f. On February 19, 2020, the BOD of the Parent Company approved the following:
- Declaration of 5% regular cash dividend payable on March 20, 2020 to all stockholders of record as of March 6, 2020; and
 - Exercise the call option on the Parent Company's ₱6.50 billion 2025 Peso Notes described in Note 20 on August 8, 2020 in accordance with its terms and conditions subject to BSP approval.

36. Approval of the Release of the Financial Statements

The accompanying financial statements of the Group and of the Parent Company were authorized for issue by the BOD on February 19, 2020.

37. Report on the Supplementary Information Required Under Revenue Regulations (RR) No. 15-2010

Supplementary Information Under RR No. 15-2010

On November 25, 2010, the BIR issued RR No. 15-2010 to amend certain provisions of RR No. 21-2002 which provides that starting 2010, the notes to financial statements shall include information on taxes, duties and license fees paid or accrued during the taxable year.

The Parent Company reported the following types of taxes for the year ended December 31, 2019 included under 'Taxes and licenses' account in the statements of income:

GRT	₱3,426
DST	2,400
Local taxes	177
Real estate tax	95
Others	368
	<u>₱6,466</u>

Details of the total withholding taxes remittances for the taxable year December 31, 2019 follow:

Final withholding taxes	₱4,561
Taxes withheld on compensation	2,205
Expanded withholding taxes	231
	<u>₱6,997</u>



ISSUER AND SELLING AGENT
Metropolitan Bank & Trust Company
Metrobank Plaza
Sen. Gil Puyat Avenue
Urdaneta Village
Makati City

ARRANGERS AND SELLING AGENTS
First Metro Investment Corporation
45th Floor, GT Tower International
6813 Ayala Ave. cor. H.V. dela Costa St.
1227 Makati City, Philippines

ING Bank N.V., Manila Branch
22/F Arthaland Century Pacific Tower
5th Avenue Corner 30th Street
Bonifacio Global City
Taguig City Philippines

Standard Chartered Bank, Philippine Branch
8th Floor, Sky Plaza
6788 Ayala Avenue,
Makati City

REGISTRAR AND PAYING AGENT
Philippine Depository & Trust Corporation
37th Floor, Tower 1, The Enterprise Center
6766 Ayala Avenue cor. Paseo de Roxas
Makati City

TRANSACTION COUNSEL
Picazo Buyco Tan Fider & Santos
Liberty Center – Picazo Law
104 H.V. dela Costa Street
Salcedo Village
Makati City

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
Sycip Gorres Velayo & Co.
6760 Ayala Avenue
Makati City

