October 25, 2019

Ms. Janet A. Encarnacion
Head, Disclosure Department
The Philippine Stock Exchange, Inc.
6/F PSE Tower
5th Avenue corner 28th Street
Bonifacio Global City, Taguig City

Dear Ms. Encarnacion:

We hereby submit a copy of our SEC Form 17-Q for the period ended September 30, 2019.

Very truly yours,

Marilou C. Bartolome
Senior Vice President/Controller

cc: Philippine Dealing Exchange Corp.
29th Floor, BDO Equitable Tower
8751 Paseo de Roxas, 1226 Makati City

COVER SHEET

2 0 5 7 3

SEC Registration Number

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES

(Company's Full Name)

Metrobank Plaza, Sen. Gil Puyat Avenue, Urdaneta Village, Makati City, Metro Manila

(Business Address: No. Street City/Town/Province)

Marilou C. Bartolome

(Contact Person)

8898-8805

(Company Telephone Number)

1 2 | 3 1

Month *Day*

(Fiscal Year)

1 7 - Q

(Form Type)

Month *Day*

(Annual Meeting)

NONE

(Secondary License Type, If Applicable)

Corporate Finance Department

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

As of 09.30.19

3,001

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

Remarks: Please use BLACK ink for scanning purposes.

SEC Number 20573
File Number______

METROPOLITAN BANK & TRUST COMPANY
(Company's Full Name)

Metrobank Plaza, Sen. Gil Puyat Avenue, Urdaneta Village, Makati City, Metro Manila
(Company's Address)

8898-8805
(Telephone Number)

December 31
(Fiscal year ending)

17-Q
(Form Type)

(Amendment Designation, if applicable)

September 30, 2019
(Period Ended Date)

None
(Secondary License Type and File Number)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended : **September 30, 2019**

2. Commission Identification Number : **20573**

3. BIR Tax Identification No. : **000-477-863**

4. Exact name of issuer as specified in its charter : **METROPOLITAN BANK & TRUST COMPANY**

5. Province, country or other jurisdiction of incorporation or organization : **Metro Manila, Philippines**

6. Industry Classification Code : (SEC Use Only)

7. Address of issuer's principal office : Metrobank Plaza, Sen. Gil Puyat Avenue, Urdaneta Village, Makati City, Metro Manila

8. Issuer's telephone number, including area code : **(632) 8898-8805**

9. Former name, former address and former fiscal year, if changed since last report: **N/A**

10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Title of Each Class	No. of Shares of Common Stock Outstanding	Amount of Debt Outstanding (Unpaid Subscriptions)
Common Shares	**3,980,015,036 shares**	**None**

11. Are any or all of the securities listed on a Stock Exchange?

Yes [x] No [ ]

Stock Exchange : **Philippine Stock Exchange**
Class of Securities : **Common Shares**

12. Indicate by check mark whether the registrant:

a. Has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder and Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)

Yes [x] No [ ]

b. Has been subject to such filing requirements for the past 90 days.

Yes [x] No [ ]

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Attached are the following:

Interim Condensed Consolidated Statements of Financial Position	-	Annex 1
Interim Condensed Consolidated Statements of Income	-	Annex 2 (page 1 of 2)
Interim Condensed Consolidated Statements of Comprehensive Income	-	Annex 2 (page 2 of 2)
Interim Condensed Consolidated Statements of Changes in Equity	-	Annex 3
Interim Condensed Consolidated Statements of Cash Flows	-	Annex 4
General Notes to Interim Condensed Consolidated Financial Statements	-	Annex 5
Financial Indicators	-	Annex 6

Item 2. Management's Discussion and Analysis of Consolidated Financial Position and Results of Operations - Annex 7

PART II - OTHER INFORMATION

I. Control of Registrant

The following stockholders own more than 5% of the total outstanding number of shares issued as of September 30, 2019:

NAME OF STOCKHOLDER	TOTAL NUMBER OF SHARES HELD	PERCENT TO TOTAL NUMBER OF SHARES ISSUED
GT Capital Holdings, Inc. [a]	1,455,567,443	36.57%
PCD Nominee Corporation (Non-Filipino)*	1,093,919,518	27.49%
PCD Nominee Corporation (Filipino)* [b]	772,425,282	19.41%

* *There is no participant of PCD who is a beneficial owner of more than 5% of the total common shares issued by the Registrant.*

a. *Inclusive of 1,377,250 shares lodged with PCD Nominee Corp.*

b. *Net of 1,377,250 shares owned by GT Capital Holdings, Inc.*

As of September 30, 2019, public ownership on the Bank was at 48.76%. Out of the total shares issued, 27.52% represents foreign ownership.

II. Pending Legal Proceedings

As of September 30, 2019, 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.

III. Board Resolutions

There is no material disclosure that have not been reported under SEC Form 17-C during the period covered by this report.

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

METROPOLITAN BANK & TRUST COMPANY
By:

MARILOU C. BARTOLOME
Senior Vice President/Controller

JOSHUA E. NAING
Senior Executive Vice President/Head of Financial and Control Sector

October 24, 2019

METROPOLITAN BANK & TRUST COMPANY
AND SUBSIDIARIES

Interim Condensed Consolidated Financial Statements

As of September 30, 2019 (Unaudited) and December 31, 2018 (Audited)
and for the nine months ended September 30, 2019 and 2018 (Unaudited)

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(In Millions)

		(Unaudited)		(Audited)
		September 30, 2019		December 31, 2018
ASSETS				
Cash and Other Cash Items	₱	**25,524**	₱	33,091
Due from Bangko Sentral ng Pilipinas (BSP)		**238,400**		240,134
Due from Other Banks		**64,282**		45,802
Interbank Loans Receivable and Securities Purchased Under Resale Agreements (SPURA)		**42,022**		50,719
Investment Securities at				
Fair Value Through Profit or Loss (FVTPL)		**78,885**		39,689
Fair Value Through Other Comprehensive Income (FVOCI)		**140,265**		111,288
Amortized Cost		**252,665**		265,376
Loans and Receivables		**1,412,369**		1,391,034
Property and Equipment (Note 2)		**25,947**		21,954
Investments in Associates and a Joint Venture		**6,979**		5,947
Goodwill		**5,200**		5,200
Investment Properties		**7,329**		7,500
Deferred Tax Assets		**9,947**		10,238
Other Assets		**19,436**		15,721
	₱	**2,329,250**	₱	2,243,693
LIABILITIES AND EQUITY				
LIABILITIES				
Deposit Liabilities				
Demand	₱	**375,822**	₱	355,473
Savings		**628,795**		609,471
Time		**528,213**		548,019
Long-Term Negotiable Certificates (Note 6)		**43,736**		43,790
		1,576,566		1,556,753
Bills Payable and Securities Sold Under Repurchase Agreements (SSURA) (Note 7)		**275,096**		259,607
Derivative Liabilities		**6,421**		6,537
Manager's Checks and Demand Drafts Outstanding		**6,283**		7,565
Income Taxes Payable		**3,198**		2,830
Accrued Interest and Other Expenses		**10,016**		9,619
Bonds Payable (Note 8)		**62,676**		30,743
Subordinated Debts (Note 9)		**7,657**		26,618
Deferred Tax Liabilities		**129**		357
Non-equity Non-controlling Interest		**6,298**		6,747
Other Liabilities (Note 2)		**61,334**		45,613
		2,015,674		1,952,989
EQUITY				
Equity Attributable to Equity Holders of the Parent Company		**304,651**		282,960
Non-controlling Interest		**8,925**		7,744
		313,576		290,704
	₱	**2,329,250**	₱	2,243,693

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In Millions, Except Earnings Per Share)

	(Unaudited)			
	Quarter Ended September 30		Nine Months Ended September 30	
	2019	2018	**2019**	2018
INTEREST INCOME ON				
Loans and receivables	**₱ 24,302**	₱ 20,727	**₱ 72,761**	₱ 58,133
Investment securities at FVOCI and at amortized cost	**4,089**	3,687	**12,305**	10,874
Investment securities at FVTPL	**410**	293	**1,364**	898
Deposits with banks and others	**264**	160	**651**	407
	29,065	24,867	**87,081**	70,312
INTEREST AND FINANCE CHARGES				
Deposit liabilities	**5,388**	4,933	**18,770**	13,013
Bills payable and SSURA, bonds payable, subordinated debt and others	**3,960**	2,256	**12,072**	6,300
	9,348	7,189	**30,842**	19,313
NET INTEREST INCOME	**19,717**	17,678	**56,239**	50,999
PROVISION FOR CREDIT AND IMPAIRMENT LOSSES	**3,159**	1,741	**7,757**	5,209
NET INTEREST INCOME AFTER PROVISION FOR CREDIT AND IMPAIRMENT LOSSES	**16,558**	15,937	**48,482**	45,790
OTHER INCOME				
Service charges, fees and commissions	**3,404**	3,067	**9,967**	9,135
Trading, securities and foreign exchange gain - net (Note 11)	**4,541**	696	**8,150**	2,102
Miscellaneous	**2,074**	1,835	**5,620**	6,153
	10,019	5,598	**23,737**	17,390
OTHER EXPENSES				
Compensation and fringe benefits	**6,174**	5,578	**17,503**	16,029
Occupancy and equipment-related cost	**380**	830	**1,385**	2,384
Miscellaneous	**8,592**	6,916	**24,010**	20,875
	15,146	13,324	**42,898**	39,288
INCOME BEFORE INCOME TAX	**11,431**	8,211	**29,321**	23,892
PROVISION FOR INCOME TAX	**2,661**	1,996	**7,142**	5,751
NET INCOME	**₱ 8,770**	₱ 6,215	**₱ 22,179**	₱ 18,141
Attributable to :				
Equity holders of the Parent Company	**₱ 8,547**	₱ 5,744	**₱ 21,577**	₱ 16,750
Non-controlling interest	**223**	471	**602**	1,391
	₱ 8,770	₱ 6,215	**₱ 22,179**	₱ 18,141
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 15)	**₱ 2.15**	₱ 1.55	**₱ 5.42**	₱ 4.52

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In millions)

	Quarter Ended September 30		Nine Months Ended September 30	
	2019	2018	**2019**	2018
NET INCOME	₱ **8,770**	₱ 6,215	₱ **22,179**	₱ 18,141
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX				
Items that may not be reclassified to profit or loss:				
Change in net unrealized gain (loss) on equity securities at FVOCI	**27**	7	**65**	(158)
Change in remeasurement gain (loss) on retirement liability	**1**	65	**(100)**	64
	28	72	**(35)**	(94)
Items that may be reclassified to profit or loss:				
Change in net unrealized gain (loss) on debt securities at FVOCI	**(332)**	(1,516)	**5,385**	(3,040)
Change in equity in other comprehensive gain (loss) of associates	**158**	57	**409**	(44)
Translation adjustment and others	**452**	(354)	**(348)**	233
	278	(1,813)	**5,446**	(2,851)
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	**306**	(1,741)	**5,411**	(2,945)
TOTAL COMPREHENSIVE INCOME	₱ **9,076**	₱ 4,474	₱ **27,590**	₱ 15,196
Total Comprehensive Income attributable to :				
Equity holders of the Parent Company	₱ **8,803**	₱ 4,561	₱ **26,309**	₱ 14,205
Non-controlling interest	**273**	(87)	**1,281**	991
	₱ **9,076**	₱ 4,474	₱ **27,590**	₱ 15,196

ANNEX 3

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the Nine Months Ended September 30, 2019 and 2018
(In Million Pesos, Except Par Value and Number of Shares)
(Unaudited)

	Common Stock*	Capital Paid in Excess of Par Value	Surplus	Surplus Reserves	Treasury Stocks	Net Unrealized Gain (Loss) on Investment Securities at FVOCI	Equity in Other Comprehensive Income of Associates	Remeasurement Losses on Retirement Liability	Translation Adjustment and Others	TOTAL	Other Equity Reserve	Non-Controlling Interest	Total Equity
Balance, January 1, 2019	**₱79,600**	**₱85,252**	**₱130,550**	**₱1,956**	**(₱67)**	**(₱2,994)**	**(₱27)**	**(₱3,591)**	**(₱7,719)**	**₱282,960**	**₱-**	**₱7,744**	**₱290,704**
Total comprehensive income (loss) for the period	-	-	21,577	-	-	5,347	406	(109)	(912)	26,309	-	1,281	27,590
Transfer to surplus reserves	-	-	(89)	89	-	-	-	-	-	-	-	-	-
Cash dividends	-	-	(3,980)	-	-	-	-	-	-	(3,980)	-	(100)	(4,080)
Realized gain on sale of equity securities at FVOCI			19	-	-	(21)	-	-	-	(2)	-	-	(2)
Acquisition of Parent Company shares held by a mutual fund subsidiary	-	-	-	-	(3)	-	-	-	-	(3)	-	-	(3)
Increase in ownership interest in a subsidiary	-	-	-	-	-	-	-	-	(633)	(633)	-	-	(633)
Balance, September 30, 2019	**₱79,600**	**₱85,252**	**₱148,077**	**₱2,045**	**(₱70)**	**₱2,332**	**₱379**	**(₱3,700)**	**(₱9,264)**	**₱304,651**	**-**	**₱8,925**	**₱313,576**
Balance, January 1, 2018, as previously reported	**₱63,603**	**₱42,139**	**₱116,786**	**₱1,810**	**(₱46)**	**(₱15,804)**	**₱22**	**(₱4,025)**	**(₱2,530)**	**₱201,955**	**(₱7,400)**	**₱9,535**	**₱204,090**
Effect of PFRS 9 adoption	-	-	(4,985)	-	-	15,471	-	-	-	10,486	-	(141)	10,345
Balance, January 1, 2018, as restated	**63,603**	**42,139**	**111,801**	**1,810**	**(46)**	**(333)**	**22**	**(4,025)**	**(2,530)**	**212,441**	**(7,400)**	**9,394**	**214,435**
Total comprehensive income (loss) for the period	-	-	16,750	-	-	(3,082)	(44)	1	580	14,205	-	991	15,196
Transfer to surplus reserves	-	-	(101)	101	-	-	-	-	-	-	-	-	-
Cash dividends	-	-	(3,180)	-	-	-	-	-	-	(3,180)	-	(489)	(3,669)
Issuance of shares of stock	15,997	43,111	-	-	-	-	-	-	-	59,108	-	-	59,108
Movement on equity securities classified as FVOCI - net	-	-	40	-	-	-	-	-	-	40	-	-	40
Disposal of Parent Company shares held by a mutual fund subsidiary	-	-	-	-	10	-	-	-	-	10	-	-	10
Parent Company shares held by a mutual fund subsidiary	-	-	-	-	(29)	-	-	-	-	(29)	-	-	(29)
Settlement of non-controlling interest acquired	-	-	-	-	-	-	-	-	(5,132)	(5,132)	7,400	(2,268)	-
Balance, September 30, 2018	**₱79,600**	**₱85,250**	**₱125,310**	**₱1,911**	**(₱65)**	**(₱3,415)**	**(₱22)**	**(₱4,024)**	**(₱7,082)**	**₱277,463**	**-**	**₱7,628**	**₱285,091**

Capital Stock of the Parent Company as of September 30, 2019 and 2018 consists of (Note 10):

* **COMMON STOCK** at ₱20 par value
Authorized - 4,000,000,000 shares
Issued - 3,980,015,036 shares

PREFERRED STOCK at ₱20 par value
Authorized - 1,000,000,000 shares

ANNEX 4

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Millions)

	(Unaudited) For the Nine Months Ended September 30 2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Income before income tax	₱ **29,321**	₱ 23,892
Adjustments for :		
Provision for credit and impairment losses	**7,757**	5,209
Trading and securities loss (gain) on investment securities at FVOCI	**(1,122)**	97
Depreciation and amortization	**3,670**	2,689
Share in net income of associates and a joint venture	**(676)**	(569)
Profit from assets sold	**(493)**	(964)
Unrealized market valuation loss (gain) on financial assets and liabilities at FVTPL	**558**	(4,544)
Gain on initial recognition of investment properties and chattel properties acquired in foreclosure	**(407)**	(536)
Amortization of software cost	**415**	376
Amortization of discount on subordinated debt and bonds payable	**136**	32
Dividends	**(148)**	(130)
Changes in operating assets and liabilities:		
Increase in :		
Investment securities at FVTPL	**(40,757)**	(1,962)
Loans and receivables	**(29,398)**	(71,885)
Other assets	**(4,198)**	(5,587)
Increase (decrease) in:		
Deposit liabilities	**19,813**	14,359
Bills payable-deposit substitutes	**3,523**	(12,673)
Manager's checks and demand drafts outstanding	**(1,282)**	112
Accrued interest and other expenses	**397**	1,757
Non-equity non-controlling interest	**(449)**	(1,124)
Other liabilities	**11,795**	(11,377)
Net cash used in operations	**(1,545)**	(62,828)
Dividends received	**148**	130
Income taxes paid	**(7,012)**	(6,971)
Net cash used in operating activities	**(8,409)**	(69,669)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Investment securities at FVOCI	**(653,151)**	(95,872)
Investments securities at amortized cost	**(4,444)**	(17,579)
Property and equipment	**(2,862)**	(2,339)
Cash dividends from investees	**53**	10
Proceeds from sale of:		
Investment securities at FVOCI	**629,752**	88,150
Property and equipment	**387**	522
Investment properties	**1,273**	1,658
Return of investment from an associate	**-**	180
Decrease in interbank loans receivable and SPURA	**3,031**	2,546
Proceeds from:		
Maturity of investment securities at amortized cost	**469**	6,952
Disposal of investment securities at amortized cost	**16,686**	-
Net cash used in investing activities	**(8,806)**	(15,772)
CASH FLOWS FROM FINANCING ACTIVITIES		
Settlements of bills payable	**(3,789,354)**	(3,589,870)
Availments of bills payable and SSURA	**3,801,320**	3,571,147
Redemption of subordinated debts	**(19,000)**	-
Proceeds from issuance of bonds payable	**34,837**	59,108
Settlements of bonds payable	**(3,000)**	-
Cash dividends paid	**(4,080)**	(3,669)
Proceeds from disposal of Parent Company shares by mutual fund subsidiaries	**-**	10
Acquisition of Parent Company shares by a mutual fund subsidiariy	**(3)**	(29)
Net cash provided by financing activities	**20,720**	36,697
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**3,505**	(48,744)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		
Cash and other cash items	**33,091**	27,631
Due from BSP	**240,134**	261,959
Due from other banks	**45,808**	31,291
Interbank loans receivable and SPURA	**39,380**	32,736
	358,413	353,617
CASH AND CASH EQUIVALENTS AT END OF PERIOD		
Cash and other cash items	**25,524**	24,315
Due from BSP	**238,400**	234,518
Due from other banks	**64,288**	27,711
Interbank loans receivable and SPURA (Note 13)	**33,706**	18,329
	₱ **361,918**	₱ 304,873

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
GENERAL NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Metropolitan Bank & Trust Company ("Metrobank," "the Bank" or "the Parent Company") is a universal bank incorporated in the Philippines on April 6, 1962. The Securities and Exchange Commission (SEC) approved the renewal of its Certification of Incorporation until April 6, 2057 on November 19, 2007.

The Bank'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 Bank 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. The Bank 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 unaudited interim condensed consolidated financial statements have been prepared in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*. Accordingly, the unaudited interim condensed consolidated financial statements do not include all of the information and disclosures required in the annual audited financial statements and should be read in conjunction with the Groups' annual audited financial statements as at December 31, 2018.

The unaudited interim condensed 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 unaudited interim condensed consolidated financial statements are presented in Philippine Peso (PHP) and all values are rounded to the nearest million pesos (₱000,000) except when otherwise indicated.

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.

Statement of Compliance

The unaudited interim condensed consolidated financial statements have been prepared in compliance with the 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 unaudited interim condensed consolidated financial statements include the financial statements of the Bank and of its subsidiaries and are prepared for the same reporting period as the Bank using consistent accounting policies.

The following are the wholly and majority-owned foreign and domestic subsidiaries of the Bank as of September 30, 2019:

Subsidiary	Effective Percentage of Ownership	Country of Incorporation	Functional Currency
Financial Markets:			
Domestic:			
Metrobank Card Corporation (A Finance Company and General Insurance Agency) (MCC)	100.00	Philippines	PHP
First Metro Investment Corporation (FMIC) and Subsidiaries	99.26	Philippines	PHP
Philippine Savings Bank (PSBank)	88.38	Philippines	PHP
ORIX Metro Leasing and Finance Corporation (ORIX Metro) and Subsidiaries	59.85	Philippines	PHP
Foreign:			
Metropolitan Bank (China) Ltd (MBCL)	100.00	China	Chinese Yuan
Metropolitan Bank (Bahamas) Limited (Metrobank Bahamas)**	100.00	The Bahamas	United States Dollar (USD)
First Metro International Investment Company Limited (FMIIC) and Subsidiary	100.00	Hong Kong	Hong Kong Dollar (HKD)
Remittances:			
Metro Remittance (Hong Kong) Limited	100.00	Hong Kong	HKD
Metro Remittance (Singapore) Pte. Ltd.	100.00	Singapore	Singapore Dollar
Metro Remittance (UK) Limited	100.00	United Kingdom	Great Britain Pound
Metro Remittance (USA), Inc. (MR USA)	100.00	United States of America (USA)	USD
Metro Remittance (Japan) Co., Ltd.	100.00	Japan	Japanese Yen
Metro Remittance (Italia), S.p.A. *	100.00	Italy	Euro
Real Estate:			
Circa 2000 Homes, Inc. *	100.00	Philippines	PHP
Others:			
Philbancor Venture Capital Corporation *	60.00	Philippines	PHP
MBTC Technology, Inc. **	100.00	Philippines	PHP

* In process of dissolution.
** In process of liquidation.

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"). 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 and the Parent Company recognized an increase in its investment in MCC in its December 31, 2017 financial statements. This 20% acquisition was completed on January 8, 2018 ("first tranche") while the remaining 20% interest 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 NCI 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 is still subject to regulatory approvals.

Investment in PSBank
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%.

Investment in Metobank 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 12, 2018, it has surrendered its securities and banking licenses, respectively, to CBTC and has been placed into a voluntary liquidation. On June 20, 2019, the Register General's Department advised that the Metrobank Bahamas has been removed from the Register of Companies as of April 8, 2019.

All significant intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full in the consolidation. 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 period, if any, are included in the unaudited interim condensed consolidated statement of income and unaudited interim condensed consolidated statement 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:
- derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- derecognizes the carrying amount of any non-controlling interest;
- derecognizes the related other comprehensive income recorded in equity and recycles the same to statement of income or retained earnings;
- recognizes the fair value of the consideration received;
- recognizes the fair value of any investment retained;
- recognizes any surplus or deficit in statement of income; and
- reclassifies the Parent Company's share of components' gain (losses) previously recognized in other comprehensive income (OCI) to profit or loss or surplus, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

Entity with significant influence over the Group
GT Capital Holdings, Inc. (GT Capital) holds 36.57% of the total shares of the Bank as of September 30, 2019 and December 31, 2018.

Investments in Associates
On October 7, 2016, the BOD and stockholders of SMBC Metro Investment Corporation (SMBC Metro), an associate, in separate meetings approved the shortening of its corporate term until December 31, 2017 through an amendment of its Articles of Incorporation (AOI). On the same date, the BOD approved the closing of its business operations effective December 31, 2016. The amended AOI of SMBC Metro and its application for withdrawal of its secondary license as an Investment House was approved by the SEC on November 25, 2016 and January 31, 2017, respectively. 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 Bank received a total amount of ₱180.0 million representing partial liquidation (Note 11).

Other Equity Reserves

Other equity reserves represents the charge to equity for an obligation of the Group to purchase their own equity instruments for cash which gives rise to a financial liability even if the obligation to purchase is conditional on the counterparty exercising a right to sell.

Non-Controlling Interest

Non-controlling interest represents the portion of profit or loss and the net assets of the funds not held by the Group and are presented separately in the unaudited interim condensed consolidated statement of income, unaudited interim condensed consolidated statement of comprehensive income and within equity in the unaudited interim condensed 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 are presented separately in the liability section in the unaudited interim condensed 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, securities and foreign exchange gain - net’ in the unaudited interim condensed consolidated statement of income.

Changes in Accounting Policies

The accounting policies adopted in the preparation of the unaudited interim condensed consolidated financial statements are consistent with those followed in the preparation of the audited annual consolidated financial statements as of and for the year ended December 31, 2018, except for the adoption of the following new and amended standards and interpretations, which became effective beginning January 1, 2019.

New standard

- Philippine Financial Reporting Standards (PFRS) 16, *Leases*

  PFRS 16 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 PFRS 16 using the modified retrospective approach with certain transition reliefs with the date of initial application of January 1, 2019. The Group elected to use the practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying the old standards at the date of initial application. The Group also elected to use the recognition exemptions for short-term leases and lease contracts which the underlying asset is of low value (‘low-value assets’). As of January 1, 2019, the adoption of PFRS 16 resulted to an increase in Property and Equipment and Other Liabilities of ₱4.2 billion.

  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. Before the adoption of PFRS 16, 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 leased 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.

Upon adoption of PFRS 16, 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 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. For the nine months ended September 30, 2019, the Group recognized interest expense on lease liabilities amounting to ₱236.69 million and depreciation expense on ROU assets amounting to ₱957.91 million.

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*

Summary of New Accounting Policies

Leases

ROU assets

The Group recognizes ROU assets at the commencement date of the lease. These 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, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized ROU assets are depreciated on a straight line basis over the shorter of its estimated useful life and the lease term. ROU assets are subject to impairment.

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. The lease payments include fixed payments (including in-substance fixed lease payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if 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 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, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets
The Group applies the short-term lease recognition exemption to its short-term leases of branch premises and automated teller machine 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 office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

The Group assesses the low-value assets based on the value of the assets when it is new, regardless of the age of the asset being leased. The Group identifies the underlying asset as low value only if:

- the Group can benefit from the use of the underlying asset on its own or together with other resources that are readily available to the Group; and
- the underlying asset is not highly dependent on, or highly interrelated with other assets.

Lease term of contracts with renewal options
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.

The Group has the option, under some of its leases to renew the lease term. The Group applies judgment in evaluating whether it is reasonably certain to exercise the option to renew. It considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses 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.

Uncertainty Over Income Tax Treatments
The Group applies significant judgment in identifying uncertainties over income tax treatments. If the Group concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the Group determines the tax treatment to be consistent with that used or planned to be used in its income tax filings. Otherwise, the Group reflects the effect of the uncertainty by using either the single most likely amount or the sum of the probability weighted amounts in a range of possible outcomes

Significant Accounting Policies – Financial Instruments

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 4.

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.

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 at FVPL and for non-recurring measurement, such as investment properties.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

<u>Financial Instruments - Initial Recognition and Subsequent Measurement</u>

Date of recognition

Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date. Derivatives are recognized on trade date basis. Deposits, amounts due to banks and customers and loans are recognized when cash is received by the Group or advanced to the borrowers.

Initial recognition of financial instruments

All financial instruments are initially measured at fair value. Except for financial assets and financial liabilities 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 it 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: (1) 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: (1) 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 (SPURA)’, ‘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. These contracts are in the scope of the expected credit loss (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 Liabilities
Financial assets
A financial asset (or, where applicable, a part of a financial asset or part of a group of financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired; or
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risks and rewards of the asset but has transferred the control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. The extent of the Group's continuing involvement in the transferred asset is the extent to which it is exposed to changes in the value of the transferred asset. When the Group's continuing involvement takes the form of guaranteeing the transferred asset, the extent of the Group's continuing involvement is the lower of (i) the amount of the asset and (ii) the maximum amount of the consideration received that the Group could be required to repay ('the guarantee amount'). When the Group's continuing involvement takes the form of a written or purchased option (or both) on the transferred asset the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase. However, in case of a written put option to an asset that is measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price. When the Group's continuing involvement takes the form of a cash-settled option or similar provision on the transferred asset, the extent of the Group's continuing involvement is measured in the same way as that which results from non-cash settled options.

Financial liabilities
A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of income.

Repurchase and reverse repurchase agreements
Securities sold under agreements to repurchase at a specified future date ('repos') are not derecognized from the statement of financial position. The corresponding cash received, including accrued interest, is recognized in the statement of financial position as securities sold under repurchase agreements (SSURA) included in 'Bills Payable and SSURA' and is considered as a loan to the Group, reflecting the economic substance of such transaction.

Conversely, securities purchased under agreements to resell at a specified future date ('reverse repos') are not recognized in the statement of financial position. The corresponding cash paid including accrued interest, is recognized in the statement of financial position as SPURA, and is considered a loan to the counterparty. The difference between the purchase price and resale price is treated as interest income and is accrued over the life of the agreement using the EIR method.

<u>Reclassification of Financial Assets</u>
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.

<u>Impairment of Financial Assets</u>
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 significant increase in credit risk (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 regulatory definition of non-performing loans i.e credit impaired, in all cases when the borrower becomes more than 90 days past due on its contractual payments. As a part of a qualitative assessment of whether a customer is in default, the Group also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Group carefully considers whether the event should result in treating the customer as defaulted. An instrument is considered to be no longer in default or restored to performing status (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. ECL for Stage 3 exposure are computed on a per account per borrower, 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 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.

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.

Standards Issued but not yet Effective

Standards issued but not yet effective up to the date of the Group's financial statements are listed below. The listing consists of standards and interpretations issued which the Group reasonably expects to be applicable at a future date. The Group intends to adopt these standards when they become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on its financial statements.

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 *Financial Instruments* and PFRS 15 *Revenue from Contracts with Customers*.

Deferred effectivity

Amendments to PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture. On January 13, 2016, the FRSC postponed the original effective date of January 1, 2016 of the said amendments until the IASB has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

3. Financial Risk Management

Compared with December 31, 2018, there have been no changes in the financial risk exposures that materially affect the financial statements of the Group as of September 30, 2019. The Group has exposures to the following risks from its use of financial instruments: (a) credit; (b) liquidity; and (c) market risks. Related discussions below should be read in conjunction with Note 4, Financial Risk and Capital Management, of the Group's 2018 audited financial statements.

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 RSK and Internal Audit Group, respectively.

Liquidity Risk
Liquidity risk is defined as the current and prospective risk to earnings or capital arising from inability to meet its obligations when they become due. This may be caused by the inability to liquidate assets or to obtain funding to meet the 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 Bank'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 its MCO on a daily basis. The subsidiaries generate their respective MCO reports at least on a monthly basis. 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 on a quarterly basis.

Market Risk
Market risk is the possibility of loss to future earnings, fair values or future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates, foreign currency exchange rates, and other market factors. The Parent Company's market risk originates from its 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 Value-at-Risk (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 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 Historical Simulation Method has its own limitations. To wit, it cannot predict volatility levels which did not happen in the specified historical period. The validity of the VaR model is verified through a daily Back testing Analysis, which examines how frequently both actual and hypothetical daily losses exceed VaR. The result of the daily back testing analysis is reported to the ALCO and ROC monthly.

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 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, Earnings-at-Risk (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.

Earnings-at-Risk (EaR) measures the possible decline in the Bank'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 parameter
The Parent Company and its Subsidiaries calculate EAR using Historical Simulation (HS) approach, with 1 year horizon and using 5 years data. EaR is then derived as the 99th percentile biggest drop in Net interest income (NII).

The Parent Bank generates and monitors daily its EaR exposure. The subsidiaries generate at least monthly their respective EaR reports.

In addition to EAR, the Parent Company uses ΔEVE 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. ΔEVE 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.

Aside from the EaR and ΔEVE, the Parent Company and its subsidiaries perform regular sensitivity and stress testing analysis on its Banking Book to further broaden its 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. The liquid asset cover requirements for FCDU/EFCDU liabilities is at zero percent and the foreign currency cover may be maintained in any foreign currency acceptable with the BSP. 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.

4. Fair Value Measurement

Financial Instruments

The methods and assumptions used by the Group in estimating the fair value of financial instruments have been consistently applied in the unaudited interim condensed consolidated financial statements. These 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.

Investment securities - Fair values of debt securities (financial assets at FVTPL, FVOCI and at amortized cost) and equity investments are generally based on quoted market prices. Where the debt securities are not quoted or the market prices are not readily available, the Group obtained valuations from independent parties offering pricing services, used adjusted quoted market prices of comparable investments, or applied discounted cash flow methodologies. For equity investments that are not quoted, remeasurement to their fair value 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, Foreign Exchange (FX) rates, Credit Default Swap (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 approximates fair value considering that these are due and demandable or with short-term maturities.

The following tables summarize the carrying amounts and fair values of the financial assets and liabilities:

	September 30, 2019 (Unaudited)				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets Measured at Fair Value					
Financial Assets					
Financial assets at FVTPL					
FVTPL investments					
Debt securities					
Government	₱39,430	₱39,430	₱-	₱-	₱39,430
Private	7,511	7,511	-	-	7,511
Treasury bills	1,668	1,668	-	-	1,668
Treasury notes and bonds	14,500	14,500	-	-	14,500
BSP	2	2	-	-	2
	63,111	63,111	-	-	63,111
Equity securities	6,661	6,661	-	-	6,661

	September 30, 2019 (Unaudited)				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Derivative assets					
Currency forwards	₱1,649	₱-	₱1,649	₱-	₱1,649
Interest rate swaps	713	-	713	-	713
Cross currency swaps	6,718	-	6,718	-	6,718
Put option	15	-	15	-	15
Call option	18	-	18	-	18
	9,113	-	9,113	-	9,113
	78,885	69,772	9,113	-	78,885
FVOCI investments					
Debt securities					
Government	53,057	52,681	376	-	53,057
Private	41,578	31,268	10,310	-	41,578
Treasury notes and bonds	44,464	43,933	531	-	44,464
	139,099	127,882	11,217	-	139,099
Equity securities	1,166	960	206	-	1,166
	140,265	128,842	11,423	-	140,265
	₱219,150	₱198,614	₱20,536	₱-	₱219,150
Assets for which Fair Values are Disclosed					
Financial Assets					
Investment securities at amortized cost					
Government	₱20,678	₱21,234	₱350	₱-	₱21,584
Private	4,060	2,948	1,097	-	4,045
Treasury bills	101	101	-	-	101
Treasury notes and bonds	227,826	197,179	10,332	-	207,511
	252,665	221,462	11,779	-	233,241
Loans and receivables - net					
Receivables from customers					
Commercial loans	990,889	-	-	978,011	978,011
Residential mortgage loans	108,068	-	-	132,220	132,220
Auto loans	116,113	-	-	137,532	137,532
Trade	61,928	-	-	61,928	61,928
Others	116,572	-	-	116,563	116,563
	1,393,570	-	-	1,426,254	1,426,254
Unquoted debt securities	636	-	-	655	655
Accounts receivable	8,339	-	-	8,339	8,339
Accrued interest receivable	9,329	-	-	9,329	9,329
Sales contract receivable	137	-	-	142	142
Other receivables	358	-	-	358	358
	1,412,369	-	-	1,445,077	1,445,077
Other assets					
Residual value of leased assets	1,106	-	-	994	994
Miscellaneous	180	-	-	247	247
	1,286	-	-	1,241	1,241
	1,666,320	221,462	11,779	1,446,318	1,679,559
Liabilities Measured at Fair Value					
Financial Liabilities					
Currency forwards	₱1,171	₱-	₱1,171	₱-	₱1,171
Interest rate swaps	2,729	-	2,729	-	2,729
Cross currency swaps	2,489	-	2,489	-	2,489
Credit default swaps	3	-	3	-	3
Put option	12	-	12	-	12
Call option	17	-	17	-	17
	6,421	-	6,421	-	6,421

	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
		September 30, 2019 (Unaudited)			
Liabilities for which Fair Values are Disclosed					
Financial Liabilities					
Deposit liabilities					
Time	₱528,213	₱-	₱-	₱530,349	₱530,349
LTNCD	43,736	34,913	8,937	-	43,850
	571,949	34,913	8,937	530,349	574,199
Bills payable and SSURA	275,096	-	-	278,432	278,432
Bonds payable	62,676	64,247	-	-	64,247
Subordinated debts	7,657	6,493	-	1,203	7,696
Other liabilities					
Deposits on lease contracts	1,695	-	-	1,403	1,403
	₱919,073	₱105,653	₱8,937	₱811,387	₱925,977

	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
		December 31, 2018 (Audited)			
Assets Measured at Fair Value					
Financial Assets					
Financial assets 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					
Quoted	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
Investments 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	-	1,229
	111,288	104,839	6,449	-	111,288
	₱150,977	₱133,877	₱17,100	₱-	₱150,977

	December 31, 2018 (Audited)				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets for which Fair Values are Disclosed					
Financial Assets					
Investment securities at amortized cost					
HFT investments					
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
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
Accounts receivable	9,544	-	-	9,544	9,544
Accrued interest receivable	9,778	-	-	9,778	9,778
Sales contract receivable	156	-	-	196	196
Other receivables	332	-	-	332	332
	1,391,034	-	-	1,432,503	1,432,503
Other assets					
Residual value of leased assets	1,130	-	-	1,006	1,006
Miscellaneous	207	-	-	315	315
	1,337	-	-	1,321	1,321
	₱1,657,747	₱228,940	₱-	₱1,433,824	₱1,662,764
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 contract	1,643	-	-	1,376	1,376
	₱913,020	₱90,424	₱-	₱832,655	₱923,079

As of September 30, 2019, the fair value hierarchy of FVOCI debt and equity securities amounting to ₱1.39 billion and ₱1.05 million, respectively, were transferred from Level 1 to Level 2 due to the absence of an active market.

5. **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 are either 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 are either 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 interest income and interest 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 may vary from period to period and 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 as of and for the periods ended September 30, 2019 and 2018.

	Consumer Banking	**Corporate Banking**	**Investment Banking**	**Treasury**	**Branch Banking**	**Others**	**Total**
Period Ended September 30, 2019 (Unaudited)							
Results of Operations							
Net interest income (expense)							
Third party	**₱13,100**	**₱40,128**	**₱-**	**₱5,477**	**(₱4,943)**	**₱2,477**	**₱56,239**
Intersegment	**(498)**	**(31,708)**	**-**	**2,750**	**29,456**	**-**	**-**
Net interest income after intersegment transaction	**12,602**	**8,420**	**-**	**8,227**	**24,513**	**2,477**	**56,239**
Non-interest income	**5,470**	**803**	**314**	**7,172**	**3,793**	**5,509**	**23,061**
Revenue - net of interest expense	**18,072**	**9,223**	**314**	**15,399**	**28,306**	**7,986**	**79,300**
Non-interest expense	**11,686**	**5,339**	**22**	**1,972**	**17,137**	**14,499**	**50,655**
Income (loss) before share in net income of associates and a joint venture	**6,386**	**3,884**	**292**	**13,427**	**11,169**	**(6,513)**	**28,645**
Share in net income of associates and a joint venture	**-**	**82**	**-**	**-**	**-**	**594**	**676**
Provision for income tax	**(1,494)**	**(369)**	**-**	**(2,422)**	**(67)**	**(2,790)**	**(7,142)**
Non-controlling interest in net income of consolidated subsidiaries	**-**	**-**	**-**	**-**	**-**	**(602)**	**(602)**
Net income (loss)	**₱4,892**	**₱3,597**	**₱292**	**₱11,005**	**₱11,102**	**(₱9,311)**	**₱21,577**

	Consumer Banking	Corporate Banking	Investment Banking	Treasury	Branch Banking	Others	Total
Statement of Financial Position							
Total assets	**₱207,034**	**₱1,014,972**	**₱-**	**₱535,931**	**₱176,986**	**₱394,327**	**₱2,329,250**
Total liabilities	**₱78,621**	**₱973,606**	**₱-**	**₱527,218**	**₱266,938**	**₱169,291**	**₱2,015,674**
Other Segment Information							
Capital expenditures	**₱328**	**₱269**	**₱-**	**₱71**	**₱23**	**₱2,594**	**₱3,285**
Depreciation and amortization	**₱455**	**₱100**	**₱-**	**₱44**	**₱1,702**	**₱1,784**	**₱4,085**
Provision for credit and impairment losses	**₱5,570**	**₱1,453**	**₱-**	**₱-**	**₱166**	**₱568**	**₱7,757**
Period Ended September 30, 2018 (Unaudited)							
Results of Operations							
Net interest income (expense)							
Third party	₱13,296	₱28,579	₱-	₱7,401	(₱429)	₱2,152	₱50,999
Intersegment	(351)	(21,413)	-	305	27,996	(6,537)	-
Net interest income (expense) after intersegment transaction	12,945	7,166	-	7,706	27,567	(4,385)	50,999
Non-interest income	4,978	869	329	1,342	3,493	5,810	16,821
Revenue - net of interest expense	17,923	8,035	329	9,048	31,060	1,425	67,820
Non-interest expense	10,774	2,998	24	1,649	16,972	12,080	44,497
Income (loss) before share in net income of associates and a joint venture	7,149	5,037	305	7,399	14,088	(10,655)	23,323
Share in net income of associates and a joint venture	-	55	-	-	-	514	569
Provision for income tax	(1,596)	(322)	-	(2,100)	(75)	(1,658)	(5,751)
Non-controlling interest in net income of consolidated subsidiaries	-	–	-	-	–	(1,391)	(1,391)
Net income (loss)	₱5,553	₱4,770	₱305	₱5,299	₱14,013	(₱13,190)	₱16,750
Statement of Financial Position							
Total assets	₱209,399	₱989,687	₱-	₱436,511	₱143,465	₱347,991	₱2,127,053
Total liabilities	₱69,088	₱954,471	₱-	₱452,338	₱243,329	₱122,736	₱1,841,962
Other Segment Information							
Capital expenditures	₱372	₱50	₱-	₱84	₱43	₱2,387	₱2,936
Depreciation and amortization	₱444	₱100	₱-	₱19	₱1,187	₱1,315	₱3,065
Provision for credit and impairment losses	₱4,994	₱45	₱-	₱-	₱67	₱103	₱5,209

Non-interest income consists of service charges, fees and commissions, profit from assets sold, trading, securities and foreign exchange gain - net, income from trust operations, leasing, dividends and miscellaneous income. Non-interest expense consists of compensation and fringe benefits, taxes and licenses, provision for credit and impairment losses, depreciation and amortization, occupancy and equipment-related cost, amortization of software costs and miscellaneous expense.

6. Long-Term Negotiable Certificates of Deposit (LTNCD)

On September 18, 2019, the BOD of the Parent Company approved the issuance of PHP Long Term Negotiable Certificates of Deposit 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 regulatory approval and market conditions.

As of September 30, 2019 and December 31, 2018, total outstanding LTNCDs of the Group amounted to ₱43.74 billion and ₱43.79 billion, respectively. Significant terms of the LTNCDs issued by the Parent Company have been disclosed in the 2018 audited financial statements.

7. Securities Sold Under Repurchase Agreement

The following are the carrying values of the investment securities pledged and transferred under SSURA transactions of the Group (included under Bills Payable and Securities Sold under Repurchase Agreements):

	September 30, 2019 (Unaudited)		December 31, 2018 (Audited)	
	Transferred Securities	**SSURA**	Transferred Securities	SSURA
Investment securities at				
Amortized cost	**₱84,663**	**₱62,416**	₱111,504	₱70,217
FVOCI	**29,800**	**24,283**	32,166	25,030
FVTPL	**29,197**	**28,654**	-	-
	₱143,660	**₱115,353**	₱143,670	₱95,247

8. **Bonds Payable**

This account consists of the following scripless fixed rate bonds:

				Carrying value	
Issue Date	Maturity Date	Interest Rate	Face Value	**September 30, 2019 (Unaudited)**	December 31, 2018 (Audited)
Parent Company					
November 9, 2018	November 9, 2020	7.15%	₱10,000	**₱9,961**	₱9,922
December 17, 2018	November 9, 2020	7.15%	18,000	**17,930**	17,904
April 11, 2019	April 11, 2022	6.30%	17,500	**17,372**	-
July 3, 2019	July 3, 2021	5.50%	11,250	**11,165**	-
			56,750	**56,428**	27,826
PSBank					
July 24, 2019	July 24, 2021	5.60%	6,300	**6,248**	-
FMIC					
August 10, 2012	August 10, 2019	5.75%	2,920	-	2,917
			₱65,970	**₱62,676**	₱30,743

Parent Company Fixed Rate Bonds
On April 11, 2019, the Parent Company issued ₱17.50 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 July 11, October 11, January 11 and April 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 further 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 October 3, January 3, April 3 and July 3 of each year, commencing on July 3, 2019. Total bond issuance costs amounted to ₱94.55 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, which 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 October 24, January 24, April 24 and July 24 of each year, commencing on July 24, 2019. Total bond issuance costs amounted to ₱52.02 million.

On September 6, 2019, the BOD of ORIX Metro approved the issuance of peso bond/debt securities program amounting to ₱10.0 billion, in one or more tranches, with tenors of at least 1.5 years (Note 17).

Significant terms of the other bonds issued have been disclosed in the 2018 audited financial statements.

9. Subordinated Debts

Details of the Group's subordinated debt follow:

	Maturity Date	Face Value	**September 30, 2019 (Unaudited)** Carrying Value	Market Value	December 31, 2018 (Audited) Carrying Value	Market Value
Parent Company						
2025	August 8, 2025	₱ 6,500	**₱6,492**	**₱6,493**	₱6,484	₱6,234
2024	June 27, 2024	16,000	-	-	15,987	15,813
PSBank-2024	August 23, 2024	3,000	-	-	2,982	2,243
MCC-2023	December 20, 2023	1,170	**1,165**	**1,203**	1,165	1,113
		₱26,670	**₱7,657**	**₱7,696**	₱26,618	₱25,403

As approved by the BSP on April 25, 2019, on June 27, 2019, the Parent Company redeemed its 2024 Peso Notes amounting to P16.0 billion, ahead of its maturity.

As approved by the BSP on April 25, 2019, on August 23, 2019, PSBank redeemed its 2024 Peso Notes amounting to ₱3.0 billion, ahead of its maturity.

Significant terms of the Peso Notes outstanding as of December 31, 2018 have been disclosed in the 2018 audited financial statements.

10. Capital Stock

The movement in issued shares follows:

	Shares: September 30, 2019	Shares: December 31, 2018	Amount: September 30, 2019	Amount: December 31, 2018
Authorized				
Common stock - ₱20.00 par value	**4,000,000,000**	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 the year	**3,980,015,036**	3,180,172,786	**₱79,600**	₱63,603
Issuance of stock rights	-	799,842,250	-	15,997
Balance at the end of the period	**3,980,015,036**	3,980,015,036	**₱79,600**	₱79,600

As of September 30, 2019 and December 31, 2018, treasury shares totaling 823,780 and 825,000, respectively, represent shares of the Parent Company held by mutual fund subsidiary of FMIC.

On January 17, 2018, the BOD of the Parent Company approved the SRO by way of issuance of up to a maximum of 819,827,214 common shares 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 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'.

Details of the Bank's cash dividend distributions in 2019 and 2018 follow:

Date of Declaration	Per Share	Total Amount (In Millions)	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

On February 13, 2019, the BOD of the Parent Company approved (a) the amendment of the Articles of Incorporation (AOI) for the purpose of increasing the authorized capital stock 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. The amendment of the AOI was approved by the BSP on August 8, 2019 (Note 17).

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.

Significant information on capital issuances have been disclosed in the 2018 audited financial statements.

11. Trading, securities and foreign exchange gain - net

In August 2019, the BOD of FMIC approved the disposal of FMIC's debt securities portfolio at amortized cost with total face value of ₱15.1 billion and the abandonment of the related Hold-to-Collect (HTC) debt securities business models due to external changes that are significant to the entity's operations. Net trading gains (included in "Trading, securities and foreign exchange gain") recognized from this transaction amounted to ₱26.0 million. As of September 30, 2019, the Parent Company purchased a total of ₱6.59 billion of these securities (Note 12).

12. 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.

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 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 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 at least 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 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 others 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 capital accounts or 15.00% of the respective total loan portfolio, whichever is lower, of the Bank, PSBank, FMIC and ORIX Metro.

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 September 30, 2019 and December 31, 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, and the unsecured portion did not exceed 5.00% of such net worth and the total outstanding loans, other credit accommodations and guarantees to all such subsidiaries and affiliates represent 15.05% and 17.61%, respectively, of the Parent Company's net worth.

Further, BSP issued 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 September 30, 2019 and December 31, 2018, the Parent Company has no subsidiaries and affiliates engaged in energy and power generation.

Details on significant related party transactions of the Group as of September 30, 2019, December 31 and September 30, 2018 follow (transactions with subsidiaries have been eliminated in the unaudited interim condensed consolidated financial statement):

Category	Amount	Terms and Conditions/Nature
Transactions Affecting Statements of Financial Position		
September 30, 2019 (Unaudited)		
Entity with Significant Influence Over the Group		
Outstanding Balance:		
Deposit liabilities*	**₱3,011**	With annual fixed interest rates ranging from 0.00% to 2.75% including time deposits with maturity terms from 7 to 30 days
Bills payable*	**210**	Peso borrowings subject to annual fixed interest rates ranging from 3.25% to 4.00% with maturity term of 33 days
Volume:		
Deposit liabilities	**2,531**	Generally similar to terms and conditions above
Bills payable	**6**	Generally similar to terms and conditions above
Subsidiaries		
Outstanding Balance:		
Interbank loans receivable*	**₱2,455**	Foreign currency-denominated lending which earn annual fixed interest rates ranging from 0.25% to 4.06% with maturity terms from 1 to 366 days
Investment securities at		
FVTPL	**262**	Treasury notes and private bonds purchased from FMIC
FVOCI	**1,955**	Treasury note purchased from FMIC
Amortized cost	**2,368**	Treasury note purchased from FMIC
Receivables from customers*	**10,010**	Unsecured, with ECL of ₱1.8 million With annual fixed interest rates from 3.21% to 4.70% and maturity terms from 2 days to 3 years
Accounts receivable	**235**	Non-interest bearing receivables on service fees, underwriting fees, remittance, rental fees and common use service area fees
Derivative assets	**561**	Swaps bought with various terms
Deposit liabilities*	**3,071**	With annual fixed interest rates ranging from 0.00% to 3.00% including time deposits with maturity terms from 1 to 126 days
Bills payable*	**163**	Peso borrowings subject to annual fixed interest rates ranging from 2.50% to 5.88% with maturity terms from 1 to 365 days
Treasury stock	**70**	Parent Company's shares held by FMIC's mutual fund subsidiary
Dividends declared	**819**	Dividend declared by PSBank and MB Bahamas
Volume:		
Interbank loans receivable	**(2,179)**	Generally similar to terms and conditions above
Receivables from customers	**(3,675)**	Generally similar to terms and conditions above
Accounts receivable	**(98)**	Generally similar to terms and conditions above
Deposit liabilities	**(204)**	Generally similar to terms and conditions above
Bills payable	**36**	Generally similar to terms and conditions above
Contingent		
Derivatives	**8,228**	Swaps bought with various terms
Securities transactions		
Purchases	**10,606**	Outright purchases of investment securities at FVTPL and FVOCI
Sales	**7,455**	Outright sale of investment securities at FVTPL and FVOCI
Foreign currency		
Buy	**25,391**	Outright purchases of foreign currency
Sell	**17,458**	Outright sale of foreign currency
Associates		
Outstanding Balance:		
Receivable from customers*	**₱855**	Unsecured with minimal ECL and annual fixed interest rates ranging from 5.10% to 6.85% and maturity terms from 84 to 360 days
Accounts receivable	**1**	Non-interest bearing receivable on rental fees
Deposit liabilities*	**991**	With annual fixed interest rates ranging from 0.00% to 2.88% including time deposits with maturity terms from 30 to 35 days
Volume:		
Receivables from customers	**152**	Generally similar to terms and conditions above
Accounts receivable	**(1)**	Generally similar to terms and conditions above
Deposit liabilities	**155**	Generally similar to terms and conditions above
Securities transactions		
Outright sales	**1,269**	Outright sale of investment securities at FVTPL and FVOCI
Foreign currency		
Buy	**109**	Outright purchase of foreign currency
Sell	**13**	Outright sale of foreign currency

Category	Amount	Terms and Conditions/Nature
Other Related Parties		
Outstanding Balance:		
Receivables from customers*	**₱36,703**	Secured - ₱6.3 billion and unsecured - ₱30.3 billion, with ECL of ₱8.8 million and with annual fixed interest rates ranging from 3.88% to 5.88% and maturity terms from 28 days to 5 years
Accounts receivable	**2**	Credit card receivables; current/non-revolving
Assets held under joint operations	**219**	Parcels of land and former branch sites of the Parent Company contributed to joint operations
Deposit liabilities*	**11,343**	With annual fixed rates ranging from 0.00% to 3.50% including time deposits with maturity terms from 1 to 357 days
Volume:		
Receivables from customers	**7,231**	Generally similar to terms and conditions above
Accounts receivable	**(1)**	Generally similar to terms and conditions above
Deposit liabilities	**(2,478)**	Generally similar to terms and conditions above
Bills payable	**(51)**	Generally similar to terms and conditions above
Securities transactions		
Outright sales	**169**	Outright sale of investment securities at FVTPL and FVOCI
Foreign currency		
Buy	**233**	Outright purchases of foreign currency
Sell	**1,017**	Outright sale of foreign currency
Key Personnel		
Outstanding Balance:		
Receivables from customers	**₱77**	Secured - ₱60.3 million, unsecured - ₱16.8 million, no impairment. With annual fixed interest rate ranging from 0.00% to 10.00% and maturity terms from 1 to 15 years
Deposit liabilities	**173**	With various terms and with minimum annual interest rate of 0.00%
Volume:		
Receivables from customers	**(8)**	Generally similar to terms and conditions above
Deposit liabilities	**7**	Generally similar to terms and conditions above

December 31, 2018 (Audited)

Category	Amount	Terms and Conditions/Nature
Entity with Significant Influence Over the Group		
Outstanding Balance:		
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
Bills payable*	**204**	Peso borrowings subject to annual fixed interest rate ranging from 4.25% to 4.38% with maturity term of 45 days
Volume:		
Deposit liabilities	**464**	Generally similar to terms and conditions above
Bills payable	**204**	Generally similar to terms and conditions above
Subsidiaries		
Outstanding Balance:		
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 days to 184 days with minimal ECL
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
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
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
Bonds payable*	**81**	Issued by FMIC with interest rate of 5.75% and maturity term of 5 years
Treasury stock	**67**	Parent Company's shares held by FMIC's mutual fund subsidiary
Dividends declared	**2,255**	Dividends declared by PSBank, MCC and MB Bahamas

Category	Amount	Terms and Conditions/Nature
Volume:		
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
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		
Outstanding Balance:		
Receivable from customers *	**₱703**	Unsecured with ECL of ₱0.01 million; with annual fixed interest rate 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
Investment 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
Dividends declared	**10**	Dividends declared by NLI
Volume:		
Receivable from customers	**703**	Generally similar to terms and conditions above
Deposit liabilities	**(289)**	Generally similar to terms and conditions above
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		
Outstanding Balance:		
Receivables from customers*	**₱29,472**	Secured - ₱5.2 billion and unsecured - ₱24.2 billion, with expected credit loss 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
Accounts receivable	**3**	Credit card receivables, current and non-revolving
Assets held under joint operations	**219**	Parcels of land and former branch sites of the Parent Company contributed to joint operations
Deposit liabilities*	**13,821**	With annual fixed rates ranging from 0.00% to 4.00% including time deposits with maturity terms from 6 to 359 days
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
Volume:		
Receivable 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
Contingent		
Others	**3**	Bank guaranty with indemnity agreement
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 to 15 years
Deposit liabilities	**166**	With various terms and with minimum annual interest rates ranging from 0.00% to 6.00%, with interest of ₱0.7 million

Category	Amount	Terms and Conditions/Nature
Volume:		
Receivables from customers	**9**	Generally similar to terms and conditions above
Deposit liabilities	**2**	Generally similar to terms and conditions above

Transactions Affecting Statements of Income		
September 30, 2019 (Unaudited) - Amount		
Entity with Significant Influence Over the Group		
Service charges, fees and commissions	**₱129**	Financial advisory fees
Interest expense	**10**	Interest expense on deposit liabilities and bills payable
Subsidiaries		
Interest income	**₱704**	Interest income on receivables from customers and interbank loans receivables
Service charges, fees and commissions	**80**	Income on transactional fees, including underwriting fees
Trading, securities and foreign exchange gain - net	**329**	Net gain from securities and foreign exchange transactions
Leasing income	**42**	Income from leasing agreements with various lease terms
Miscellaneous income	**264**	Information technology and other fees
Interest expense	**41**	Interest expense on deposit liabilities, bills payable and bonds payable
Associates		
Interest income	**₱37**	Income on receivables from customers
Trading, securities and foreign exchange gain – net	**4**	Net gain from securities transactions
Leasing income	**13**	Income from leasing agreements with various lease terms
Interest expense	**2**	Interest expense on deposit liabilities
Other Related Parties		
Interest income	**₱793**	Interest income on receivables from customers
Trading, securities and foreign exchange gain -net	**2**	Net gain from foreign exchange transactions
Leasing income	**16**	Income from leasing agreements with various lease terms
Interest expense	**476**	Interest expense on deposit liabilities and bills payable
Key Personnel		
Interest income	**₱2**	Interest income on receivables from customers

September 30, 2018 (Unaudited) - Amount		
Entity with Significant Influence Over the Group		
Interest expense	**₱35**	Interest expense on deposit liabilities and bills payable
Subsidiaries		
Interest income	**₱277**	Interest income on receivables from customers and interbank loans receivables
Service charges, fees and commissions	**312**	Income on transactional fees, including underwriting fees
Trading, securities and foreign exchange gain - net	**91**	Net gain from securities and foreign exchange transactions
Leasing income	**60**	Income from leasing agreements with various lease terms
Miscellaneous income	**195**	Information technology and other fees
Interest expense	**15**	Interest expense on deposit liabilities, bills payable and bonds payable
Associates		
Interest income	**₱6**	Income on receivables from customers
Leasing income	**30**	Income from leasing agreements with various lease terms
Interest expense	**1**	Interest expense on deposit liabilities
Other Related Parties		
Interest income	**₱444**	Interest income on receivables from customers
Trading, securities and foreign exchange gain - net	**1**	Net gain from foreign exchange transactions
Leasing income	**16**	Income from leasing agreements with various lease terms
Interest expense	**543**	Interest expense on deposit liabilities and bills payable
Key Personnel		
Interest income	**₱3**	Interest income on receivables from customers

* including accrued interest

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. Together with the sale of investment properties; borrowings; contingent accounts including derivative transactions; outright purchases and sales of FVTPL and FVOCI investments; foreign currency buy and sell; leasing of office premises; securing of insurance coverage on loans and property risks; and other management services rendered, these are conducted in the normal course of business and at arms-length transactions. The amounts and related volumes and changes are presented in the summary above.

As of September 30, 2019 and December 31, 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, as of September 30, 2019 and December 31, 2018, 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 deposits to the Parent Company.

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 ₱72.3 million and ₱56.7 million in September 30, 2019 and 2018, respectively. As of September 30, 2019 and 2018, the Parent Company sold securities totaling ₱3.7 billion and ₱1.7 billion, respectively, to its related party retirement plans and recognized ₱13.4 million and ₱0.1 million trading loss, respectively and has also purchased securities totaling ₱1.5 billion and ₱197.8 million as of September 30, 2019 and 2018, respectively. Further, as of September 30, 2019 and December 31, 2018, the total outstanding deposit liabilities of the Group to these related party retirement funds amounted to ₱679.4 million and ₱433.6 million, respectively. Interest expense on deposit liabilities amounted to ₱22.6 million and ₱14.4 million in September 30, 2019 and 2018, respectively.

As of September 30, 2019 and December 31, 2018, the related party retirement plans also hold investments in: (a) the equity shares of various companies within the Group amounting to ₱272.1 million and ₱196.3 million, respectively, with unrealized trading losses of ₱23.1 million and ₱14.3 million, respectively; (b) mutual funds and trust funds of various companies within the Group amounting to ₱543.5 million and ₱2.0 billion, respectively, with unrealized trading gains of ₱19.5 million and ₱48.7 million, respectively; and (c) the Peso fixed rate bonds of the Parent Company amounting to ₱3.7 billion and ₱2.1 billion, respectively, with unrealized trading gain of ₱102.2 million and unrealized trading loss of ₱0.1 million, respectively. Further, for the period ended September 30, 2019 and 2018, realized net trading gains for disposals of various investments in equity shares, mutual and trust funds amounted to ₱86.5 million and realized net trading losses amounted to ₱7.3 million, respectively. The related party retirement plans also recognized dividend income of ₱0.7 million for the period ended September 30, 2019.

13. Notes to Statements of Cash Flows

The amounts of interbank loans and receivables and SPURA, gross of allowance for credit losses, considered as cash and cash equivalents follow:

	September 30	
	2019	2018
Interbank loans receivables and SPURA	**42,026**	₱28,522
Interbank loans receivables and SPURA not considered as cash and cash equivalents	**(8,320)**	(10,193)
	₱33,706	₱18,329

14. 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 unaudited interim condensed consolidated financial statements. No material losses are anticipated to be recognized as a result of these transactions.

The following is a summary of contingencies and commitments at their peso-equivalent contractual amounts arising from off-balance sheet items:

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Trust Banking Group accounts	**₱488,756**	₱429,162
Commitments		
Credit card lines	**211,659**	188,211
Undrawn - facilities to lend	**30,215**	6,890
Underwriting	**2,680**	-
Unused commercial letters of credit	**38,847**	43,051
Bank guaranty with indemnity agreement	**10,383**	11,708
Credit line certificate with bank commission	**4,970**	5,509
Outstanding shipside bonds/airway bills	**3,814**	6,350
Inward bills for collection	**2,163**	1,141
Late deposits/payments received	**898**	1,376
Confirmed export letters of credits	**842**	235
Outward bills for collection	**792**	747
Outstanding guarantees	**171**	209
Others	**11,367**	9,080
	₱807,557	₱703,669

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 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 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. Ms. Lopez is serving her prison sentence at the Correctional Institute for Women as her convictions are already final and unappealable. The RTC of Makati also issued judgments in the civil cases 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.

15. 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):

	For the Quarter Ended September 30		For the Nine Months Ended September 30		For the Year Ended December 31, 2018
	2019	2018	**2019**	2018	
	(Unaudited)				(Audited)
a. Net income attributable to equity holders of the Parent Company	**₱8,547**	₱5,744	**₱21,577**	₱16,750	₱22,008
b. Weighted average number of outstanding common shares of the Parent Company	**3,979**	3,708	**3,979**	3,708	3,776
c. Basic/diluted earnings per share (a/b)	**₱2.15**	₱1.55	**₱5.42**	₱4.52	₱5.83

As of September 30, 2019 and 2018 and December 31, 2018, there were no outstanding dilutive potential common shares.

The following basic ratios measure the financial performance of the Group:

	For the Period Ended September 30		For the Year Ended December 31, 2018
	2019	2018	
	(Unaudited)		(Audited)
Return on average equity	**9.79%**	9.32%	9.08%
Return on average assets	**1.26%**	1.06%	1.02%
Net interest margin on average earning assets	**3.91%**	3.88%	3.82%

16. Other Matters

The Group has no significant matters to report on the following during the period ended September 30, 2019:

a. Known trends, events or uncertainties that would have material impact on liquidity and on the sales or revenues;
b. Explanatory comments about the seasonality or cyclicality of interim operations;
c. Issuances, repurchases and repayments of debt and equity securities except for the issuances of the ₱17.5 billion and ₱11.25 billion fixed rate bonds and the redemption of the 2024 Peso Notes by the Parent Company and the issuance of the ₱6.3 billion fixed rate bond of PSBank as discussed in Notes 8 and 9, respectively;
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 10; and
e. Effect of changes in the composition of the Group during the interim period, including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinuing operations except as discussed in Note 2.

17. Subsequent Event

a. On October 4, 2019, the SEC approved the amendment of the AOI on the increase in authorized capital stock of the Parent Company. Further, on October 16, 2019, the Parent Company received the SEC Order fixing the Record Date of the 13% Stock Dividend involving 517,401,955 shares on October 31, 2019. Payment date of November 26, 2019 was set in accordance with the BOD approval and the rules of the PSE.

b. On October 14, 2019, the BOD of PSBank declared a 7.50% regular cash dividend for the third quarter of 2019 amounting to ₱287.33 million or ₱0.75 per share, payable on November 13, 2019 to all stockholders of record as of October 29, 2019.

c. On October 24, 2019, the Parent Company issued ₱13.75 billion fixed rate bonds with issue price at 100% face value, which bear an interest rate of 4.50% per annum and will mature on April 24, 2023.

d. On October 24, 2019, ORIX Metro offered for subscription a 2-year fixed rate peso bond amounting to at least ₱2.0 billion with interest rate of 4.55% per annum with issue date on November 15, 2019.

ANNEX 6

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
FINANCIAL INDICATORS
AS OF AND FOR THE PERIOD ENDED SEPTEMBER 30, 2019 AND 2018

		2019	2018
a)	Liquidity Ratio	36.15%	34.55%
b)	Loans to Deposits Ratio	90.00%	86.25%
c)	Debt to Equity Ratio	661.63%	663.86%
d)	Asset to Equity Ratio	764.56%	766.61%
e)	Return on Average Equity	9.79%	9.32%
f)	Return on Average Assets	1.26%	1.06%
g)	Net Interest Margin on Average Earning Assets	3.91%	3.88%
h)	Operating Efficiency Ratio	54.10%	57.93%
i)	Capital Adequacy Ratio	17.60%	17.76%
j)	Common Equity Tier 1 Ratio	16.29%	15.23%

METROPOLITAN BANK & TRUST COMPANY
SEC FORM 17 – Q
FOR THE PERIOD ENDED SEPTEMBER 30, 2019

ITEM 2 – MANAGEMENT'S DISCUSSION AND ANALYSIS OF CONSOLIDATED FINANCIAL POSITION AND RESULTS OF OPERATIONS

Key Performance Indicators

Financial Ratios

The following ratios measure the financial performance of the Group, the Bank, and significant subsidiaries:

	For the Period Ended September 30, 2019 (Unaudited)				
	Group	**Metrobank**	**FMIC**	**PSBank**	**MCC**
Earnings per share	₱5.42	₱5.42	₱1.83	₱5.80	₱3.40
Return on equity	9.79%	9.47%	5.48%	9.85%	27.64%
Return on assets	1.26%	1.50%	1.81%	1.23%	5.37%
Operating efficiency ratio	54.10%	56.60%	75.39%	61.76%	31.98%
Non-performing loans ratio	1.52%	1.13%	Nil	2.70%	1.67%

	For the Period Ended September 30, 2018 (Unaudited)				
	Group	**Metrobank**	**FMIC**	**PSBank**	**MCC**
Earnings per share	₱4.52	₱4.52	₱0.97	₱7.92*	₱3.59
Return on equity	9.32%	9.05%	2.99%	11.56%	35.52%
Return on assets	1.06%	1.29%	0.90%	1.18%	6.34%
Operating efficiency ratio	57.93%	62.92%	161.55%	64.46%	30.88%
Non-performing loans ratio	1.16%	0.69%	Nil	2.39%	1.62%

* *Restated to show the effect of stock rights issued in 2019 for PSBank.*

Earnings Per Share

Basic earnings per share (EPS) is computed by dividing the net income by the weighted average number of common shares outstanding after giving retroactive effect to stock dividends declared, stock rights exercised and stock splits made during the period, if any. As of September 30, 2019 and 2018, the Parent Company had no shares of stock that had a dilutive effect on its basic earnings per share.

The increase in the Group's EPS from ₱4.52 to ₱5.42 was due to the 28.82% improvement in net income attributable to the equity holders of the Parent Company from ₱16.75 billion for the period ended September 30, 2018 to ₱21.58 billion for the same period in 2019.

Return on Equity

Return on equity (ROE) or the ratio of annualized net income to average capital funds (equity attributable to equity holders of the Parent Company) measures the return on capital provided by the stockholders.

ROE of the Group for the period ended September 30, 2019 was higher at 9.79% compared with 9.32% for the same period in 2018 due to the net effect of the 28.82% increase in the net income attributable to equity holders of the Parent Company and the 22.57% increase in the average equity.

Return on Assets
Return on assets (ROA) or the ratio of annualized net income to average total assets, measures the return on money provided by both stockholders and creditors, as well as how efficiently all assets are managed.

ROA went up to 1.26% for the period ended September 30, 2019 from 1.06% for the same period in 2018 due to the net effect of the 28.82% increase in net income attributable to the equity holders of the Parent Company and the 8.69% increase in the average total assets.

Operating Efficiency Ratio
Operating efficiency ratio represents the ratio of total operating expenses (excluding provisions for credit and impairment losses and income tax) to total operating income (excluding share in net income of associates and a joint venture).

For the period ended September 30, 2019, the Group's operating efficiency ratio went down to 54.10% from 57.93% for the same period in 2018 resulting from higher operating income by 16.93% compared with the 9.19% increase in operating expenses.

Non-Performing Loans Ratio
Non-performing loans (NPL) ratio represents the ratio of NPLs to gross loan portfolio, excluding interbank loans receivable.

As of September 30, 2019 and 2018, NPL ratio of the Group was at 1.52% and 1.16%, respectively.

Liquidity
To ensure that funds are more than adequate to meet its obligations, the Bank proactively monitors its liquidity position daily. Based on this system of monitoring, the Bank does not anticipate having any cash flow or liquidity problem within the next twelve months. As of September 30, 2019, the contractual maturity profile shows that the Bank has at its disposal about ₱991.63 billion of cash inflows in the next twelve months from its portfolio of cash, placements with banks, debt securities and receivable from customers. This will cover 74.33% of the ₱1.33 trillion total deposits maturing during the same period. These cash inflows exclude securities in FVTPL and FVOCI with maturities beyond one year but may easily be liquidated in an active secondary market. Inclusive of these securities, the total financial assets will cover 82.84% of the total deposits maturing during the same period. On the other hand, historical balances of deposits showed that no substantial portion has been withdrawn in one year.

Events That Will Trigger Material Direct or Contingent Financial Obligation
These events are discussed in Annex 5 under Note 14 - Commitments and Contingent Liabilities of the General Notes to the Interim Condensed Consolidated Financial Statements.

Material Off-Balance Sheet Transactions, Arrangements or Obligations
The summary of contingencies and commitments at their peso-equivalent contractual amounts arising from off-balance sheet items are discussed in Annex 5 under Note 14 - Commitments and Contingent Liabilities of the General Notes to the Interim Condensed Consolidated Financial Statements. Likewise, the summary of obligations are discussed in Note 6 - LTNCD; Note 8 - Bonds Payable; Note 9 - Subordinated Debts and Note 10 - Capital Stock.

Material Commitments for Capital Expenditures
For the year 2019, the Bank estimates to incur capital expenditures of about ₱2.0 to ₱4.0 billion**,** of which 50% is estimated to be incurred for information technology.

Material Events or Uncertainties

The registrant has nothing to report on the following for the period ended September 30, 2019:

1. Any known trends or demands, commitments, events or uncertainties that will have a material impact on liquidity or that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations, except as disclosed in Annex 5 under Note 16 - Other Matters; and Note 17 - Subsequent Events of the General Notes to the Interim Condensed Consolidated Financial Statements;

2. Any seasonal aspects that had a material effect on the financial condition or results of operations; and

3. Any significant element of income or loss that did not arise from continuing operations.

Material Changes in Financial Statements Accounts

Financial Condition

September 30, 2019 (Unaudited) vs. December 31, 2018 (Audited)

The Metrobank Group posted unaudited consolidated total assets of ₱2.33 trillion and consolidated total liabilities of ₱2.02 trillion as of September 30, 2019. Compared with the audited figures as of December 31, 2018, total assets and total liabilities went up by ₱85.56 billion or 3.81% and by ₱62.69 billion or 3.21%, respectively. Moreover, equity attributable to equity holders of the Parent Company was higher by ₱21.69 billion or 7.67% from ₱282.96 billion to ₱304.65 billion.

Cash and Other Cash Items decreased by ₱7.57 billion or 22.87% due to the lower level of cash requirements of the Parent Company and PSBank compared with that of year-end due to the holiday seasons. Due from BSP which represents 10.24% of the Group's total assets went down by ₱1.73 billion or 0.72% due to the reserve cuts by the BSP on May 31, 2019, June 28, 2019 and July 26, 2019. Due from Other Banks increased by ₱18.48 billion or 40.35% as a result of the net movements in the balances maintained with various local and foreign banks. Interbank Loans Receivable and SPURA went down by ₱8.70 billion or 17.15% due to the decreases in interbank loans receivable by ₱7.25 billion or 16.99% and in SPURA by ₱1.46 billion or 18.06%.

Total investment securities which consisted of FVTPL, FVOCI and securities at amortized cost and which represents 20.26% and 18.56% of the Group's total assets as of September 30, 2019 and December 31, 2018, respectively, went up by ₱55.46 billion or 13.32%. FVTPL securities consist of HFT securities and derivative assets amounting to ₱69.77 billion and ₱9.11 billion, respectively, as of September 30, 2019 and ₱29.04 billion and ₱10.65 billion, respectively, as of December 31, 2018. The ₱28.98 billion increase in FVOCI securities was mainly due to the net effect of the increases in investments in government bonds (₱26.05 billion) and treasury notes and bonds (₱3.68 billion). On the other hand, the ₱12.71 billion decrease in investment securities at amortized cost was due to various maturities and FMIC's disposal of HTC debt securities as discussed in Annex 5 Note 11.

Loans and Receivables representing 60.64% and 62.00% of the Group's total assets as of September 30, 2019 and December 31, 2018, respectively, went up by ₱21.34 billion due to higher demand on commercial loans. Investments in Associates and a Joint Venture went up by ₱1.03 billion or 17.35% due to take up of share in net income and other comprehensive income of the associates of FMIC.

Property and equipment increased by ₱3.99 billion or 18.19% from ₱21.95 billion to ₱25.95 billion due to the adoption of PFRS 16 which requires recognition by lessees of the assets and related liabilities for most leases on their balance sheets and subsequently depreciates the lease assets and recognizes interest on the lease liabilities in their profit or loss. As of January 1, 2019, the adoption of PFRS 16 resulted in the initial recognition of right-of-use asset classified under "Property and Equipment" and lease liability classified under "Other Liabilities" amounting to ₱4.2 billion. As of September 30, 2019, outstanding balances of these accounts amounted to ₱3.72 billion and ₱4.18 billion, respectively.

Other Assets increased by ₱3.72 billion or 23.63% from ₱15.72 billion to ₱19.44 billion primarily due to the net effect of the increases in miscellaneous assets (which include the funding for retirement), prepaid expenses and returned check and other check items and decreases in inter-office float items and creditable withholding tax.

Deposit liabilities represent 78.22% and 79.71% of the consolidated total liabilities as of September 30, 2019 and December 31, 2018, respectively, wherein low cost deposits represent 63.72% and 61.98% of the Group's total deposits, respectively, while time deposit represent 33.50% and 35.20%, respectively. The Group's deposit level, sourced mainly by the Bank, PSBank and MBCL reached ₱1.58 trillion as of September 30, 2019, an increase of ₱19.81 billion or 1.27% from the December 31, 2018 level.

Bills Payable and SSURA representing 13.65% and 13.29% of the Group's total liabilities as of September 30, 2019 and December 31, 2018, respectively, went up by ₱15.49 billion or 5.97%. The decrease of ₱1.28 billion or 16.95% in Manager's Checks and Demand Drafts Outstanding resulted from the normal banking operations of the Bank and PSBank. Income taxes payable increased by ₱0.37 billion or 13.0% due to settlement of the 2018 income tax liabilities in April 2019 net of accrual for 2019.

Bonds payable increased by ₱31.93 or 103.87% on account of the ₱17.50 billion and ₱11.25 billion fixed rate bonds issued by the Parent Company on April 11, 2019 and July 3, 2019, respectively, and the ₱6.30 billion fixed rate bonds issued by PSBank on July 24, 2019. Details of these bonds are discussed in Annex 5 Note 8.

On June 27, 2019 and August 23, 2019, the Parent Company and PSBank redeemed their 2024 Peso Notes amounting to ₱16.0 billion and ₱3.0 billion, respectively, ahead of its maturity, which caused the decrease in Subordinated Debts. Deferred Tax Liabilities decreased by ₱0.23 billion or 63.87%. Non-equity Non-controlling Interest representing the portion of net income and net assets of the mutual fund subsidiaries of FMIC not attributed to the Group went down by ₱0.45 billion or 6.65% on account of the net decline in income of these mutual funds. Other Liabilities increased by ₱15.72 billion or 34.47% primarily due to the recognition of lease liability as a result of the adoption of PFRS 16 and increases in accounts payable (₱4.34 billion), bills purchased contra (₱4.07 billion), miscellaneous liabilities (₱1.40 billion) and marginal deposits (₱1.01 billion).

The ₱1.18 billion or 15.25% increase in equity of non-controlling interest was attributed to the net income generated by the majority-owned subsidiaries for the period ended September 30, 2019 and the increase in additional paid-in capital due to the stock right issuance of PSBank. Equity attributable to equity holders of the Parent Company increased by ₱21.69 billion or 7.67% mainly due to the net effect of the net income reported during the period, improvement in net unrealized gain on FVOCI and the ₱3.98 billion cash dividends declared and paid during the period.

Results of Operations

<u>Quarter Ended September 2019 vs. Quarter Ended September 2018 (Unaudited)</u>

Unaudited net income attributable to equity holders of the Parent Company reached ₱8.55 billion for the quarter ended September 30, 2019, ₱2.80 billion or 48.80% higher compared with the ₱5.74 billion net income reported for the same quarter of the previous year.

Interest income improved by ₱4.20 billion or 16.88% due mainly to the higher interest income on loans and receivables by ₱3.58 billion, the ₱0.52 billion increase in interest income on investment securities at amortized cost, FVOCI and FVTPL, and the ₱0.10 billion increase in interest income on deposits with banks and others. Meanwhile, the increases in interest expense on deposit liabilities by ₱0.46 billion or 9.22% and interest expense on borrowings by ₱1.70 billion or 75.53% accounted for the ₱2.16 billion or 30.03% increase in interest expense. These resulted in a ₱2.04 billion or 11.53% improvement in net interest income.

Other operating income went up by ₱4.42 billion or 78.97% from ₱5.60 billion for the third quarter of 2018 to ₱10.02 billion for the same quarter this year. The variance was due to the increases in net trading, securities and foreign exchange gain by ₱3.85 billion or 552.44%, fee-based income (service charges, fees and commissions) by ₱0.34 billion or 10.99% and miscellaneous income by ₱0.24 billion or 13.02%. Provision for credit and impairment losses for the third quarter of 2019 was at ₱3.16 billion compared with ₱1.74 billion for the same period in 2018. Total operating expenses increased by ₱1.82 billion or 13.67% as a result of the increases in compensation and fringe benefits by ₱0.60 billion or 10.68% and miscellaneous expenses by ₱1.68 billion or 24.23% while occupancy and equipment-related expenses decreased by ₱0.45 billion. Provision for income tax was higher by ₱0.67 billion or 33.32% due to net movements in corporate, final and deferred income taxes.

Income attributable to non-controlling interests went down to ₱0.22 billion from ₱0.47 billion or by ₱0.25 billion or 52.65% due to decrease in ownership of minority particularly on MCC and PSBank.

Total comprehensive income went up by ₱4.60 billion from ₱4.47 billion for the third quarter of 2018 to ₱9.08 billion for the same period in 2019 mainly due to the net effect of the increase in net income; improvement on the net unrealized loss recognized this year on FVOCI investments; and the increase in translation adjustments and others. As a result, total comprehensive income attributable to equity holders of the Parent Company went up to ₱8.80 billion or by ₱4.24 billion from ₱4.56 billion in 2018.

Period Ended September 2019 vs. Period Ended September 2018 (Unaudited)

Unaudited net income attributable to equity holders of the Parent Company for the period ended September 30, 2019 improved by ₱4.83 billion or 28.82% to ₱21.58 billion from the ₱16.75 billion net income reported in the same period in 2018.

Interest income went up by ₱16.77 billion or 23.85% from ₱70.31 billion to ₱87.08 billion resulting from the higher interest income on loans and receivable by ₱14.63 billion and increases in interest income on investment securities at amortized cost, FVOCI and FVTPL by ₱1.90 billion and on deposit with banks and others by ₱0.24 billion. On the other hand, interest expense increased by ₱11.53 billion or 59.70% from ₱19.31 billion to ₱30.84 billion coming from higher interest expenses on deposit liabilities by ₱5.76 billion or 44.24% and on bills payable and other borrowings by ₱5.77 billion or 91.62%. These resulted in a 10.27% or ₱5.24 billion growth in net interest income.

Other operating income of ₱23.74 billion was higher by ₱6.35 billion or 36.50% compared with ₱17.39 billion for the same period last year due to the increases in net trading, securities and foreign exchange gains by ₱6.05 billion or 287.73% and fee-based income by ₱0.83 billion or 9.11%, while miscellaneous income decreased by ₱0.53 billion.

Total operating expenses increased by ₱3.61 billion or 9.19% from ₱39.29 billion to ₱42.90 billion with higher compensation and fringe benefits by ₱1.47 billion or 9.20% and miscellaneous expenses by ₱3.14 billion or 15.02% of which, ₱0.96 billion pertains to the depreciation expense recognized in 2019 due to the adoption of PFRS 16 (this also caused the decline in occupancy and equipment-related expenses by ₱1.0 billion or 41.90%). Provision for credit and impairment losses increased by ₱2.55 billion from ₱5.21 billion to ₱7.76 billion and provision for income tax was higher by ₱1.39 billion from ₱5.75 billion to ₱7.14 billion due to net movements in corporate, final and deferred income taxes.

Income attributable to non-controlling interests went down to ₱0.60 billion from ₱1.39 billion or by ₱0.79 billion or 56.72% due to decrease in ownership of minority particularly on MCC and PSBank.

Total comprehensive income went up by ₱12.39 billion from ₱15.20 billion to ₱27.59 billion for the period ended September 30, 2018 and 2019, respectively, due to the net effect of the increase in net income; the net unrealized gain recognized this year on FVOCI investments compared with the net unrealized loss recognized in previous year; and the loss recognized in translation adjustments and others. Total comprehensive income attributable to equity holders of the Parent Company for the period ended September 30, 2019, went up to ₱26.31 billion or by ₱12.10 billion from ₱14.21 billion for the same period in 2018.

METROPOLITAN BANK & TRUST COMPANY
(CONSOLIDATED)

AGING OF ACCOUNTS RECEIVABLE
(IN MILLIONS)
AS OF SEPTEMBER 30, 2019

NO. OF DAYS OUTSTANDING		AMOUNT
1-90	₱	4,543
91-180		3,284
181-360		71
OVER 360		3,551
GRAND TOTAL	₱	11,449