**Metrobank**
You're in good hands

February 17, 2021

**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 submit a copy of the Audited Financial Statements of Metropolitan Bank & Trust Company and Subsidiaries as of December 31, 2020 and 2019 and for the years ended December 31, 2020, 2019 and 2018 and the corresponding Management Discussion and Analysis.

Very truly yours,

[redacted]

**Renato K. De Borja, Jr.**
**Senior Vice President/Controller**

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

# COVER SHEET

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SEC Registration Number

METROPOLITAN BANK & TRUST COMPANY

(Company's Full Name)

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

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

RENATO K. DE BORJA, JR.
(Contact Person)

8898-8805
(Company Telephone Number)

1 2 | 3 1
*Month* *Day*
(Fiscal Year)

1 7 - C
(Form Type)

0 4 | 2 8
*Month* *Day*
(Annual Meeting)

NONE
(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

2,999
Total No. of Stockholders

Domestic

Foreign

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To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

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SECURITIES AND EXCHANGE COMMISSION
SEC FORM 17-C

CURRENT REPORT UNDER SECTION 17
OF THE SECURITIES REGULATION CODE
AND SRC RULE 17.2 (C) THEREUNDER

1. February 17, 2021
Date of Report

2. SEC Identification Number 20573 3. BIR Tax Identification No. 000-477-863

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

5. Manila
Province, country or other jurisdiction of incorporation

6. (SEC Use Only)
Industry Classification Code:

7. Metrobank Plaza, Sen. Gil Puyat Avenue
Urdaneta Village, Makati City
Address of principal office

1200
Postal Code

8. (02) 8898-8000
Issuer's telephone number, including area code

9. N.A.
Former name or former address, if changed since last report

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

| Title of Each Class | Number of Shares of Common Stock Outstanding |
|---|---|
| Common Shares | 4,497,415,555 |

11. Indicate the item numbers reported herein:

Item No. 9 – Other Events

Attached is a copy of the Audited Financial Statements of Metropolitan Bank & Trust Company and Subsidiaries as of December 31, 2020 and 2019 and for the years ended December 31, 2020, 2019 and 2018 and the corresponding Management Discussion and Analysis.

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 hereunto duly authorized.

**METROPOLITAN BANK & TRUST COMPANY**
Issuer

By: [redacted]

**RENATO K. DE BORJA, JR.**
Senior Vice President/Controller

**MANAGEMENT DISCUSSION AND ANALYSIS**

The Group's statements of financial position and statements of income as of and for the three years in the period ended December 31, 2020 are presented below.

**Statements of Financial Position**
***(Amounts in millions)***

| | December 31 | | | Increase (Decrease) 2020 vs. 2019 | | Increase (Decrease) 2019 vs. 2018 | |
|---|---|---|---|---|---|---|---|
| | **2020** | **2019** | **2018** | **Amount** | % | **Amount** | % |
| **Assets** | | | | | | | |
| Cash and Other Cash Items | ₱38,469 | ₱32,956 | ₱33,091 | ₱5,513 | **16.73** | (₱135) | (0.41) |
| Due from Bangko Sentral ng Pilipinas | 304,906 | 219,994 | 240,134 | 84,912 | **38.60** | (20,140) | **(8.39)** |
| Due from Other Banks | 38,233 | 54,767 | 45,802 | (16,534) | **(30.19)** | 8,965 | **19.57** |
| Interbank Loans Receivable and Securities Purchased Under Resale Agreements (SPURA) | 79,394 | 72,174 | 50,719 | 7,220 | **10.00** | 21,455 | **42.30** |
| Investment Securities at Fair Value Through Profit or Loss (FVTPL) | 77,551 | 61,867 | 39,689 | 15,684 | **25.35** | 22,178 | **55.88** |
| Fair Value Through Other Comprehensive Income (FVOCI) | 569,445 | 202,520 | 111,288 | 366,925 | **181.18** | 91,232 | **81.98** |
| Amortized Cost | 23,293 | 251,628 | 265,376 | (228,335) | **(90.74)** | (13,748) | **(5.18)** |
| Loans and Receivables | 1,252,929 | 1,483,568 | 1,391,034 | (230,639) | **(15.55)** | 92,534 | **6.65** |
| Property and Equipment | 24,617 | 25,700 | 21,954 | (1,083) | (4.21) | 3,746 | **17.06** |
| Investments in Associates and a Joint Venture | 6,248 | 6,591 | 5,947 | (343) | **(5.20)** | 644 | **10.83** |
| Goodwill | 5,199 | 5,200 | 5,200 | (1) | (0.02) | - | - |
| Investment Properties | 7,667 | 7,762 | 7,500 | (95) | (1.22) | 262 | 3.49 |
| Deferred Tax Assets | 14,028 | 10,512 | 10,238 | 3,516 | **33.45** | 274 | 2.68 |
| Other Assets | 13,184 | 15,574 | 15,721 | (2,390) | **(15.35)** | (147) | (0.94) |
| **Total Assets** | ₱2,455,163 | ₱2,450,813 | ₱2,243,693 | ₱4,350 | 0.18 | ₱207,120 | **9.23** |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Liabilities and Equity** | | | | | | | |
| **Liabilities** | | | | | | | |
| Deposit Liabilities | ₱1,797,215 | ₱1,714,144 | ₱1,556,753 | ₱83,071 | 4.85 | ₱157,391 | **10.11** |
| Bills Payable and Securities Sold Under Repurchase Agreements | 139,614 | 238,281 | 259,607 | (98,667) | **(41.41)** | (21,326) | **(8.21)** |
| Derivative Liabilities | 13,465 | 7,427 | 6,537 | 6,038 | **81.30** | 890 | **13.61** |
| Manager's Checks and Demand Drafts Outstanding | 6,024 | 6,806 | 7,565 | (782) | **(11.49)** | (759) | **(10.03)** |
| Income Taxes Payable | 2,711 | 4,188 | 2,830 | (1,477) | **(35.27)** | 1,358 | **47.99** |
| Accrued Interest and Other Expenses | 9,149 | 10,499 | 9,619 | (1,350) | **(12.86)** | 880 | **9.15** |
| Bonds Payable | 91,397 | 80,486 | 30,743 | 10,911 | **13.56** | 49,743 | **161.80** |
| Subordinated Debts | 1,167 | 7,660 | 26,618 | (6,493) | **(84.77)** | (18,958) | **(71.22)** |
| Non-equity Non-controlling Interest | 8,315 | 6,553 | 6,747 | 1,762 | **26.89** | (194) | (2.88) |
| Other Liabilities | 52,931 | 56,278 | 45,970 | (3,347) | (5.95) | 10,308 | **22.42** |
| Total Liabilities | 2,121,988 | 2,132,322 | 1,952,989 | (10,334) | (0.48) | 179,333 | **9.18** |

| | December 31 | | | Increase (Decrease) 2020 vs. 2019 | | Increase (Decrease) 2019 vs. 2018 | |
|---|---|---|---|---|---|---|---|
| | **2020** | **2019** | **2018** | **Amount** | % | **Amount** | % |
| **Equity** | | | | | | | |
| Equity Attributable to Equity Holders of the Bank | | | | | | | |
| Common stock | ₱89,948 | ₱89,948 | ₱79,600 | ₱- | - | ₱10,348 | **13.00** |
| Capital paid in excess of par value | 85,252 | 85,252 | 85,252 | - | - | - | - |
| Surplus reserves | 2,260 | 2,098 | 1,956 | 162 | **7.72** | 142 | **7.26** |
| Surplus | 153,282 | 144,154 | 130,550 | 9,128 | **6.33** | 13,604 | **10.42** |
| Treasury stock | (65) | (72) | (67) | 7 | **9.72** | (5) | **(7.46)** |
| Remeasurement losses on retirement plan | (4,778) | (5,531) | (3,591) | 753 | **13.61** | (1,940) | **(54.02)** |
| Net unrealized gain (loss) on investment securities at FVOCI | 7,611 | 2,629 | (2,994) | 4,982 | **189.50** | 5,623 | **187.81** |
| Equity in other comprehensive income (losses) of investees | (22) | 345 | (27) | (367) | **(106.38)** | 372 | **1,377.78** |
| Translation adjustment and others | (9,284) | (9,269) | (7,719) | (15) | (0.16) | (1,550) | **(20.08)** |
| | **324,204** | **309,554** | **282,960** | **14,650** | 4.73 | **26,594** | **9.40** |
| Non-controlling Interest | 8,971 | 8,937 | 7,744 | **34** | **0.38** | **1,193** | **15.40** |
| Total Equity | 333,175 | 318,491 | 290,704 | 14,684 | 4.61 | 27,787 | 9.56 |
| **Total Liabilities and Equity** | ₱2,455,163 | ₱2,450,813 | ₱2,243,693 | ₱4,350 | **0.18** | ₱207,120 | **9.23** |

## Statements of Income

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Interest Income | ₱107,787 | ₱116,183 | ₱97,186 | (₱8,396) | **(7.23)** | ₱18,997 | **19.55** |
| Interest and Finance Charges | 21,680 | 39,186 | 28,364 | (17,506) | **(44.67)** | 10,822 | **38.15** |
| Net Interest Income | 86,107 | 76,997 | 68,822 | 9,110 | **11.83** | 8,175 | **11.88** |
| Provision for Credit and Impairment Losses | 40,760 | 10,078 | 7,770 | 30,682 | **304.45** | 2,308 | **29.70** |
| Net Interest Income After Provision for Credit and Impairment Losses | 45,347 | 66,919 | 61,052 | (21,572) | **(32.24)** | 5,867 | **9.61** |
| Other Operating Income | 35,129 | 29,054 | 22,910 | 6,075 | **20.91** | 6,144 | **26.82** |
| Other Operating Expenses | 60,120 | 57,906 | 53,656 | 2,214 | 3.82 | 4,250 | **7.92** |
| Income Before Share in Net Income of Associates and a Joint Venture | 20,356 | 38,067 | 30,306 | (17,711) | **(46.53)** | 7,761 | **25.61** |
| Share in Net Income of Associates and a Joint Venture | 664 | 868 | 874 | (204) | **(23.50)** | (6) | (0.69) |
| Income Before Income Tax | 21,020 | 38,935 | 31,180 | (17,915) | **(46.01)** | 7,755 | **24.87** |
| Provision for Income Tax | 7,046 | 10,061 | 7,745 | (3,015) | **(29.97)** | 2,316 | **29.90** |
| **Net Income** | ₱13,974 | ₱28,874 | ₱23,435 | (₱14,900) | **(51.60)** | ₱5,439 | **23.21** |
| Attributable to: | | | | | | | |
| Equity holders of the Bank | ₱13,831 | ₱28,055 | ₱22,008 | (₱14,224) | **(50.70)** | ₱6,047 | **27.48** |
| Non-controlling interest | 143 | 819 | 1,427 | (676) | **(82.54)** | (608) | **(42.61)** |
| | ₱13,974 | ₱28,874 | ₱23,435 | (₱14,900) | **(51.60)** | ₱5,439 | **23.21** |

## Statements of Comprehensive Income

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Net Income | ₱13,974 | ₱28,874 | ₱23,435 | (₱14,900) | **(51.60)** | ₱5,439 | **23.21** |
| Other Comprehensive Income for the Year, net of tax | | | | | | | |
| Items that may not be reclassified to profit or loss: | | | | | | | |
| Change in net unrealized loss on equity securities at FVOCI | (94) | (414) | (351) | 320 | **77.29** | (63) | **(17.95)** |
| Change in remeasurement gain (loss) on retirement plans | 794 | (2,038) | 498 | 2,832 | **138.96** | (2,536) | **(509.24)** |
| Items that may be reclassified to profit or loss: | | | | | | | |
| Change in net unrealized gain (loss) on investment in debt securities at FVOCI | 5,038 | 6,142 | (2,443) | (1,104) | **(17.97)** | 8,585 | **351.41** |
| Change in equity in other comprehensive income (loss) of investees | (370) | 375 | (50) | (745) | **(198.67)** | 425 | **850.00** |
| Translation adjustment and others | (23) | (399) | (309) | 376 | **94.24** | (90) | **(29.13)** |
| | 4,645 | 6,118 | (2,802) | (1,473) | **(24.08)** | 8,920 | **318.34** |
| Total Comprehensive Income for the Year | ₱19,319 | ₱32,540 | ₱20,780 | (₱13,221) | **(40.63)** | ₱11,760 | **56.59** |
| Attributable to: | | | | | | | |
| Equity holders of the Bank | ₱19,140 | ₱31,214 | ₱19,665 | (₱12,074) | **(38.68)** | ₱11,549 | **58.73** |
| Non-controlling Interest | 179 | 1,326 | 1,115 | (1,147) | **(86.50)** | 211 | **18.92** |
| | ₱19,319 | ₱32,540 | ₱20,780 | (₱13,221) | **(40.63)** | ₱11,760 | **56.59** |

***Key Performance Indicators***

The performance of the Bank and its significant majority-owned subsidiaries are measured by the following key indicators:

| **Company Name** | **Performance Indicators** | | | | |
|---|---|---|---|---|---|
| | **Book Value Per Share** | **Basic/ Diluted Earnings Per Share** | **Return on Average Equity** | **Return on Average Assets** | **Net Interest Margin on Average Earning Assets** |

**For the Year 2020**

| | | | | | |
|---|---|---|---|---|---|
| Metrobank Group | ₱72.10 | ₱3.08 | 4.36% | 0.56% | 3.98% |
| FMIC (a) | 40.26 | 0.98 | 2.45% | 1.05% | 2.18% |
| PSBank | 81.82 | 2.63 | 3.21% | 0.50% | 7.26% |

**For the Year 2019**

| | | | | | |
|---|---|---|---|---|---|
| Metrobank Group | ₱68.84 | ₱6.24 | 9.47% | 1.20% | 3.84% |
| FMIC (a) | 39.66 | 1.08 | 2.72% | 1.02% | 0.58% |
| PSBank | 91.38 | 8.03 | 10.29% | 1.31% | 5.82% |
| MCC (b) | 19.48 | 4.91 | 28.63% | 5.55% | 13.50% |

*(a) FMIC and Subsidiaries*
*(b) MCC was merged into the Parent Company effective January 3, 2020*

A separate schedule showing financial soundness indicators of the Group as of December 31, 2020 and 2019 is presented in Exhibit "A" as an attachment to this report.

**2020 Performance**

***Financial Position***

As of December 31, 2020, the Metrobank Group posted a total assets of ₱2.46 trillion or higher by ₱4.35 billion compared with ₱2.45 trillion as of December 31, 2019. Total liabilities of the Group decreased to ₱2.12 trillion from ₱2.13 trillion or by ₱10.33 billion. On the other hand, equity attributable to equity holders of the Parent Company was higher by ₱14.65 billion from ₱309.55 billion to ₱324.20 billion.

Cash and Other Cash Items increased by ₱5.51 billion or 16.73%. Due from BSP which represents 12.42% of the Group's total assets increased by 38.60% due to the net effect of the increase in overnight deposit facility placement and term deposit with the BSP and lower reserve requirement. Due from Other Banks decreased by ₱16.53 billion or 30.19% as a result of the net movements in the balances maintained with various local and foreign banks. Interbank Loans Receivable and SPURA went up by ₱7.22 billion or 10.0% due to the ₱20.25 billion increase in interbank loans receivable reduced by the ₱13.03 billion decrease in securities under resale agreement with the BSP.

Total investment securities which consisted of FVTPL, FVOCI and securities at amortized cost and represents 27.30% and 21.05% of the Group's total assets as of December 31, 2020 and 2019, respectively, went up by ₱154.27 billion or 29.90%. FVTPL securities consist of HFT securities and derivative assets amounting to ₱65.71 billion and ₱11.85 billion, respectively, as of December 31, 2020 and ₱53.38 billion and ₱8.49 billion, respectively, as of December 31, 2019. The ₱366.93 billion increase in FVOCI securities was mainly due to the net effect of the increases in investments in treasury notes and bonds (₱230.56 billion), treasury bills (₱81.50 billion) and BSP bonds (₱30.05 billion). In 2020, the Group disposed of investment securities at amortized cost as discussed in Note 8 of the audited financial statements of the Group as presented in Exhibit B.

Net loans and receivables, representing 51.03% and 60.53% of the Group's total assets as of December 31, 2020 and 2019, respectively, went down by ₱230.64 billion or 15.55% due to lower portfolios of corporate, commercial and consumer loans. Investments in Associates and a Joint Venture went down by ₱0.34 billion or 5.20% due to lower net income and other comprehensive income of the associates and a joint venture. Deferred Tax Assets increased by ₱3.52 billion or 33.45% due to movements on temporary tax differences. Other Assets decreased by ₱2.39 billion or 15.35% from ₱15.57 billion to ₱13.18 billion primarily due to the decreases in interoffice float items and creditable withholding tax.

Deposit liabilities represent 84.69% and 80.39% of the consolidated total liabilities as of December 31, 2020 and 2019, respectively, wherein, low cost deposits represent 72.97% and 62.86% of the Group's total deposits, respectively. The Group's deposit level, sourced by the Bank, PSBank and MBCL reached ₱1.80 trillion as of December 31, 2020, an increase of ₱83.07 billion or 4.85% from ₱1.71 trillion as of December 31, 2019. The increment came from demand and savings by ₱103.51billion and ₱130.35 billion, respectively, while time deposits went down by ₱142.79 billion. Further, the ₱8.00 billion long-term negotiable certificates of deposits of the Parent Company had matured in April 2020.

Bills Payable and SSURA representing 6.58% and 11.17% of the Group's total liabilities as of December 31, 2020 and 2019, respectively, went down by ₱98.67 billion or 41.41% due to the net effect of lower borrowings from foreign banks by ₱38.43 billion, local banks by ₱7.81 billion and deposit substitutes by ₱53.99 billion offset by the ₱1.57 billion increase in SSURA. Derivative Liabilities which represent mark-to-market of foreign currency forwards, interest rate swaps, cross currency swaps, credit default swaps and foreign currency options with negative fair value increased by ₱6.04 billion or 81.30%.

The decrease of ₱0.78 billion or 11.49% in Manager's Checks and Demand Drafts Outstanding resulted from normal banking operations of the Bank and PSBank. Income taxes payable decreased by ₱1.48 billion or 35.27% and Accrued Interest and Other Expenses went down by ₱1.35 billion or 12.86% due to decrease in accruals of interest expenses. Bonds payable increased by ₱10.91 billion or 13.56% on account of the ₱4.65 billion fixed rate bonds issued by PSBank, the ₱10.50 billion fixed rate bonds and USD500 million senior unsecured notes net of the maturity of ₱28.0 billion fixed rate bonds issued by the Parent Company. Details of these bonds are discussed in Note 19 of the audited financial statements of the Group as presented in Exhibit B. On August 8, 2020, the Parent Company redeemed its 2025 Notes ahead of its maturity, which caused the decrease in Subordinated Debts.

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 up by ₱1.76 billion or 26.89% due to the net effect of the increase in income and the decrease in ownership of these mutual funds. Other Liabilities decreased by ₱3.35 billion or 5.95% primarily due to the decreases in bills purchased contra (₱3.10 billion), notes payable (maturity in 2020 of the unsecured notes issued by ORIX Metro amounting to ₱2.59 billion) and marginal deposits (₱0.77 billion) offset by the increases in accounts payable (₱2.59 billion) and miscellaneous liabilities (₱2.84 billion).

Equity attributable to equity holders of the Parent Company increased by ₱14.65 billion or 4.73% mainly due to the net income reported during the year and improvement in net unrealized gain on investment securities at FVOCI.

***Results of Operations***

For the year ended, interest income went down by ₱8.40 billion or 7.23% resulting from lower interest income on loans and receivables by ₱10.16 billion partially offset by the improvements in interest income on investment securities by ₱0.54 billion and on interbank loans receivable, deposit with banks and others by ₱1.22 billion. Meanwhile, lower interest expense on deposit liabilities by ₱12.08 billion and on borrowings by ₱5.43 billion accounted for the decrease of ₱17.51 billion or 44.67% in interest and finance charges. These resulted to a ₱9.11 billion or 11.83% improvement on net interest income.

Other operating income of ₱35.13 billion increased by ₱6.08 billion or 20.91% from ₱29.05 billion in 2019 on account of higher net trading and securities and gain by ₱1.24 billion and foreign exchange gain by ₱0.61 billion net of the decreases in fee-based income by ₱2.56 billion and miscellaneous income by ₱0.73 billion. The disposal of investment securities at amortized cost by the Group in 2020 (as discussed in Note 8 of the audited financial statements of the Group as presented in Exhibit B) resulted to a gain of ₱8.18 billion.

Total operating expenses increased by ₱2.21 billion or 3.82% from ₱57.91 billion to ₱60.12 billion with higher compensation and fringe benefits by ₱1.18 billion or 4.99%, occupancy and equipment-related costs by ₱0.21 billion or 11.41% and miscellaneous expenses by ₱1.10 billion or 6.66%. To recognize the impact of the current COVID-19 pandemic, the Group's provision for credit and impairment losses was increased to ₱40.76 billion from ₱10.08 billion in previous year. Provision for income tax was lower by ₱3.02 billion from ₱10.06 billion to ₱7.05 billion due to net movements in corporate, final and deferred income taxes.

Income attributable to non-controlling interests went down to ₱0.14 billion from ₱0.82 billion or by ₱0.68 billion or 82.54% due to lower net income. The audited income attributable to equity holders of the Parent Company for the year 2020 went down by ₱14.22 billion or 50.70% to P13.83 billion from the P28.06 billion net income reported in 2019.

Total comprehensive income went down by ₱13.22 billion from ₱32.54 billion to ₱19.32 billion for the year ended December 31, 2020 and 2019, respectively, due to the net effect of the decrease in net income, lower net unrealized gain recognized this year on FVOCI investments and the gain recognized in retirement liability. Total comprehensive income attributable to equity holders of the Parent Company for the year ended December 31, 2020, went down to ₱19.14 billion or by ₱12.07 billion from ₱31.21 billion for the same year in 2019.

Market share price was at ₱49.05 from ₱66.30 as of December 31, 2019 with a market capitalization of ₱220.60 billion as at December 31, 2020.

**2019 Performance**

***Financial Position***

As of December 31, 2019, the Metrobank Group posted a 9.23% growth in total assets from ₱2.24 trillion as of December 31, 2018 to ₱2.45 trillion. Total liabilities of the Group increased to ₱2.13 trillion from ₱1.95 trillion or by 9.18%. Moreover, equity attributable to equity holders of the Parent Company was higher by 9.40% from ₱282.96 billion to ₱309.55 billion.

Due from BSP which represents 8.98% of the Group's total assets decreased by 8.39% due to the various reserve cuts in 2019. Due from Other Banks increased by ₱8.97 billion or 19.57% as a result of the net movements in the balances maintained with various local and foreign banks. Interbank Loans Receivable and SPURA went up by ₱21.46 billion or 42.30% primarily due to the increase in securities under resale agreement with the BSP.

Total investment securities which consisted of FVTPL, FVOCI and securities at amortized cost and represents 21.05% and 18.56% of the Group's total assets as of December 31, 2019 and 2018, respectively, went up by ₱99.66 billion or 23.94%. FVTPL securities consist of HFT securities and derivative assets amounting to ₱53.38 billion and ₱8.49 billion, respectively, as of December 31, 2019 and ₱29.04 billion and ₱10.65 billion, respectively, as of December 31, 2018. The ₱91.23 billion increase in FVOCI securities was mainly due to the net effect of the increases in investments in government bonds (₱25.87 billion) and treasury notes and bonds (₱71.01 billion). On the other hand, the ₱13.75 billion decrease in investment securities at amortized cost was due to various maturities and FMIC's disposal of HTC debt securities as discussed in Note 8 of the audited financial statements of the Group as presented in Exhibit B.

Loans and Receivables, representing 60.53% and 62.0% of the Group's total assets as of December 31, 2019 and 2018, respectively, went up by ₱92.53 billion or 6.65% driven by the strong demand for loans from all segments. Non-performing loans were at 1.30% of the total receivables from customers as of December 31, 2019. Investments in Associates and a Joint Venture went up by ₱0.64 billion or 10.83% due to the share in net income and other comprehensive income of the associates of FMIC. Property and equipment increased by ₱3.75 billion or 17.06% from ₱21.95 billion to ₱25.70 billion resulting from the adoption of PFRS 16 effective January 1, 2019 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. Upon adoption, initial recognition of right-of-use asset classified under "Property and Equipment" amounted to ₱4.2 billion and lease liability classified under "Other Liabilities" amounted to ₱4.5 billion.

Deposit liabilities represent 80.39% and 79.71% of the consolidated total liabilities as of December 31, 2019 and 2018, respectively, wherein, low cost deposits represent 62.86% and 61.98% of the Group's total deposits, respectively. The Group's deposit level, sourced by the Bank, PSBank and MBCL reached ₱1.71 trillion as of December 31, 2019, an increase of ₱157.39 billion or 10.11% from ₱1.56 trillion as of December 31, 2018. The increment came from CASA by ₱112.56 billion or 11.67% and time deposits by ₱44.88 billion or 8.19%.

Bills Payable and SSURA representing 11.17% and 13.29% of the Group's total liabilities as of December 31, 2019 and 2018, respectively, went down by ₱21.33 billion or 8.21% due to the net effect of lower borrowings from local banks by ₱23.95 billion, from BSP by ₱21.50 billion and SSURA by ₱3.76 billion offset by the increases in borrowings from foreign banks by ₱19.90 billion and deposits substitutes by ₱7.97 billion. Derivative Liabilities which represent mark-to-market of foreign currency forwards, interest rate swaps, cross currency swaps, credit default swaps and foreign currency options with negative fair value increased by ₱0.89 billion or 13.61%.

The decrease of ₱0.76 billion or 10.03% in Manager's Checks and Demand Drafts Outstanding resulted from normal banking operations of the Bank and PSBank. Income taxes payable increased by ₱1.36 billion or 47.99% while Accrued Interest and Other Expenses went up by ₱0.88 billion or 9.15% due to increase in accruals of other bank expenses. Bonds payable increased by ₱49.74 billion or 161.80% on account of the ₱17.50 billion, ₱11.25 billion and ₱13.75 billion fixed rate bonds issued by the Parent Company on April 11, 2019, July 3, 2019 and October 24, 2019, respectively; the ₱6.30 billion fixed rate bonds issued by PSBank on July 24, 2019; and the ₱4.16 billion fixed rate bonds issued by ORIX Metro on November 15, 2019 reduced by the maturity of the ₱2.92 billion fixed rate bonds of FMIC in August 2019. Details of these bonds are discussed in Note 19 of the audited financial statements of the Group as presented in Exhibit 4. 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.

Other Liabilities increased by ₱10.31 billion or 22.42% primarily due to the recognition of lease liability as a result of the adoption of PFRS 16 (₱4.04 billion) and increases in marginal deposits (₱2.14 billion), bills purchased contra (₱1.92 billion) and accounts payable (₱1.81 billion).

The ₱1.19 billion or 15.40% increase in equity of non-controlling interest was attributed to the net income generated by the majority-owned subsidiaries for the year ended December 31, 2019 and the net effect of PSBank's stock rights in January 2019 and the increase in the ownership of the Bank. Equity attributable to equity holders of the Parent Company increased by ₱26.59 billion or 9.40% mainly due to the net effect of the net income reported during the year and improvement in net unrealized gain on FVOCI.

***Results of Operations***

Net income attributable to equity holders of the Bank amounted to ₱28.06 billion for the year 2019 or 27.48% higher compared with ₱22.01 billion net income for the year 2018.

Interest income improved by ₱19.0 billion or 19.55% resulting from higher interest income on loans and receivables by ₱16.19 billion, on investment securities at FVTPL and FVOCI by ₱2.73 billion and on deposit with banks and others by ₱0.23 billion. Meanwhile, higher interest expense on deposit liabilities by ₱4.44 billion and on borrowings by ₱6.38 billion accounted for the increase of ₱10.82 billion or 38.15% in interest and finance charges. These resulted to a ₱8.18 billion or 11.88% improvement on net interest income.

Other operating income of ₱29.05 billion increased by ₱6.14 billion or 26.82% from ₱22.91 billion in 2018 on account of higher net trading and securities and foreign exchange gains by ₱6.52 billion and fee-based income by ₱1.57 billion reduced by the ₱1.01 billion lower miscellaneous income.

Total operating expenses increased by ₱4.25 billion or 7.92% from ₱53.66 billion to ₱57.91 billion with higher compensation and fringe benefits by ₱1.34 billion or 5.98%, taxes and licenses by P1.44 billion or 16.44%, depreciation and amortization of ₱1.45 billion or 35.60%, of which ₱1.30 billion pertains to the depreciation expense recognized in 2019 due to the adoption of PFRS 16 (resulted in the decline in occupancy and equipment related expenses by ₱1.33 billion), and miscellaneous expenses by ₱1.34 billion or 8.80%. Provision for credit and impairment losses increased by ₱2.31 billion from ₱7.77 billion to ₱10.08 billion and provision for income tax was higher by ₱2.32 billion from ₱7.75 billion to ₱10.06 billion due to net movements in corporate, final and deferred income taxes.

Income attributable to non-controlling interests went down to ₱0.82 billion from ₱1.43 billion or by ₱0.61 billion or 42.61% due to decrease in ownership of minority particularly on MCC and PSBank.

Total comprehensive income went up by ₱11.76 billion from ₱20.78 billion to ₱32.54 billion for the year ended December 31, 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 retirement liability. Total comprehensive income attributable to equity holders of the Parent Company for the year ended December 31, 2019, went up to ₱31.21 billion or by ₱11.55 billion from ₱19.67 billion for the same year in 2018.

Market share price was at ₱66.30 from ₱80.95 as of December 31, 2018 with a market capitalization of ₱298.18 billion as at December 31, 2019.

Exhibit A

**METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES**
**FINANCIAL INDICATORS**
**AS OF DECEMBER 31, 2020 AND 2019**

| | RATIO | FORMULA | 2020 | 2019 |
|---|---|---|---|---|
| a) | Liquidity Ratio | Liquid Assets / Total Assets | 46.08% | 36.56% |
| b) | Loans to Deposits Ratio | Total Loans / Total Deposit Liabilities | 72.18% | 86.67% |
| c) | Debt to Equity Ratio | Total Liabilities / Total Equity Attributable to Equity Holders of the Parent Company | 654.52% | 688.84% |
| d) | Asset to Equity Ratio | Total Assets / Total Equity Attributable to Equity Holders of the Parent Company | 757.29% | 791.72% |
| e) | Return on Average Equity | Net Income Attributable to Equity Holders of the Parent Company / Average Equity | 4.36% | 9.47% |
| f) | Return on Average Assets | Net Income Attributable to Equity Holders of the Parent Company / Average Assets | 0.56% | 1.20% |
| g) | Net Interest Margin on Average Earning Assets | Net Interest Income / Average Earning Assets | 3.98% | 3.84% |
| h) | Operating Efficiency Ratio | Total Operating Expenses / Net Operating Income | 49.59% | 54.60% |
| i) | Interest Coverage Ratio | Earnings Before Interest and Taxes / Interest Expense | 196.95% | 199.36% |
| j) | Net Profit Margin | Net Income / Total Gross Income | 9.73% | 19.76% |
| k) | Capital Adequacy Ratio | Total Qualifying Capital / Total Risk-Weighted Assets | 20.15% | 17.49% |
| l) | Common Equity Tier 1 Ratio | Net Tier 1 Capital / Total Risk-Weighted Assets | 19.28% | 16.19% |

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

# INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Metropolitan Bank & Trust Company
Metrobank Plaza, Sen. Gil Puyat Avenue
Urdaneta Village, Makati City
Metro Manila, Philippines

## Report on the Consolidated and Parent Company Financial Statements

### Opinion

We have audited the consolidated financial statements of Metropolitan Bank & Trust Company and its subsidiaries (the Group) and the parent company financial statements of Metropolitan Bank & Trust Company (the Parent Company), which comprise the consolidated and parent company statements of financial position as at December 31, 2020 and 2019, and the consolidated and parent company statements of income, consolidated and parent company statements of comprehensive income, consolidated and parent company statements of changes in equity and consolidated and parent company statements of cash flows for each of the three years in the period ended December 31, 2020, and notes to the consolidated and parent company financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated and parent company financial statements present fairly, in all material respects, the financial position of the Group and the Parent Company as at December 31, 2020 and 2019, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2020, in accordance with Philippine Financial Reporting Standards (PFRS).

### Basis for Opinion

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

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and parent company financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and parent company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated and Parent Company Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated and parent company financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated and parent company financial statements.

***Applicable to the audit of the consolidated and parent company financial statements***

*Allowance for Credit Losses*

The Group's and the Parent Company's application of the expected credit loss (ECL) model in calculating the allowance for credit losses on loans and receivables is significant to our audit as it involves the exercise of significant management judgment. Key areas of judgment include: segmenting the Group's and the Parent Company's credit risk exposures; determining the method to estimate ECL; defining default; identifying exposures with significant deterioration in credit quality, taking into account extension of payment terms and payment holidays provided as a result of the coronavirus pandemic; determining assumptions to be used in the ECL model such as the counterparty credit risk rating, the expected life of the financial asset, expected recoveries from defaulted accounts, and impact of any financial support and credit enhancements extended by any party; and incorporating forward-looking information, including the impact of the coronavirus pandemic, in calculating ECL.

Allowance for credit losses as of December 31, 2020 for the Group and the Parent Company amounted to ₱55.2 billion and ₱44.4 billion, respectively. Provision for credit losses of the Group and the Parent Company in 2020 amounted to ₱40.8 billion and ₱32.7 billion, respectively.

Refer to Notes 2, 3 and 15 of the financial statements for the disclosure on the details of the allowance for credit losses using the ECL model.

*Audit response*

We obtained an understanding of the board approved methodologies and models used for the Group's and the Parent Company's different credit exposures and assessed whether these considered the requirements of PFRS 9, *Financial Instruments* to reflect an unbiased and probability-weighted outcome, and to consider time value of money and the best available forward-looking information.

We (a) assessed the Group's and the Parent Company's segmentation of its credit risk exposures based on homogeneity of credit risk characteristics; (b) tested the definition of default and significant increase in credit risk criteria against historical analysis of accounts, credit risk management policies and practices in place, and management's assessment of the impact of the coronavirus pandemic on the counterparties; (c) tested the Group's and the Parent Company's application of internal credit risk rating system, including the impact of the coronavirus pandemic on the borrowers, by reviewing the ratings of sample credit exposures; (d) assessed whether expected life is different from the contractual life by testing the maturity dates reflected in the Group's and the Parent Company's records and considering management's assumptions regarding future collections, advances, extensions, renewals and modifications; (e) tested loss given default by inspecting historical recoveries and related costs, write-offs and collateral valuations, and the effects of any financial support and credit enhancements provided by any party; (f) tested exposure at default considering outstanding commitments and repayment scheme; (g) checked the forward-looking information used for overlay through statistical test and corroboration using publicly available information and our understanding of the Group's and the Parent Company's lending portfolios and broader industry knowledge, including the impact of the coronavirus pandemic; and (h) tested the effective interest rate used in discounting the expected loss.

Further, we checked the data used in the ECL models by reconciling data from source system reports to the data warehouse and from the data warehouse to the loss allowance analysis/models and financial reporting systems. To the extent that the loss allowance analysis is based on credit exposures that have been disaggregated into subsets of debt financial assets with similar risk characteristics, we traced or re-performed the disaggregation from source systems to the loss allowance analysis. We also assessed the assumptions used where there are missing or insufficient data.

We recalculated impairment provisions on a sample basis. We involved our internal specialists in the performance of the above procedures. We reviewed the completeness of the disclosures made in the financial statements.

*Accounting for Disposals of Investment Securities under a Hold-to-collect Business Model*
In 2020, the Group and the Parent Company disposed investment securities managed under the hold-to-collect (HTC) business model with aggregate carrying amount of ₱113.4 billion and ₱93.9 billion, respectively. The disposals resulted in a gain of ₱8.2 billion for the Group and ₱6.9 billion for the Parent Company. Investment securities held under an HTC business model, which are classified as 'Investment securities at amortized cost', are managed to realize cash flows by collecting contractual payments over the life of the instrument.

The accounting for the disposals is significant to our audit because the amounts involved are material (45.1% and 43.3% of the total investment securities at amortized cost of the Group and the Parent Company, respectively, and 5.7% and 6.1% of the total operating income of the Group and Parent Company, respectively). Moreover, it involves the exercise of significant judgment by management in assessing whether the disposals are consistent with the HTC business model or that they resulted from a change in business model. A change in business model would impact the measurement of the remaining securities in the affected portfolios. Under PFRS 9, a change in business model is expected to be very infrequent as it must be significant to the Group's and the Parent Company's operations and demonstrable to external parties.

Refer to Note 8 of the financial statements for the disclosure on the disposals of investment securities at amortized cost and change in business model.

*Audit response*
We obtained an understanding of the Group's and the Parent Company's objectives for disposals of investment securities at amortized cost through inquiries with management and review of approved internal documentations, including governance over the disposals. We evaluated management's assessment of the impact of the disposals in reference to the Group's and the Parent Company's business models and the provisions of the relevant accounting standards and regulatory issuances. For disposals resulting from change in business model of the Parent Company, we reviewed the new business model documentation to check whether the new policies and procedures for managing the investment securities reflect the change in the objective of the business model. We also reviewed the calculation of the gains on the disposals and the measurement of the remaining securities in the affected portfolios. We reviewed the reclassification adjustment made by the Parent Company based on the requirements of PFRS 9.

We reviewed the disclosures related to the disposals and change in business model based on the requirements of PFRS 7, *Financial Instruments: Disclosures*, PFRS 9 and Philippine Accounting Standard (PAS 1), *Presentation of Financial Statements*.

*Realizability of Deferred Tax Assets*
As of December 31, 2020, the deferred tax assets of the Group and the Parent Company amounted to ₱14.0 billion and ₱11.4 billion, respectively. The recognition of deferred tax assets is significant to our audit because it requires significant judgment and is based on assumptions such as availability of future taxable income and the timing of the reversal of the temporary differences that are affected by expected future market or economic conditions and the expected performance of the Group and the Parent Company. The estimation uncertainty on the Group's and Parent Company's expected performance has increased as a result of the uncertainties brought about by the coronavirus pandemic.

The disclosures in relation to deferred income taxes are included in Note 28 of the financial statements.

*Audit Response*
We involved our internal specialist in interpreting the tax regulations, testing the temporary differences identified by the Group and the Parent Company and the applicable tax rate. We also re-performed the calculation of the deferred tax assets. We reviewed the management's assessment on the availability of future taxable income in reference to financial forecast and tax strategies. We evaluated management's forecast by comparing the loan portfolio and deposit growth rates to the historical performance of the Group and Parent Company and the industry, including future market circumstances and taking into consideration the impact associated with the coronavirus pandemic.

***Applicable to the audit of the consolidated financial statements***

*Recoverability of Investments in Associates and a Joint Venture*
The Group assesses the impairment of its investments in associates and a joint venture whenever events or changes in circumstances indicate that the carrying amount of the investments may not be recoverable. As of December 31, 2020, the Group has an investment in associate amounting to ₱1.9 billion whose fair value has declined significantly from acquisition cost. The Group performed impairment testing by calculating both the fair value less costs to sell (FVLCTS) and value-in-use (VIU) to determine the higher amount that should be used as the recoverable amount. We considered the impairment testing of the Group's investment in this associate as a key audit matter as significant judgment and estimates are involved in the determination of the investment's VIU.

The disclosures relating to investments in associates and a joint venture are included in Notes 3 and 11 to the financial statements.

*Audit response*
We discussed with management the investee's current business performance and prospects and how these were reflected in the Group's VIU calculation. We involved our internal specialist in evaluating the methodology and assumptions used. We compared the expected production volume and capital expenditures used in the calculation to the historical performance and plans of the investee, and the price assumption, exchange rates and long-term growth rate to available industry, economic and financial data including consensus market forecasts and the impact of the coronavirus pandemic. We also tested whether the discount rate used represents current market assessment of risks associated with the investment.

*Recoverability of Goodwill*
As of December 31, 2020, the Group has goodwill amounting to ₱5.2 billion as a result of various business acquisitions. Under PFRS, the Group is required to annually test the amount of goodwill for impairment. The Group performed the impairment testing using the cash generating unit's (CGU) FVLCTS. The annual impairment test is significant to our audit because the determination of the CGU's FVLCTS requires significant judgment and is based on assumptions which are subject to higher level of estimation uncertainty due to the current economic conditions which have been impacted by the coronavirus pandemic. The CGU's assets include significant investments in unquoted equity shares and their fair values were determined using price-to-earnings (P/E) ratios of comparable companies and adjusted net asset valuation (NAV) method. Other assets of the CGU include investments in quoted equity shares and debt financial assets, and real properties, while liabilities include unquoted debt financial liabilities.

The disclosures relating to goodwill are included in Notes 3 and 11 to the financial statements.

*Audit response*
We involved our internal specialist in evaluating the assumptions and methodology used by the Group in determining the FVLCTS of the CGU, in particular those relating to the use of P/E ratios of comparable companies and adjusted NAV method in the valuation of the unquoted equity shares. We tested the fair value of the other assets and liabilities by referring to the quoted prices of listed equity and debt instruments, agreeing the appraised values of real estate properties to the appraisal reports, comparing the future cash flows of unquoted debt instruments to the related contracts, and comparing the discount rates used against prevailing interest rates for similar instruments, taking into consideration the impact associated with the coronavirus pandemic. We also re-performed the calculation of the FVLCTS.

**Other Information**

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2020, but does not include the consolidated and parent company financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2020 are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated and parent company financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated and parent company financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated and parent company financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

**Responsibilities of Management and Those Charged with Governance for the Consolidated and Parent Company Financial Statements**

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

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

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

**Auditor's Responsibilities for the Audit of the Consolidated and Parent Company Financial Statements**

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

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

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

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

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated and parent company financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Report on the Supplementary Information Required Under Bangko Sentral ng Pilipinas (BSP) Circular No. 1074 and Revenue Regulations No. 15-2010**

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under BSP Circular No. 1074 in Note 37 and Revenue Regulations No. 15-2010 in Note 38 to the financial statements is presented for purposes of filing with the BSP and Bureau of Internal Revenue, respectively, and is not a required part of the basic financial statements. Such information is the responsibility of the management of the Parent Company. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The engagement partner on the audit resulting in this independent auditor's report is Josephine Adrienne A. Abarca.

SYCIP GORRES VELAYO & CO.

Josephine Adrienne A. Abarca

Josephine Adrienne A. Abarca
Partner
CPA Certificate No. 92126
SEC Accreditation No. 0466-AR-4 (Group A),
November 13, 2018, valid until November 12, 2021
Tax Identification No. 163-257-145
BIR Accreditation No. 08-001998-61-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 8534208, January 4, 2021, Makati City

February 17, 2021

**EXHIBIT B**

## METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES

## STATEMENTS OF FINANCIAL POSITION

**(In Millions)**

| | Consolidated | | Parent Company | |
|---|---|---|---|---|
| | December 31 | | | |
| | **2020** | 2019 | **2020** | 2019 |
| **ASSETS** | | | | |
| **Cash and Other Cash Items** | **₱38,469** | ₱32,956 | **₱35,606** | ₱30,659 |
| **Due from Bangko Sentral ng Pilipinas (BSP)** (Notes 4 and 16) | **304,906** | 219,994 | **262,188** | 195,770 |
| **Due from Other Banks** (Note 4) | **38,233** | 54,767 | **22,742** | 38,698 |
| **Interbank Loans Receivable and Securities Purchased Under Resale Agreements (SPURA)** (Notes 4, 7 and 26) | **79,394** | 72,174 | **57,205** | 56,152 |
| **Investment Securities at** | | | | |
| **Fair Value Through Profit or Loss (FVTPL)** (Note 8) | **77,551** | 61,867 | **67,956** | 49,550 |
| **Fair Value Through Other Comprehensive Income (FVOCI)** (Notes 4 and 8) | **569,445** | 202,520 | **542,666** | 188,676 |
| **Amortized Cost** (Notes 4 and 8) | **23,293** | 251,628 | **7,909** | 216,644 |
| **Loans and Receivables** (Notes 4 and 9) | **1,252,929** | 1,483,568 | **1,048,742** | 1,177,101 |
| **Property and Equipment** (Note 10) | **24,617** | 25,700 | **18,429** | 17,857 |
| **Investments in Subsidiaries** (Note 11) | **–** | – | **67,181** | 95,739 |
| **Investments in Associates and a Joint Venture** (Note 11) | **6,248** | 6,591 | **565** | 542 |
| **Goodwill** (Note 11) | **5,199** | 5,200 | **–** | – |
| **Investment Properties** (Note 12) | **7,667** | 7,762 | **3,369** | 3,291 |
| **Deferred Tax Assets** (Note 28) | **14,028** | 10,512 | **11,394** | 6,918 |
| **Other Assets** (Note 14) | **13,184** | 15,574 | **8,047** | 9,838 |
| | **₱2,455,163** | ₱2,450,813 | **₱2,153,999** | ₱2,087,435 |

| | | | | |
|---|---|---|---|---|
| **LIABILITIES AND EQUITY** | | | | |
| **LIABILITIES** | | | | |
| **Deposit Liabilities** (Notes 16 and 31) | | | | |
| Demand | **₱515,378** | ₱411,873 | **₱467,545** | ₱372,303 |
| Savings | **795,979** | 665,634 | **755,713** | 630,946 |
| Time | **450,103** | 592,897 | **332,323** | 461,713 |
| Long-Term Negotiable Certificates | **35,755** | 43,740 | **27,330** | 35,330 |
| | **1,797,215** | 1,714,144 | **1,582,911** | 1,500,292 |
| **Bills Payable and Securities Sold Under Repurchase Agreements (SSURA)** (Notes 17 and 31) | **139,614** | 238,281 | **108,651** | 139,072 |
| **Derivative Liabilities** (Note 8) | **13,465** | 7,427 | **11,813** | 5,994 |
| **Manager's Checks and Demand Drafts Outstanding** | **6,024** | 6,806 | **5,493** | 5,508 |
| **Income Taxes Payable** | **2,711** | 4,188 | **1,992** | 3,259 |
| **Accrued Interest and Other Expenses** (Note 18) | **9,149** | 10,499 | **6,432** | 6,654 |
| **Bonds Payable** (Notes 19 and 31) | **91,397** | 80,486 | **76,355** | 70,110 |
| **Subordinated Debts** (Note 20) | **1,167** | 7,660 | **1,167** | 6,494 |
| **Non-equity Non-controlling Interest** (Note 21) | **8,315** | 6,553 | **–** | – |
| **Other Liabilities** (Note 21) | **52,931** | 56,278 | **34,296** | 30,060 |
| | **2,121,988** | 2,132,322 | **1,829,110** | 1,767,443 |

(Forward)

| | Consolidated | | Parent Company | |
|---|---|---|---|---|
| | December 31 | | | |
| | **2020** | 2019 | **2020** | 2019 |
| **EQUITY** | | | | |
| **Equity Attributable to Equity Holders of the Parent Company** | | | | |
| Common stock (Note 23) | **₱89,948** | ₱89,948 | **₱89,948** | ₱89,948 |
| Capital paid in excess of par value (Note 23) | **85,252** | 85,252 | **85,252** | 85,252 |
| Treasury stock (Notes 23 and 31) | **(65)** | (72) | **(65)** | (72) |
| Surplus reserves (Note 24) | **2,260** | 2,098 | **2,260** | 2,098 |
| Surplus (Note 23) | **153,282** | 144,154 | **153,282** | 144,154 |
| Net unrealized gain on investment securities at FVOCI (Note 8) | **7,611** | 2,629 | **7,611** | 2,629 |
| Remeasurement losses on retirement plans (Notes 11 and 27) | **(4,778)** | (5,531) | **(4,778)** | (5,531) |
| Equity in other comprehensive income (losses) of investees (Note 11) | **(22)** | 345 | **(22)** | 345 |
| Translation adjustment and others (Note 11) | **(9,284)** | (9,269) | **(8,599)** | 1,169 |
| | **324,204** | 309,554 | **324,889** | 319,992 |
| **Non-controlling Interest** (Note 11) | **8,971** | 8,937 | – | – |
| | **333,175** | 318,491 | **324,889** | 319,992 |
| | **₱2,455,163** | ₱2,450,813 | **₱2,153,999** | ₱2,087,435 |

*See accompanying Notes to Financial Statements.*

# METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES

## STATEMENTS OF INCOME

### (In Millions, Except Earnings Per Share)

| | Consolidated | | | Parent Company | | |
|---|---|---|---|---|---|---|
| | Years Ended December 31 | | | | | |
| | **2020** | 2019 | 2018 | **2020** | 2019 | 2018 |
| **INTEREST INCOME ON** | | | | | | |
| Loans and receivables (Notes 9 and 31) | **₱85,690** | ₱95,847 | ₱79,659 | **₱64,281** | ₱59,603 | ₱46,860 |
| Investment securities at FVOCI and at amortized cost (Note 8) | **17,093** | 16,573 | 14,610 | **15,285** | 13,778 | 11,592 |
| Investment securities at FVTPL (Note 8) | **1,958** | 1,936 | 1,170 | **1,754** | 1,695 | 1,006 |
| Interbank loans receivable and securities purchased under resale agreements (SPURA) (Notes 7 and 31) | **876** | 941 | 1,092 | **406** | 468 | 441 |
| Deposits with banks and others | **2,170** | 886 | 655 | **1,561** | 689 | 422 |
| | **107,787** | 116,183 | 97,186 | **83,287** | 76,233 | 60,321 |
| **INTEREST AND FINANCE CHARGES** | | | | | | |
| Deposit liabilities (Notes 16 and 31) | **11,326** | 23,407 | 18,968 | **7,724** | 17,293 | 13,447 |
| Bills payable and securities sold under repurchase agreements, bonds payable, subordinated debts and others (Notes 13, 17, 19, 20, 21 and 31) | **10,354** | 15,779 | 9,396 | **7,445** | 9,019 | 4,546 |
| | **21,680** | 39,186 | 28,364 | **15,169** | 26,312 | 17,993 |
| **NET INTEREST INCOME** | **86,107** | 76,997 | 68,822 | **68,118** | 49,921 | 42,328 |
| **PROVISION FOR CREDIT AND IMPAIRMENT LOSSES** (Notes 3 and 15) | **40,760** | 10,078 | 7,770 | **32,745** | 1,644 | 807 |
| **NET INTEREST INCOME AFTER PROVISION FOR CREDIT AND IMPAIRMENT LOSSES** | **45,347** | 66,919 | 61,052 | **35,373** | 48,277 | 41,521 |
| **OTHER OPERATING INCOME** | | | | | | |
| Service charges, fees and commissions (Notes 25 and 31) | **11,703** | 14,266 | 12,695 | **8,991** | 5,145 | 4,954 |
| Gain on disposal of investment securities at amortized cost (Note 8) | **8,184** | 150 | – | **6,891** | – | – |
| Trading and securities gain - net (Notes 8, 21 and 31) | **6,559** | 5,322 | 2,541 | **6,217** | 4,352 | 3,041 |
| Foreign exchange gain (loss) - net (Note 31) | **4,409** | 3,798 | 210 | **4,320** | 3,521 | (66) |
| Leasing (Notes 12, 13 and 31) | **2,007** | 2,122 | 2,252 | **200** | 210 | 224 |
| Income from trust operations (Notes 24 and 31) | **1,444** | 1,241 | 1,290 | **1,401** | 1,204 | 1,259 |
| Dividends (Note 8) | **139** | 172 | 141 | **28** | 29 | 23 |
| Profit from assets sold (Notes 10, 12, 14 and 31) | **15** | 585 | 1,371 | **106** | 210 | 623 |
| Miscellaneous (Note 25) | **669** | 1,398 | 2,410 | **734** | 83 | 401 |
| | **35,129** | 29,054 | 22,910 | **28,888** | 14,754 | 10,459 |
| **OTHER OPERATING EXPENSES** | | | | | | |
| Compensation and fringe benefits (Notes 27 and 31) | **24,890** | 23,706 | 22,368 | **18,795** | 16,023 | 15,115 |
| Taxes and licenses (Note 28) | **9,925** | 10,219 | 8,776 | **7,878** | 6,466 | 5,253 |
| Depreciation and amortization (Notes 10, 12 and 14) | **5,545** | 5,538 | 4,084 | **2,965** | 2,568 | 1,690 |
| Occupancy and equipment-related costs (Note 13) | **2,080** | 1,867 | 3,193 | **1,500** | 1,162 | 1,824 |
| Miscellaneous (Note 25) | **17,680** | 16,576 | 15,235 | **14,056** | 11,086 | 9,573 |
| | **60,120** | 57,906 | 53,656 | **45,194** | 37,305 | 33,455 |
| **INCOME BEFORE SHARE IN NET INCOME OF SUBSIDIARIES, ASSOCIATES AND A JOINT VENTURE** | **20,356** | 38,067 | 30,306 | **19,067** | 25,726 | 18,525 |
| **SHARE IN NET INCOME OF SUBSIDIARIES, ASSOCIATES AND A JOINT VENTURE** (Note 11) | **664** | 868 | 874 | **1,674** | 8,938 | 7,967 |
| **INCOME BEFORE INCOME TAX** | **21,020** | 38,935 | 31,180 | **20,741** | 34,664 | 26,492 |
| **PROVISION FOR INCOME TAX** (Note 28) | **7,046** | 10,061 | 7,745 | **6,910** | 6,609 | 4,484 |
| **NET INCOME** | **₱13,974** | ₱28,874 | ₱23,435 | **₱13,831** | ₱28,055 | ₱22,008 |
| Attributable to: | | | | | | |
| Equity holders of the Parent Company (Note 32) | **₱13,831** | ₱28,055 | ₱22,008 | | | |
| Non-controlling interest (Note 11) | **143** | 819 | 1,427 | | | |
| | **₱13,974** | ₱28,874 | ₱23,435 | | | |
| **Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company** (Note 32) | **₱3.08** | ₱6.24 | ₱5.16* | | | |

*Restated to show the effect of stock dividends issued in 2019.

*See accompanying Notes to Financial Statements.*

# METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES

## STATEMENTS OF COMPREHENSIVE INCOME

**(In Millions)**

| | Consolidated | | | Parent Company | | |
|---|---|---|---|---|---|---|
| | Years Ended December 31 | | | | | |
| | **2020** | 2019 | 2018 | **2020** | 2019 | 2018 |
| **Net Income** | **₱13,974** | ₱28,874 | ₱23,435 | **₱13,831** | ₱28,055 | ₱22,008 |
| **Other Comprehensive Income for the Year, Net of Tax** | | | | | | |
| Items that may not be reclassified to profit or loss: | | | | | | |
| Change in net unrealized loss on equity securities at FVOCI | **(94)** | (414) | (351) | **(93)** | (410) | (347) |
| Change in remeasurement gain (loss) on retirement plans (Notes 11 and 27) | **794** | (2,038) | 498 | **753** | (1,940) | 434 |
| | **700** | (2,452) | 147 | **660** | (2,350) | 87 |
| Items that may be reclassified to profit or loss: | | | | | | |
| Change in net unrealized gain (loss) on investment in debt securities at FVOCI (Note 8) | **5,038** | 6,142 | (2,443) | **5,031** | 6,052 | (2,324) |
| Change in equity in other comprehensive income (loss) of investees (Note 11) | **(370)** | 375 | (50) | **(367)** | 372 | (49) |
| Translation adjustment and others (Note 11) | **(23)** | (399) | (309) | **(15)** | (915) | (57) |
| | **4,645** | 6,118 | (2,802) | **4,649** | 5,509 | (2,430) |
| **Total Comprehensive Income for the Year** | **₱19,319** | ₱32,540 | ₱20,780 | **₱19,140** | ₱31,214 | ₱19,665 |
| Attributable to: | | | | | | |
| Equity holders of the Parent Company | **₱19,140** | ₱31,214 | ₱19,665 | | | |
| Non-controlling interest | **179** | 1,326 | 1,115 | | | |
| | **₱19,319** | ₱32,540 | ₱20,780 | | | |

*See accompanying Notes to Financial Statements.*

# METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES

## STATEMENTS OF CHANGES IN EQUITY

### (In Millions)

| | Consolidated | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Equity Attributable to Equity Holders of the Parent Company | | | | | | | | | | | | | |
| | **Common Stock** (Note 23) | **Capital Paid In Excess of Par Value** (Note 23) | **Treasury Stock** (Note 23) | **Surplus Reserves** (Note 24) | **Surplus** (Note 23) | **Net Unrealized Gain (Loss) on Investment Securities at FVOCI** (Note 8) | **Remeasurement Losses on Retirement Plans** (Notes 11 and 27) | **Equity in Other Comprehensive Income (Losses) of Investees** (Note 11) | **Translation Adjustment and Others** (Note 11) | **Total** | **Other Equity Reserve** (Note 11) | **Non-controlling Interest** (Note 11) | **Total Equity** |
| **Balance as at January 1, 2020** | **₱89,948** | **₱85,252** | **(₱72)** | **₱2,098** | **₱144,154** | **₱2,629** | **(₱5,531)** | **₱345** | **(₱9,269)** | **₱309,554** | **₱–** | **₱8,937** | **₱318,491** |
| Total comprehensive income (loss) for the year | – | – | – | – | **13,831** | **4,938** | **753** | **(367)** | **(15)** | **19,140** | – | **179** | **19,319** |
| Transfer to surplus reserves | – | – | – | **162** | **(162)** | – | – | – | – | – | – | – | – |
| Cash dividend (Note 23) | – | – | – | – | **(4,497)** | – | – | – | – | **(4,497)** | – | **(145)** | **(4,642)** |
| Realized gain (loss) on sale of equity securities at FVOCI | – | – | – | – | **(44)** | **44** | – | – | – | – | – | – | – |
| Acquisition of Parent Company shares held by mutual fund subsidiary | – | – | **(22)** | **–** | – | – | – | – | – | **(22)** | – | – | **(22)** |
| Disposal of Parent Company shares held by mutual fund subsidiary | – | – | **29** | – | – | – | – | – | – | **29** | – | – | **29** |
| **Balance as at December 31, 2020** | **₱89,948** | **₱85,252** | **(₱65)** | **₱2,260** | **₱153,282** | **₱7,611** | **(₱4,778)** | **(₱22)** | **(₱9,284)** | **₱324,204** | **₱–** | **₱8,971** | **₱333,175** |
| Balance as at January 1, 2019 | ₱79,600 | ₱85,252 | (₱67) | ₱1,956 | ₱130,550 | (₱2,994) | (₱3,591) | (₱27) | (₱7,719) | ₱282,960 | ₱– | ₱7,744 | ₱290,704 |
| Issuance of stock dividend | 10,348 | – | – | – | (10,348) | – | – | – | – | – | – | – | – |
| Total comprehensive income (loss) for the year | – | – | – | – | 28,055 | 5,642 | (1,940) | 372 | (915) | 31,214 | – | 1,326 | 32,540 |
| Transfer to surplus reserves | – | – | – | 142 | (142) | – | – | – | – | – | – | – | – |
| Cash dividend (Note 23) | – | – | – | – | (3,980) | – | – | – | – | (3,980) | – | (133) | (4,113) |
| Realized gain (loss) on sale of equity securities at FVOCI | – | – | – | – | 19 | (19) | – | – | – | – | – | – | – |
| Parent Company shares held by mutual fund subsidiary | – | – | (5) | – | – | – | – | – | – | (5) | – | – | (5) |
| Acquisition of non-controlling interest (Note 11) | – | – | – | – | – | – | – | – | (635) | (635) | – | – | (635) |
| Balance as at December 31, 2019 | ₱89,948 | ₱85,252 | (₱72) | ₱2,098 | ₱144,154 | ₱2,629 | (₱5,531) | ₱345 | (₱9,269) | ₱309,554 | ₱– | ₱8,937 | ₱318,491 |
| Balance as at January 1, 2018 | ₱63,603 | ₱42,139 | (₱46) | ₱1,810 | ₱111,990 | (₱445) | (₱4,025) | ₱22 | (₱2,530) | ₱212,518 | (₱7,400) | ₱9,417 | ₱214,535 |
| Issuance of stock rights | 15,997 | 43,113 | – | – | – | – | – | – | – | 59,110 | – | – | 59,110 |
| Total comprehensive income (loss) for the year | – | – | – | – | 22,008 | (2,671) | 434 | (49) | (57) | 19,665 | – | 1,115 | 20,780 |
| Transfer to surplus reserves | – | – | – | 146 | (146) | – | – | – | – | – | – | – | – |
| Cash dividend (Note 23) | – | – | – | – | (3,180) | – | – | – | – | (3,180) | – | (520) | (3,700) |
| Realized gain (loss) on sale of equity securities at FVOCI | – | – | – | – | (122) | 122 | – | – | – | – | – | – | – |
| Parent Company share held by mutual fund subsidiary | – | – | (21) | – | – | – | – | – | – | (21) | – | – | (21) |
| Settlement of non-controlling interest acquired (Note 11) | – | – | – | – | – | – | – | – | (5,132) | (5,132) | 7,400 | (2,268) | – |
| Balance as at December 31, 2018 | ₱79,600 | ₱85,252 | (₱67) | ₱1,956 | ₱130,550 | (₱2,994) | (₱3,591) | (₱27) | (₱7,719) | ₱282,960 | ₱– | ₱7,744 | ₱290,704 |

| | Parent Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Common Stock** (Note 23) | **Capital Paid In Excess of Par Value** (Note 23) | **Treasury Stock** (Note 23) | **Surplus Reserves** (Note 24) | **Surplus** (Note 23) | **Net Unrealized Gain (Loss) on Investment Securities at FVOCI** (Note 8) | **Remeasurement Losses on Retirement Plans** (Notes 11 and 27) | **Equity in Other Comprehensive Income (Losses) of Investees** (Note 11) | **Translation Adjustment and Others** (Note 11) | **Total Equity** |
| **Balance as at January 1, 2020** | **₱89,948** | **₱85,252** | **(₱72)** | **₱2,098** | **₱144,154** | **₱2,629** | **(₱5,531)** | **₱345** | **₱1,169** | **₱319,992** |
| Total comprehensive income (loss) for the year | – | – | – | – | **13,831** | **4,938** | **753** | **(367)** | **(15)** | **19,140** |
| Transfer to surplus reserves | – | – | – | **162** | **(162)** | – | – | – | – | – |
| Cash dividend (Note 23) | – | – | – | – | **(4,497)** | – | – | – | – | **(4,497)** |
| Share in realized gain (loss) on sale of equity securities at FVOCI | – | – | – | – | **(44)** | **44** | – | – | – | – |
| Acquisition of Parent Company shares held by mutual fund subsidiary | – | – | **(22)** | – | – | – | – | – | – | **(22)** |
| Disposal of Parent Company shares held by mutual fund subsidiary | – | – | **29** | – | – | – | – | – | – | **29** |
| Impact of merger (Note 11) | – | – | – | – | – | – | – | – | **(9,753)** | **(9,753)** |
| **Balance as at December 31, 2020** | **₱89,948** | **₱85,252** | **(₱65)** | **₱2,260** | **₱153,282** | **₱7,611** | **(₱4,778)** | **(₱22)** | **(₱8,599)** | **₱324,889** |
| Balance as at January 1, 2019 | ₱79,600 | ₱85,252 | (₱67) | ₱1,956 | ₱130,550 | (₱2,994) | (₱3,591) | (₱27) | ₱2,084 | ₱292,763 |
| Issuance of stock dividend | 10,348 | – | – | – | (10,348) | – | – | – | – | – |
| Total comprehensive income (loss) for the year | – | – | – | – | 28,055 | 5,642 | (1,940) | 372 | (915) | 31,214 |
| Transfer to surplus reserves | – | – | – | 142 | (142) | – | – | – | – | – |
| Cash dividend (Note 23) | – | – | – | – | (3,980) | – | – | – | – | (3,980) |
| Share in realized gain (loss) on sale of equity securities at FVOCI | – | – | – | – | 19 | (19) | – | – | – | – |
| Parent Company shares held by mutual fund subsidiary | – | – | (5) | – | – | – | – | – | – | (5) |
| Balance as at December 31, 2019 | ₱89,948 | ₱85,252 | (₱72) | ₱2,098 | ₱144,154 | ₱2,629 | (₱5,531) | ₱345 | ₱1,169 | ₱319,992 |
| Balance as at January 1, 2018 | ₱63,603 | ₱42,139 | (₱46) | ₱1,810 | ₱111,990 | (₱445) | (₱4,025) | ₱22 | ₱2,141 | ₱217,189 |
| Issuance of stock rights | 15,997 | 43,113 | – | – | – | – | – | – | – | 59,110 |
| Total comprehensive income (loss) for the year | – | – | – | – | 22,008 | (2,671) | 434 | (49) | (57) | 19,665 |
| Transfer to surplus reserves | – | – | – | 146 | (146) | – | – | – | – | – |
| Cash dividend (Note 23) | – | – | – | – | (3,180) | – | – | – | – | (3,180) |
| Share in realized gain (loss) on sale of equity securities at FVOCI | – | – | – | – | (122) | 122 | – | – | – | – |
| Parent Company shares held by mutual fund subsidiary | – | – | (21) | – | – | – | – | – | – | (21) |
| Balance as at December 31, 2018 | ₱79,600 | ₱85,252 | (₱67) | ₱1,956 | ₱130,550 | (₱2,994) | (₱3,591) | (₱27) | ₱2,084 | ₱292,763 |

*See accompanying Notes to Financial Statements.*

# METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES

## STATEMENTS OF CASH FLOWS

**(In Millions)**

| | Consolidated | | | Parent Company | | |
|---|---|---|---|---|---|---|
| | Years Ended December 31 | | | | | |
| | **2020** | 2019 | 2018 | **2020** | 2019 | 2018 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | | | |
| Income before income tax | **₱21,020** | ₱38,935 | ₱31,180 | **₱20,741** | ₱34,664 | ₱26,492 |
| Adjustments for: | | | | | | |
| Provision for credit and impairment losses (Note 15) | **40,760** | 10,078 | 7,770 | **32,745** | 1,644 | 807 |
| Trading and securities loss (gain) on investment securities at FVOCI (Note 8) | **(8,307)** | (4,403) | 115 | **(8,007)** | (3,788) | 24 |
| Gain on disposal of investment securities at amortized cost (Note 8) | **(8,184)** | (150) | – | **(6,891)** | – | – |
| Depreciation and amortization (Notes 10, 12 and 14) | **4,865** | 4,906 | 3,572 | **2,467** | 2,327 | 1,559 |
| Unrealized market valuation loss (gain) on financial assets and liabilities at FVTPL | **2,275** | 1,395 | (3,499) | **2,323** | 1,612 | (3,494) |
| Amortization of software costs (Note 14) | **680** | 632 | 512 | **498** | 241 | 131 |
| Share in net income of subsidiaries, associates and a joint venture (Note 11) | **(664)** | (868) | (874) | **(1,674)** | (8,938) | (7,967) |
| Dividends (Note 8) | **(139)** | (172) | (141) | **(28)** | (29) | (23) |
| Gain on initial recognition of investment properties and chattel properties acquired in foreclosure (Note 25) | **(127)** | (487) | (638) | **(15)** | (33) | (23) |
| Amortization of discount on subordinated debts, bonds payable and lease liability (Notes 19 and 20) | **49** | 605 | 45 | **33** | 342 | 34 |
| Profit from assets sold (Notes 10 and 12) | **(15)** | (585) | (1,371) | **(106)** | (210) | (623) |
| Decrease (increase) in: | | | | | | |
| Investment securities at FVTPL | **(11,921)** | (22,009) | 5,735 | **(15,217)** | (21,184) | 3,617 |
| Loans and receivables | **189,422** | (107,137) | (138,128) | **170,250** | (63,413) | (117,786) |
| Other assets | **1,489** | 293 | (5,785) | **2,208** | (1,390) | (4,737) |
| Increase (decrease) in: | | | | | | |
| Deposit liabilities | **83,071** | 157,391 | 28,791 | **83,179** | 174,301 | 12,044 |
| Bills payable - deposit substitutes | **(53,987)** | 7,972 | (14,952) | **–** | – | – |
| Manager's checks and demand drafts outstanding | **(782)** | (759) | (489) | **(15)** | (442) | 110 |
| Accrued interest and other expenses | **(1,350)** | 880 | 2,646 | **(1,683)** | 1,029 | 1,720 |
| Other liabilities | **(550)** | 6,624 | (8,732) | **(1,617)** | 4,034 | (3,187) |
| Non-equity non-controlling interest | **1,762** | (194) | (1,255) | **–** | – | – |
| Net cash provided by (used in) operations | **259,367** | 92,947 | (95,498) | **279,191** | 120,767 | (91,302) |
| Dividends received (Note 8) | **139** | 172 | 141 | **28** | 29 | 23 |
| Income taxes paid | **(13,201)** | (8,715) | (8,489) | **(12,198)** | (5,097) | (4,886) |
| Net cash provided by (used in) operating activities | **246,305** | 84,404 | (103,846) | **267,021** | 115,699 | (96,165) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | | | |
| Acquisitions of: | | | | | | |
| Investment securities at FVOCI (Note 4) | **(2,098,769)** | (1,286,010) | (786,157) | **(2,061,832)** | (1,267,741) | (774,480) |
| Property and equipment (Note 10) | **(2,427)** | (3,722) | (2,889) | **(1,641)** | (1,999) | (1,473) |
| Investment securities at amortized cost (Note 4) | **–** | (4,488) | (7,017) | **–** | (4,333) | (5,037) |
| Investments in subsidiaries and associates (Note 11) | **–** | (9) | – | **–** | (7,839) | (15,011) |
| Software (Note 14) | **–** | – | (636) | **–** | – | (233) |
| Proceeds from sale of: | | | | | | |
| Investment securities at FVOCI (Notes 4 and 11) | **1,846,610** | 1,203,883 | 764,214 | **1,822,062** | 1,180,411 | 759,803 |
| Investment properties (Note 12) | **898** | 1,475 | 1,896 | **242** | 553 | 626 |
| Property and equipment (Note 10) | **151** | 955 | 585 | **251** | 76 | 278 |
| Proceeds from: | | | | | | |
| Disposal of investment securities at amortized cost (Note 8) | **121,617** | 16,686 | – | **100,747** | – | – |
| Maturity of investment securities at amortized cost | **15,164** | 920 | 4,077 | **15,000** | 469 | 30 |
| Decrease (increase) in interbank loans receivable and SPURA (Note 26) | **(27,873)** | 6,489 | 1,388 | **(25,794)** | 407 | 5,984 |
| Cash dividends from investees (Note 11) | **637** | 169 | 462 | **1,103** | 1,073 | 2,448 |
| Impact of merger (Note 11) | **–** | – | – | **6,485** | – | – |
| Return of investment from an associate (Note 11) | **–** | – | 180 | **–** | – | 180 |
| Net cash used in investing activities | **(143,992)** | (63,652) | (23,897) | **(143,377)** | (98,923) | (26,885) |

(Forward)

| | Consolidated | | | Parent Company | | |
|---|---|---|---|---|---|---|
| | Years Ended December 31 | | | | | |
| | **2020** | 2019 | 2018 | **2020** | 2019 | 2018 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** (Note 26) | | | | | | |
| Settlements of bills payable | **(₱1,943,290)** | (₱4,721,604) | (₱4,472,284) | **(₱1,906,626)** | (₱3,574,659) | (₱3,445,236) |
| Availments of bills payable and SSURA | **1,898,610** | 4,692,306 | 4,519,008 | **1,819,205** | 3,562,652 | 3,489,833 |
| Proceeds from issuance of: | | | | | | |
| Bonds payable (Note 19) | **38,869** | 52,499 | 27,826 | **34,219** | 42,135 | 27,826 |
| Stock rights (Note 23) | **–** | – | 59,110 | **–** | – | 59,110 |
| Notes payable (Note 21) | **–** | – | 2,600 | **–** | – | – |
| Repayments of: | | | | | | |
| Bonds payable (Note 19) | **(28,000)** | (3,000) | – | **(28,000)** | – | – |
| Subordinated debts (Note 20) | **(6,500)** | (19,000) | – | **(6,500)** | (16,000) | – |
| Notes payable (Note 21) | **(2,592)** | – | – | **–** | – | – |
| Cash dividends paid (Note 23) | **(4,642)** | (4,113) | (3,700) | **(4,497)** | (3,980) | (3,180) |
| Payment of principal portion of lease liabilities (Note 13) | **(1,409)** | (1,213) | – | **(773)** | (748) | – |
| Proceeds from disposal of Parent Company shares by mutual fund subsidiaries (Note 31) | **29** | – | 10 | **–** | – | – |
| Acquisition of Parent Company shares by a mutual fund subsidiary (Note 23) | **(22)** | (5) | (31) | **–** | – | – |
| Net cash provided by (used in) financing activities | **(48,947)** | (4,130) | 132,539 | **(92,972)** | 9,400 | 128,353 |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | **53,366** | 16,622 | 4,796 | **30,672** | 26,176 | 5,303 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | | | | | | |
| Cash and other cash items | **32,956** | 33,091 | 27,631 | **30,659** | 29,280 | 24,975 |
| Due from BSP | **219,994** | 240,134 | 261,959 | **195,770** | 206,289 | 224,723 |
| Due from other banks | **54,772** | 45,808 | 31,291 | **38,698** | 35,218 | 19,286 |
| Interbank loans receivable and SPURA (Note 26) | **67,313** | 39,380 | 32,736 | **54,578** | 22,742 | 19,242 |
| | **375,035** | 358,413 | 353,617 | **319,705** | 293,529 | 288,226 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | | | | | | |
| Cash and other cash items | **38,469** | 32,956 | 33,091 | **35,606** | 30,659 | 29,280 |
| Due from BSP | **304,906** | 219,994 | 240,134 | **262,188** | 195,770 | 206,289 |
| Due from other banks | **38,357** | 54,772 | 45,808 | **22,742** | 38,698 | 35,218 |
| Interbank loans receivable and SPURA (Note 26) | **46,669** | 67,313 | 39,380 | **29,841** | 54,578 | 22,742 |
| | **₱428,401** | ₱375,035 | ₱358,413 | **₱350,377** | ₱319,705 | ₱293,529 |

**OPERATIONAL CASH FLOWS FROM INTEREST**

| | Consolidated | | | Parent Company | | |
|---|---|---|---|---|---|---|
| | Years Ended December 31 | | | | | |
| | **2020** | 2019 | 2018 | **2020** | 2019 | 2018 |
| Interest paid | **₱23,813** | ₱39,558 | ₱25,910 | **₱16,546** | ₱26,207 | ₱17,452 |
| Interest received | **107,165** | 113,745 | 95,315 | **85,255** | 73,717 | 61,129 |

*See accompanying Notes to Financial Statements.*

## 1. Corporate Information

Metropolitan Bank & Trust Company (the Parent Company) is a universal bank incorporated in the Philippines on April 6, 1962. The Securities and Exchange Commission (SEC) approved the renewal on November 19, 2007. The Parent Company's shares were listed with the Philippine Stock Exchange, Inc. (PSE) on February 26, 1981, as approved by the SEC in November 1980. It has a universal banking license granted by the Bangko Sentral ng Pilipinas (BSP) on August 21, 1981.

The Parent Company and its subsidiaries (the Group) are engaged in all aspects of banking, financing, leasing, real estate and stock brokering through a network of over 2,000 local and international branches, subsidiaries, representative offices, remittance correspondents and agencies. As a bank, the Parent Company, which is the ultimate parent of the Group, provides services such as deposit products, loans and trade finance, domestic and foreign fund transfers, treasury, foreign exchange, trading and remittances, and trust services. Its principal place of business is at Metrobank Plaza, Sen. Gil Puyat Avenue, Urdaneta Village, Makati City, Metro Manila, Philippines.

## 2. Summary of Significant Accounting Policies

Basis of Preparation
The accompanying financial statements have been prepared on a historical cost basis except for financial assets and financial liabilities at fair value through profit or loss (FVTPL) and fair value through other comprehensive income (FVOCI) that have been measured at fair value.

The financial statements of the Parent Company and Philippine Savings Bank (PSBank) include the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU). The functional currency of RBU and FCDU is Philippine Peso (PHP) and United States Dollar (USD), respectively. For financial reporting purposes, FCDU accounts and foreign currency-denominated accounts in the RBU are translated into their equivalents in PHP (see accounting policy on Foreign Currency Translation). The financial statements of these units are combined after eliminating inter-unit accounts.

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The respective functional currencies of the subsidiaries are presented under Basis of Consolidation. The financial statements are presented in PHP, and all values are rounded to the nearest million pesos (₱000,000), except when otherwise indicated.

Statement of Compliance
The financial statements of the Group and the Parent Company have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Presentation of Financial Statements
Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position. Income and expense are not

offset in the statement of income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

Basis of Consolidation

The consolidated financial statements include the financial statements of the Parent Company and of its subsidiaries and are prepared for the same reporting period as the Parent Company using consistent accounting policies. The following are the wholly and majority-owned foreign and domestic subsidiaries of the Parent Company in 2020 and 2019 (Note 11):

| **Subsidiary** | **Principal Place of Business and Country of Incorporation** | **Effective Percentage of Ownership** | **Functional Currency** |
|---|---|---|---|
| Financial Markets: | | | |
| Domestic: | | | |
| First Metro Investment Corporation (FMIC) and Subsidiaries | Philippines | 99.27 | PHP |
| PSBank | Philippines | 88.38 | PHP |
| ORIX Metro Leasing and Finance Corporation (ORIX Metro) and Subsidiaries | Philippines | 59.85 | PHP |
| Foreign: | | | |
| Metropolitan Bank (China) Ltd. (MBCL) | China | 100.00 | Chinese Yuan |
| Metropolitan Bank (Bahamas) Limited (Metrobank Bahamas)*** | The Bahamas | 100.00 | USD |
| First Metro International Investment Company Limited (FMIIC) and Subsidiary | Hong Kong | 100.00 | Hong Kong Dollar (HKD) |
| Remittances: | | | |
| Metro Remittance (Hong Kong) Limited (MRHL) | Hong Kong | 100.00 | HKD |
| Metro Remittance (Singapore) Pte. Ltd. (MRSPL) | Singapore | 100.00 | Singapore Dollar |
| Metro Remittance (UK) Limited (MR UK) | United Kingdom | 100.00 | Great Britain Pound |
| Metro Remittance (USA), Inc. (MR USA) | United States of America (USA) | 100.00 | USD |
| Metro Remittance (Japan) Co. Ltd. (MR Japan) | Japan | 100.00 | Japanese Yen |
| Metro Remittance (Italia), S.p.A. (MR Italia)**** | Italy | 100.00 | Euro |
| Real Estate: | | | |
| Circa 2000 Homes, Inc. (Circa)** | Philippines | 100.00 | PHP |
| Others: | | | |
| Metrobank Card Corporation (A Finance Company and General Insurance Agency) (MCC)* | Philippines | 100.00 | PHP |
| Philbancor Venture Capital Corporation (PVCC)** | Philippines | 60.00 | PHP |
| MBTC Technology, Inc. (MTI)*** | Philippines | 100.00 | PHP |

* *Effective January 3, 2020, MCC was merged into the Parent Company (Note 11)*
** *In process of dissolution*
*** *In process of liquidation*
**** *Fully liquidated in January 2021*

All significant intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full at consolidation (Note 31). Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved where the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Consolidation of subsidiaries ceases when control is transferred out of the Group or the Parent Company. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statements of income and consolidated statements of comprehensive income from the date of acquisition or up to the date of disposal, as appropriate.

Changes in the Parent Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for within equity. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid (or to be paid) or received is recognized directly in equity included as part of 'Translation adjustment and others' and attributed to the owners of the Parent Company.

When a change in ownership interest in a subsidiary occurs which results in a loss of control over the subsidiary, the Parent Company: (a) derecognizes the assets (including goodwill) and liabilities of the subsidiary; (b) derecognizes the carrying amount of any non-controlling interest; (c) derecognizes the related other comprehensive income (OCI) recorded in equity and recycles the same to statement of income or 'Surplus'; (d) recognizes the fair value of the consideration received; (e) recognizes the fair value of any investment retained; (f) recognizes any surplus or deficit in statement of income; and (g) reclassifies the Parent Company's share of components' gains (losses) previously recognized in OCI to profit or loss or surplus, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

Entity with Significant Influence over the Group
GT Capital Holdings, Inc. (GT Capital) holds 37.15% and 36.65% interest in the Parent Company as of December 31, 2020 and 2019, respectively (Note 31).

Non-controlling Interest
Non-controlling interest represents the portion of profit or loss and the net assets of the funds not held by the Group and are presented separately in the consolidated statement of income, consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from equity attributable to the Parent Company. Any losses applicable to the non-controlling interests in excess of the non-controlling interests are allocated against the interests of the non-controlling interest even if this results in the non-controlling interest having a deficit balance. Acquisitions of non-controlling interests are accounted for as equity transactions.

Non-equity Non-controlling Interest
The Group has seed capital investments in a number of funds where it is in a position to be able to control those funds. These funds are consolidated.

Non-equity non-controlling interest represents the portion of net assets of the consolidated funds not attributed, directly or indirectly, to the Parent Company and is presented separately in the liability section in the consolidated statement of financial position. This liability is accounted for at FVTPL and measured using net asset value per unit with changes recognized in 'Trading and securities gain - net' in the consolidated statement of income.

Legal Merger between Parent Company and Subsidiary
In the parent company financial statements, the legal merger between the Parent Company and its subsidiary, with the Parent Company as the surviving entity, is accounted for as follows:

- The acquired assets and assumed liabilities are recognized at the carrying amounts in the consolidated financial statements as of the date of the legal merger;
- The difference between the carrying amount of the net assets of the subsidiary and the carrying amount of the investment in the merged subsidiary before the legal merger is recognized under "Translation adjustment and others" account in the equity section of the parent company statement of financial position; and
- The comparative financial information in the parent company financial statements for period prior to the legal merger is not restated. The financial position and results of operations of the

merged subsidiary are reflected in the parent company financial statements only from the date of the legal merger.

The legal merger has no impact in the consolidated financial statements.

Changes in Accounting Policies and Disclosures
Except for these new and amended standards which were adopted as of January 1, 2020, the accounting policies adopted are consistent with those of previous financial year.

The adoption of the following amendments did not have a significant impact on the consolidated financial statements of the Group:
- Conceptual Framework for Financial Reporting issued on March 29, 2018
- Amendments to PFRS 3, *Business Combinations - Definition of a Business*
- Amendments to PFRS 7, *Financial Instruments: Disclosures and PFRS 9, Financial Instruments, Interest Rate Benchmark Reform*
- Amendments to PAS 1, *Presentation of Financial Statements,* and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Material*
- Amendments to PFRS 16, Leases, *COVID-19-related Rent Concessions*

**Significant Accounting Policies**

Foreign Currency Translation
*Transactions and balances*
For financial reporting purposes, the foreign currency-denominated monetary assets and liabilities in the RBU are translated in Philippine peso based on the Bankers Association of the Philippines (BAP) closing rate prevailing at the statement of financial position date and foreign currency-denominated income and expenses, at the prevailing exchange rates as at the date of transaction. Foreign exchange differences arising from revaluation and translation of foreign currency-denominated assets and liabilities are credited to or charged against operations in the year in which the rates change. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

*FCDU, foreign branches and subsidiaries*
As at the reporting date, the assets and liabilities of foreign branches and subsidiaries and FCDU of the Parent Company and PSBank are translated into the Parent Company's presentation currency (the PHP) at BAP closing rate prevailing at the statement of financial position date, and their income and expenses are translated at BAP weighted average rate. Exchange differences arising on translation are taken to the statement of comprehensive income under 'Translation adjustment and others'. Upon disposal of a foreign entity or when the Parent Company ceases to have control over the subsidiaries or upon actual remittance of FCDU profits to RBU, the deferred cumulative amount recognized in the statement of comprehensive income is recognized in the statement of income.

Fair Value Measurement
The Group measures certain financial instruments, such as derivatives, at fair value at each statement of financial position date. Also, fair values of financial instruments measured at amortized cost and investment properties are disclosed in Note 5.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., an exit price). The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability; or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

If an asset or a liability measured at fair value has a bid price and an ask price, the price within the bid - ask spread that is most representative of fair value in the circumstances shall be used to measure fair value regardless of where the input is categorized within the fair value hierarchy.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For assets and liabilities not listed in an active market, the Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:
- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. The Group determines the policies and procedures for both recurring fair value measurement, such as financial assets and liabilities at FVTPL, and for non-recurring measurement, such as investment properties.

External valuers are involved for valuation of significant assets, such as investment properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

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

Financial Instruments - Initial Recognition and Subsequent Measurement

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

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

*'Day 1' difference*
Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the statement of income. In cases where the transaction price used is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' difference amount.

*Classification and Subsequent Measurement*
Financial assets are measured at FVTPL unless these are measured at FVOCI or at amortized cost. Financial liabilities are classified as either financial liabilities at FVTPL or financial liabilities at amortized cost. The classification of financial assets depends on the contractual terms and the business model for managing the financial assets. Subsequent to initial recognition, the Group may reclassify its financial assets only when there is a change in its business model for managing these financial assets. Reclassification of financial liabilities is not allowed.

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios. If cash flows after initial recognition are realized in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

As a second step of its classification process, the Group assesses the contractual terms of financial assets to identify whether they pass the contractual cash flows test (SPPI test). For the purpose of the SPPI test, principal is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium or discount). The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are SPPI. In such cases, the financial asset is required to be measured at FVTPL.

*Financial assets at FVTPL*
These are recorded in the statements of financial position at fair value with changes in fair value recognized in 'Trading, securities and foreign exchange gain - net'. Interest earned is recorded in 'Interest Income' while dividend income is recorded in 'Dividends' when the right to receive payment has been established. Included in this classification are debt and equity securities which have been acquired principally for the purpose of selling or repurchasing in the near term.

*Derivatives recorded at FVTPL*
The Parent Company and some of its subsidiaries are counterparties to derivative contracts, such as currency forwards, currency swaps, interest rate swaps (IRS), call options, non-deliverable forwards (NDF) and other interest rate derivatives. These derivatives are entered into as a service to customers and as a means of reducing or managing their respective foreign exchange and interest rate exposures, as well as for trading purposes. Such derivative financial instruments are initially recorded at fair value on the date at which the derivative contract is entered into and are subsequently remeasured at fair value. Any gains or losses arising from changes in fair values of derivatives (except those accounted for as accounting hedges) are taken directly to the statement of income and are included in 'Trading, securities and foreign exchange gain - net'. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

*Investment securities at FVOCI*
Investment securities at FVOCI include debt and equity securities. After initial measurement, investment securities at FVOCI are subsequently measured at fair value. The unrealized gains and losses arising from the fair valuation of investment securities at FVOCI are excluded, net of tax as applicable, from the reported earnings and are included in the statement of comprehensive income as 'Change in net unrealized gain (loss) on investment securities at FVOCI'.

Debt securities at FVOCI are those that meet both of the following conditions: (i) the asset is held within a business model whose objective is to hold the financial assets in order to both collect contractual cash flows and sell financial assets; and (ii) the contractual terms of the financial asset give rise on specified dates to cash flow that are SPPI on the outstanding principal amount. The effective yield component of debt securities at FVOCI, as well as the impact of restatement on foreign currency-denominated debt securities at FVOCI is reported in the statement of income. Interest earned on holding debt securities at FVOCI are reported as 'Interest Income' using the effective interest rate (EIR) method. When the debt securities at FVOCI are disposed of, the cumulative gain or loss previously recognized in the statement of comprehensive income is recognized as 'Trading, securities and foreign exchange gain - net' in the statement of income. The expected credit loss (ECL) arising from impairment of such investments are recognized in OCI with a corresponding charge to 'Provision for credit and impairment losses' in the statement of income.

Equity securities designated at FVOCI are those that the Group made an irrevocable election to present in OCI the subsequent changes in fair value. Dividends earned on holding equity securities at FVOCI are recognized in the statement of income as 'Dividends' when the right of the payment has been established, except when the Group benefits from such proceeds as a recovery part of the cost of the instrument, in which case, such gains are recorded in OCI. Gains and losses on disposal of these equity securities are never recycled to profit or loss, but the cumulative gain or loss previously recognized in the statement of comprehensive income is reclassified to 'Surplus' or any other appropriate equity account upon disposal. Equity securities at FVOCI are not subject to impairment assessment.

*Financial assets at amortized cost*
Financial assets at amortized cost are debt financial assets that meet both of the following conditions: (i) these are held within a business model whose objective is to hold the financial assets in order to collect contractual cash flows; and (ii) the contractual terms give rise on specified dates to cash flows that are SPPI on the outstanding principal amount. This accounting policy relates to the statement of financial position captions 'Due from BSP', 'Due from other banks', 'Interbank loans receivable and SPURA', 'Investment securities at amortized cost' and 'Loans and receivables'.

After initial measurement, financial assets at amortized cost are subsequently measured at amortized cost using the EIR method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in 'Interest income' in the statement of income. Gains and losses are recognized in statement of income when these investments are derecognized or impaired, as well as through the amortization process. The ECL are recognized in the statement of income under 'Provision for credit and impairment losses'. The effects of revaluation on foreign currency-denominated investments are recognized in the statement of income.

*Financial liabilities at amortized cost*
Issued financial instruments or their components, which are not designated at FVTPL, are classified as liabilities under 'Deposit liabilities', 'Bills payable and securities sold under repurchase agreements (SSURA)', 'Bonds payable', or 'Subordinated debts' or other appropriate financial liability accounts, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, bills payable and similar financial liabilities not qualified as and not designated at FVTPL, are subsequently measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

*Financial Guarantees and Undrawn Loan Commitments*
The Group issues financial guarantees and loan commitments. Financial guarantees are those issued by the Group to creditors as allowed under existing rules and regulations whereby it guarantees third party obligations by signing as guarantor in the contract/agreement. Undrawn loan commitments and letters of credit are commitments under which over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer. The nominal contractual value of financial guarantees and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded in the statement of financial position. These contracts are in the scope of the ECL requirements where the Group estimates the expected portion of the undrawn loan commitments that will be drawn over their expected life. The ECL related to financial guarantees and undrawn loan commitments is recognized in 'Miscellaneous liabilities' under 'Other liabilities'.

<u>Derecognition of Financial Assets and Financial Liabilities</u>
*Financial assets*
A financial asset (or, where applicable, a part of a financial asset or part of a group of financial assets) is derecognized when:
- the rights to receive cash flows from the asset have expired; or
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risks and rewards of the asset but has transferred the control of the asset.

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

The Group derecognizes a financial asset such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognized as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognized loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

When assessing whether or not to derecognize a loan to a customer, amongst others, the Group considers the following factors:
- Change in currency of the loan
- Introduction of an equity feature
- Change in counterparty
- If the modification is such that the instrument would no longer meet the SPPI criterion

If the modification does not result in cash flows that are substantially different as set out below, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Group records a modification gain or loss, to the extent that an impairment loss has not already been recorded. The Group considers a modification substantial based on qualitative factors.

Financial assets are written off either partially or in their entirety only when the Group has stopped pursuing the recovery. If a write-off is later recovered, any amounts formerly charged are credited to 'Recovery on Charged-off Assets' under 'Miscellaneous Income' in the statements of income.

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

The Group considers a modification substantial based on qualitative factors and if it results in a difference between the adjusted discounted present value and the original carrying amount of the financial liability of or greater than ten percent.

Similar with financial assets, when the modification of a financial liability is not considered substantial, the Group records a modification gain or loss based on the change in cash flows discounted at the original EIR.

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

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

Reclassification of Financial Assets
The Group reclassifies its financial assets when there is a change in its business model for managing financial assets. A change in business model occurs when the Group either begins or ceases to perform an activity that is significant to its operations. The Group applies the reclassification prospectively from the reclassification date (i.e. the first day of the next quarterly reporting period following the change in business model) and does not restate any previously recognized gains, losses or interest.

Impairment of Financial Assets
The adoption of PFRS 9 has changed the Group's loss impairment method on financial assets by replacing the previous incurred loss approach with a forward-looking ECL approach which covers all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts.

*Overview of the ECL principles*
ECL represents credit losses that reflect an unbiased and probability weighted amount which is based on reasonable and supportable information about past events, current conditions and forecasts of future economic conditions, and time value of money. The ECL allowance is based on the credit losses expected to arise on a 12-month duration if there has been no SICR of the financial asset since origination. Otherwise if a SICR is observed, then the ECL estimation is extended until the end of the life of the financial asset. The 12-month ECL represents the losses that result from default events on a financial asset which may happen within 12 months after the reporting date. The Lifetime ECL on the other hand represents the losses that result from default events on a financial asset which may

happen over its life. Both Lifetime ECLs and 12-month ECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The major portfolios of financial assets identified upon initial analysis of the Group's credit exposure are loan receivables, treasury accounts, and other receivables. Loan receivables may be availed by specific individuals, corporations or organizations. Hence, these portfolios can be further segmented to commercial and consumer portfolios. After segmentation, financial assets are grouped into Stage 1, Stage 2, and Stage 3 as described below.

*Definition of "default" and "cure"*

The Group defines a financial instrument as in default, which is fully aligned with the definition of non-performing loans i.e. credit impaired, in all cases when the borrower becomes more than 90 days (more than 30 days in 2018) past due on its contractual payments. As a part of a qualitative assessment of whether a customer is in default, the Group also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Group carefully considers whether the event should result in treating the customer as defaulted. An instrument is considered to be no longer in default (i.e. to have cured) when it no longer meets any of the default criteria and has exhibited a satisfactory track record.

Treasury exposures are considered in default upon occurrence of a credit event such as but not limited to bankruptcy of counterparty, restructuring, failure to pay on agreed settlement date, or request for moratorium.

*SICR*

In order to determine whether an instrument is subject to 12-month or Lifetime ECL, the Group assesses whether there has been a SICR since initial recognition. The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative and qualitative factors. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Group's internal credit assessment, the borrower or counterparty is determined to have well-defined credit weaknesses (i.e. with internal credit rating of 6 due to financial or repayment concerns or lower). These may include adverse trends or developments of financial, managerial, economic or political nature, or a significant weakness in collateral. Credit weakness may be manifested by unfavorable record or unsatisfactory characteristics or may only be potential that deserves management's close attention and may lead to significant losses or may result in collection or liquidation of the outstanding loan amount to be highly improbable. For exposures without internal credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. In subsequent reporting periods, if the credit risk of the financial asset improves over an observable period such that there is no longer a SICR since initial recognition, the Group shall revert to recognizing a 12-month ECL.

*Staging assessment*

For non-credit-impaired financial assets:

- Stage 1 is comprised of all non-impaired financial assets which have not experienced a SICR since initial recognition. The Group recognizes a 12-month ECL for Stage 1 financial assets.
- Stage 2 is comprised of all non-impaired financial assets which have experienced a SICR since initial recognition. The Group recognizes a lifetime ECL for Stage 2 financial assets.

For credit-impaired financial assets:

- Financial assets are classified as Stage 3 when there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a financial asset or a portfolio of financial assets. ECL for Stage 3 exposure are computed on a per account, taking into consideration the present value of the expected recoverable cash flows from each transaction.

Financial assets that are credit-impaired on initial recognition are classified as purchased or originated credit-impaired (POCI) assets. These are recorded at fair value at original recognition and interest income is subsequently recognized based on a credit-adjusted EIR. ECL is only recognized or released to the extent that there is a subsequent change in the ECLs.

*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. For the credit card business, which was merged with the Parent Company in 2020, EAD is modelled based on historical data on card limit utilization.

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.

The Parent Company offers credit card facilities (previously under MCC), in which it has the right to cancel and/or reduce the facilities with one-day notice. It does not limit its exposure to credit losses to the contractual notice period, but instead, calculates ECL over a period that reflects its expectations of the customers' behavior, their likelihood of default, and its future risk mitigation procedures, which could include reducing or cancelling the facilities. Based on past experience and expectations, the period over which ECL is calculated for these products is two years. The interest rate used to discount the ECL for credit cards is based on contractual interest rate. These rates are also used to discount future recoveries over a period of five years as these cover the cost of securing an equivalent fund. The contractual interest rate is used as discounting factor since the Parent Company estimates that this rate is reflective of the EIR.

*Forward-looking information*
The Group incorporates forward-looking information into both its assessment of whether the credit risk of a financial asset has increased significantly since its initial recognition and its measurement of ECL. A broad range of forward-looking information are considered as economic inputs, such as growth of the gross domestic product, inflation rates, unemployment rates, interest rates and BSP statistical indicators. The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

In 2019, after model reviews and validation, the Parent Company relied on the following as economic inputs in measuring ECL:
- Treasury Bill (T-Bill) Rates
- Philippine Stock Exchange (PSE) All Shares Index
- GDP growth
- External debt
- PSE Financials Index
- GDP Financial intermediation
- Government expenditure

In 2020, the Parent Company expanded its set of macroeconomic overlays to better capture the characteristics of specific financial asset classes (e.g. mortgage and auto loan exposures) and industry clusters (e.g. essential industries, secondary needs). The following economic inputs were determined to be statistically significant in measuring ECL:
- GDP Growth
- Inflation rate
- Unemployment rate
- Minimum wage
- USDPHP exchange rate
- Unified R2-BV ALWTI Crude Oil Price
- Consumer confidence index

*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 ‘Net unrealized gain (loss) on investment securities at FVOCI’ 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.

Collateral Valuation of Financial Assets
Collateral, unless repossessed, is not recorded in the Group's statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed every other year. However, some collaterals, for example, cash or securities relating to margining requirements, are valued daily.

Revenue Recognition
Revenue from contracts with customers is recognized upon transfer of services to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those services.

The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or agent. The Group concluded that it is acting as a principal in all of its revenue arrangements except for certain brokerage transactions. The following specific recognition criteria must also be met before revenue is recognized.

*Fee and commission income*
The Group earns fee and commission income from a diverse range of services it provides to its customers, which are divided into the following two categories:

a. *Fee income earned from services that are provided over a certain period of time*
   Fees earned for the provision of services over a period of time are accrued over that period as the customer simultaneously receives and consumes the benefits provided by the Group. Using an output method, revenue is recognized if the Group has a right to invoice the customer for services directly corresponding to performance completed to date. These fees include investment fund fees, custodian fees, fiduciary fees, asset management fees, and income from trust operations.

b. *Fee income from providing transaction services*
   Fees arising from negotiating or participating in the negotiation of a transaction for a third party - such as commission income, underwriting fees, corporate finance fees, advisory fees and brokerage fees for the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

*Discounts earned, membership fees and awards revenue on credit cards*
The following table provides information about the nature and timing of the satisfaction of performance obligations for the Parent Company's credit card business (under MCC prior to merger - see Note 11), including significant payment terms, and the related revenue recognition policies.

| Type of product/service | Nature and timing of satisfaction of performance obligations, including significant payment terms | Revenue recognition under PFRS 15 |
|---|---|---|
| Discounts earned | Charges arising from credit availments by the Parent Company's and other credit companies' cardholders when the Parent Company is acting as an acquirer. These discounts are computed based on certain agreed rates. These also include interchange income from transactions processed by other acquirers through VISA and Mastercard and fees from cash advance transactions of cardholders. | Recognized as revenue upon receipt from member establishments of charges arising from credit availments by the Parent Company's cardholders and other credit companies' cardholders when the Parent Company is acting as an acquirer. |
| Membership fees and dues | Periodically charged to cardholders upfront. | Deferred and recorded under 'Deferred revenue' and recognized on a straight-line basis over the period the fee entitles the cardholders to use the card. |
| Awards revenue | The Parent Company operates a loyalty points program, which allows customers to accumulate points when they purchase from member establishments using the issued card of the Parent Company. The points accumulate and do not expire. | The Parent Company allocates a portion of the consideration received from discounts earned and interchange fees from credit cards to the reward points based on the estimated stand-alone selling prices. The amount allocated to the loyalty program is deferred, and is recognized as revenue when loyalty points are redeemed or the likelihood of the customer redeeming the loyalty points becomes remote. |

*Revenues outside the scope of PFRS 15*
*Interest income*
For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as investment securities at FVOCI investments, interest income is recorded at the EIR, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), including any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR. The adjusted carrying amount is calculated based on the original EIR. The change in carrying amount is recorded as 'Interest income'. Loan commitment fees that are likely to be drawn down are deferred (together with any incremental costs) and recognized as an adjustment to the EIR of the loan.

Under PFRS 9, when a financial asset becomes credit-impaired and is, therefore, regarded as Stage 3 (as discussed in "Impairment of Financial Assets" above), the Group calculates interest income by applying the EIR to the net amortized cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Group reverts to calculating interest income on a gross basis.

Purchases by credit cardholders, collectible on an installment basis, are recorded at the cost of the items purchased plus a certain percentage of cost. The excess over cost is credited to 'Unearned discount' and is shown as a deduction from 'Loans and receivables' in the consolidated statement of financial position. The unearned discount is taken up to interest income over the installment terms and is computed using the EIR method.

*Recovery on charged-off assets*
Income arising from collections on accounts or recoveries from impairment of items previously written off are recognized in the year of recovery.

*Leasing income - Finance lease*
The excess of aggregate lease rentals plus the estimated residual value over the cost of the leased equipment constitutes the unearned lease income. Residual values represent estimated proceeds from the disposal of equipment at the time lease is estimated. The unearned lease income is amortized over the term of the lease, commencing on the month the lease is executed using the EIR method.

*Dividend income*
Dividend income is recognized when the Group's right to receive payment is established.

*Gain on disposal of investment securities at amortized cost*
Results arising from gains and losses from disposal of investment securities at amortized cost.

*Trading and securities gain - net*
Results arising from trading activities include all gains and losses from changes in fair value for financial assets and financial liabilities at FVTPL and gains and losses from disposal of debt securities at FVOCI.

*Rental income*
Rental income arising on leased properties is accounted for on a straight-line basis over the lease terms on ongoing leases and is recorded in the statement of income under 'Leasing'.

*Income on direct financing leases and receivables financed*
Income on loans and receivables financed with short-term maturities is recorded in 'Interest income' and is recognized using the EIR method. Interest and finance fees on finance leases and loans and receivables financed with long-term maturities and the excess of the aggregate lease rentals plus the estimated terminal value of the leased equipment over its cost are credited to unearned discount and amortized over the term of the note or lease using the EIR method.

*Gain on sale of investment in associate*
Upon loss of significant influence over an associate, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

*Gain on sale of non-current asset held for sale*
The gain or loss arising from the sale of non-current asset held for sale is included in profit or loss when the item is derecognized. The gain or loss arising from the derecognition of non-current asset held for sale is determined as the difference between the net disposal proceeds and its carrying amount on the date of the transaction.

Cash and Cash Equivalents
For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, amounts due from BSP and other banks, and interbank loans receivable and SPURA with original maturities of three months or less from dates of placements and that are subject to insignificant risk of changes in value.

Property and Equipment
Land is stated at cost less any impairment in value and depreciable properties including buildings, furniture, fixtures and equipment and leasehold improvements are stated at cost less accumulated depreciation and amortization, and any impairment in value. Such cost includes the cost of replacing part of the property and equipment when that cost is incurred, if the recognition criteria are met but excludes repairs and maintenance costs. Building under construction (BUC) is stated at cost and

includes cost of construction and other direct costs. BUC is not depreciated until such time that the relevant asset is completed and put into operational use.

Depreciation is calculated on the straight-line method over the estimated useful life of the depreciable assets. Leasehold improvements are amortized over the shorter of the terms of the covering leases and the estimated useful lives of the improvements. The range of estimated useful lives of property and equipment follows:

| | |
|---|---|
| Buildings | 25 to 50 years |
| Furniture, fixtures and equipment | 2 to 5 years |
| Leasehold improvements | 5 to 20 years |

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

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income under 'Profit from assets sold' in the year the asset is derecognized.

Investments in Subsidiaries, Associates and a Joint Venture (JV)

*Investment in subsidiaries*

Subsidiaries pertain to all entities over which the Group has control. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements; and
- the Group's voting rights.

*Investment in associates*

Associates pertain to all entities over which the Group and the Parent Company have significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. Investment in associates is accounted for under the equity method of accounting.

*Investment in a JV*

A JV is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the JV. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. Investment in a JV is accounted for under the equity method of accounting. The Group's investment in a JV represents the 30% interest of PSBank in Sumisho Motor Finance Corporation (SMFC) (Note 11).

Upon loss of significant influence over the associate or joint control over the JV, the Group and the Parent Company measure and recognize any retained investment at its fair value. Any difference between the carrying amount of the associate or JV upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in the statement of income.

Under the equity method, investments in associates and a JV are carried in the statement of financial position at cost plus post-acquisition changes in the Group's and the Parent Company's share of the net assets of the associate or JV less any impairment in value. Post-acquisition changes in the share of net assets of the associate or a JV include the share in the: (a) income or losses; and (b) unrealized gain or loss on investment securities, remeasurement of retirement plans and others. Dividends received are treated as a reduction in the carrying values of the investments. Goodwill relating to the associate and a JV is included in the carrying value of the investment and is not amortized. When the Group and the Parent Company increase its ownership interest in an associate or a JV that continues to be accounted for under the equity method, the cost for the additional interest is added to the existing carrying amount of the associate or JV and the existing interest in the associate or JV is not remeasured. The share in an associate or a JV's post-acquisition profits or losses is recognized in the statement of income as 'Share in net income of subsidiaries, associates and a joint venture' while its share of post-acquisition movements in the associate or JV's equity reserves is recognized directly in the statement of comprehensive income. When the share of losses in an associate or a JV equals or exceeds its interest in the associate or JV, including any other unsecured receivables, the Group and the Parent Company do not recognize further losses, unless it incurred obligations or made payments on behalf of the associate or JV which is recognized as miscellaneous liabilities. Profits and losses resulting from transactions between the Group or the Parent Company and an associate or JV are eliminated to the extent of the Group or the Parent Company's interest in the associate or JV.

Investments in subsidiaries in the separate financial statements are accounted for under the equity method similarly as investments in associates and JV. Equity in other comprehensive income (losses) of subsidiaries and changes therein are included in remeasurement losses on retirement plan, net unrealized gain on investment securities at FVOCI, and translation adjustments and others as appropriate together with the Parent Company in the separate statement of financial position and statement of comprehensive income.

Investment Properties

Investment properties are measured initially at cost, including transaction costs. An investment property acquired through an exchange transaction is measured at fair value of the asset acquired unless the fair value of such an asset cannot be measured in which case the investment property acquired is measured at the carrying amount of asset given up. The difference between the fair value of the asset received and the carrying amount of the asset given up is recorded as 'Gain on initial recognition of investment properties' under 'Miscellaneous income'. Foreclosed properties are classified under 'Investment properties' upon: a.) entry of judgment in case of judicial foreclosure; b.) execution of the Sheriff's Certificate of Sale in case of extra-judicial foreclosure; or c.) notarization of the Deed of Dacion in case of dation in payment (*dacion en pago*). Subsequent to initial recognition, investment properties are carried at cost less accumulated depreciation (for depreciable investment properties) and impairment in value.

Investment properties are derecognized when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the statement of income under 'Profit from assets sold' in the year of retirement or disposal.

Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs, are normally charged to operations in the year in which the costs are incurred. Depreciation is calculated on a straight-line basis using the remaining useful lives from the time of acquisition of the investment properties based on appraisal reports but not to exceed 50 years for buildings and condominium units.

Transfers are made to investment properties when, and only when, there is a change in use evidenced by ending of owner occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment properties when, and only when, there is a change in use evidenced by commencement of owner occupation or commencement of development with a view to sale.

Interest in Joint Operations
The Group is a party to joint operations whereby it contributed parcels of land for development into residential and commercial units. In respect of the Group's interest in the joint operations, the Group recognizes the following: (a) the assets that it controls and the liabilities that it incurs; and (b) the expenses that it incurs and its share of the income that it earns from the sale of units by the joint operations. The assets contributed to the joint operations are measured at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale (Note 14).

Chattel Mortgage Properties
Chattel mortgage properties comprise of repossessed vehicles. Chattel mortgage properties are stated at cost less accumulated depreciation and impairment in value. Depreciation is calculated on a straight-line basis using the remaining useful lives from the time of acquisition of the vehicles. The useful lives of chattel mortgage properties are estimated to be five years.

Subordinated Notes
Subordinated notes issued by Special Purpose Vehicles (SPV) (presented as 'Investment in SPVs' under 'Other assets') are stated at amortized cost reduced by an allowance for credit losses. The allowance for credit losses is determined based on the difference between the outstanding principal amount and the recoverable amount which is the present value of the future cash flow expected to be received as payment for the subordinated notes.

Intangible Assets
*Software costs*
Software costs (presented under 'Other assets') are capitalized on the basis of the cost incurred to acquire and bring to use the specific software. These costs are amortized over three to five years on a straight-line basis. Costs associated with maintaining the computer software programs are recognized as expense when incurred. Software costs are carried at cost less accumulated amortization.

*Exchange trading right*
Exchange trading right (included in 'Miscellaneous assets' presented under 'Other assets') is a result of the PSE conversion plan to preserve access of First Metro Securities Brokerage Corporation (FMSBC), a subsidiary of FMIC, to the trading facilities and continue transacting business in the PSE. The exchange trading right has an indefinite useful life as there is no foreseeable limit to the period over which this asset is expected to generate net cash inflows. It is carried at the amount allocated from the original cost to the exchange membership seat (after a corresponding allocation was made to the value of the PSE shares) less any allowance for impairment losses. FMSBC does not intend to sell the exchange trading right in the near future.

Goodwill
Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. With respect to investments in associates and a JV, goodwill is included in the carrying amounts of the investments. Following initial recognition, goodwill is measured at cost net of impairment losses (see accounting policy on "Impairment of Non-financial Assets").

Customized System Development Cost
Customized system development cost consists of payments for customization of various banking systems. This account will be reclassified to appropriate accounts upon completion and will be depreciated and amortized from the time the asset is ready for its intended use (Note 14).

Impairment of Non-financial Assets
*Property and equipment, investments in subsidiaries, associates and a JV, investment properties, chattel mortgage properties, intangible assets with finite useful lives and other assets*
At each statement of financial position date, the Group assesses whether there is any indication that its non-financial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Group makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell (FVLCTS) and its value in use (VIU) and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash generating unit to which it belongs. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to operations in the year in which it arises.

An assessment is made at each statement of financial position date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income. After such a reversal, the depreciation and amortization expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

*Intangible assets with indefinite useful lives and customized system development cost not yet available for use*
Intangible assets with indefinite useful lives such as exchange trading right and customized system development cost not yet available for use are tested for impairment annually at statement of financial position date either individually or at the cash generating unit level, as appropriate.

*Goodwill*
Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the cash generating unit (CGU) (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGUs) is less

than the carrying amount of the CGU (or group of CGUs) to which goodwill has been allocated, an impairment loss is recognized immediately in the statement of income. The Group uses the higher of FVLCTS and VIU using cash flow projections from financial budgets approved by senior management in determining the recoverable amount.

Leases

*Group as lessee*

*Policies applicable beginning January 1, 2019*

The Group assesses at contract inception whether a contract is, or contains a lease. A contract contains a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognizes lease liabilities to make lease payments and ROU assets representing the right-of-use the underlying assets.

*ROU assets*

The Group recognizes ROU assets (included in ‘Property and Equipment’) at the commencement date of the lease (i.e. the date the underlying asset is available for use). ROU assets are measured at cost less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of ROU assets includes the amount of lease liabilities recognized and lease payments made at or before the commencement date less any lease incentives received. ROU assets are depreciated on a straight line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

| | |
|---|---|
| Office space | 1 to 29 years |
| ATM site and equipment | 1 to 5 years |

*Lease liabilities*

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest (included in ‘Interest expense on bills payable and SSURA, bonds payable, subordinated debt and others) and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term or a change in the lease payments.

The Group’s lease liabilities are included in Other Liabilities (Note 21).

*Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to its short-term leases of office spaces and ATM sites (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of ATM site and other equipment that are considered to be of low value (i.e., those with value of less than ₱250,000). Lease payments on short-term leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

*Residual value of leased assets and deposits on lease contracts*

The residual value of leased assets, which approximates the amount of guaranty deposit paid by the lessee at the inception of the lease, is the estimated proceeds from the sale of the leased asset at the end of the lease term. At the end of the lease term, the residual value of the leased asset is generally applied against the guaranty deposit of the lessee when the lessee decides to buy the leased asset.

*Policies applicable prior to January 1, 2019*
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:
(a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
(b) a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
(c) there is a change in the determination of whether fulfillment is dependent on a specified asset; or
(d) there is a substantial change to the asset.

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

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to the ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and included in 'Property and equipment' with the corresponding liability to the lessor included in 'Other liabilities'. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recorded directly to 'Interest expense'.

Capitalized leased assets are depreciated over the shorter of the estimated useful lives of the assets or the respective lease terms, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Leases where the lessor retains substantially all the risk and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognized as an expense in the statement of income under 'Occupancy and equipment-related cost' on a straight-line basis over the lease term. Contingent rental payables are recognized as expense in the year in which they are incurred. Any prepaid rent and accrued rent were recognized under 'Prepaid expenses' lodged in 'Other assets' and 'Accrued other expenses' lodged in 'Accrued interest and other expenses', respectively.

*Group as lessor*
Finance leases, where the Group transfers substantially all the risks and benefits incidental to the ownership of the leased item to the lessee, are included in the statement of financial position under 'Loans and receivables'. All income resulting from the receivable is included in 'Interest income' in the statement of income.

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the year in which they are earned.

Retirement Cost
The Group has a non-contributory defined benefit retirement plan except for FMIIC and its subsidiary which follow the defined contribution retirement benefit plan and the Mandatory Provident Fund Scheme (MPFS). The retirement cost of the Parent Company and most of its subsidiaries is determined using the projected unit credit method. Under this method, the current

service cost is the present value of retirement benefits payable in the future with respect to services rendered in the current year. The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation (DBO) at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries. Net interest on the net defined benefit liability or asset is the change during the year in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss. Retirement expense is presented under 'Compensation and fringe benefits' in the statement of income. Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods. Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the DBO, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Group's right to be reimbursed of some or all of the expenditure required to settle a DBO is recognized as a separate asset at fair value when and only when reimbursement is virtually certain. Payments to the defined contribution retirement benefit plans and the MPFS are recognized as expenses when employees have rendered service entitling them to the contributions.

Equity

When the shares are sold at a premium, the difference between the proceeds and par value is credited to 'Capital paid in excess of par value', net of direct costs incurred related to the equity issuance. If 'Capital paid in excess of par value' is not sufficient, the excess is charged against surplus. When the Group issues more than one class of stock, a separate account is maintained for each class of stock and the number of stocks issued.

Surplus represents accumulated earnings of the Group less dividends declared.

Own equity instruments which are reacquired or Parent Company's shares acquired by its subsidiaries (treasury stock) are recognized at cost and deducted from equity. No gain or loss is recognized in the profit or loss on the purchase, sale, issue or cancellation of the Parent Company's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in 'Capital paid in excess of par value'. Voting rights related to treasury stocks are nullified and no dividends are allocated. When the stocks are retired, the Common stock account is reduced by its par value and the excess of cost over par value upon retirement is debited to capital paid in excess of par value at the time the stocks were issued and to surplus for the remaining balance.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as 'Interest expense'.

Contingent Liabilities and Contingent Assets

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

Income Taxes

*Current taxes*

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxing authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the statement of financial position date. Effective January 1, 2019, management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretations and establishes provisions where appropriate.

*Deferred taxes*

Deferred tax is provided on temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

a. Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
b. In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular income tax, and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable income will be available against which the deductible temporary differences and carryforward of unused tax credits from MCIT and unused NOLCO can be utilized except:

a. Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
b. In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each statement of financial position date and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

Current tax and deferred tax relating to items recognized directly in equity are recognized in OCI and not in the statement of income.

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

Earnings Per Share

Basic earnings per share is computed by dividing net income for the year attributable to equity holders of the Parent Company by the weighted average number of common shares outstanding during the year after giving retroactive effect to stock dividends declared and stock rights exercised during the year. The Group does not have dilutive potential common shares.

Dividends on Common Shares

Cash dividends on common shares are recognized as a liability and deducted from the equity when approved by the Board of Directors (BOD) of the Parent Company while stock dividends are deducted from equity when approved by BOD and shareholders of the Parent Company. Dividends declared during the year but are paid or issued after the statement of financial position date are dealt with as a subsequent event.

Debt Issuance Costs

Issuance, underwriting and other related costs incurred in connection with the issuance of debt instruments are deferred and amortized over the terms of the instruments using the EIR method. Unamortized debt issuance costs are included in the related carrying amount of the debt instrument in the statement of financial position.

Capital Securities Issuance Costs
Issuance, underwriting and other related costs incurred in connection with the issuance of the capital securities are treated as a reduction of equity against 'Capital paid in excess of par value'.

Events after the Statement of Financial Position Date
Post year-end events that provide additional information about the Group's position at the statement of financial position date (adjusting event) are reflected in the financial statements. Post year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

Segment Reporting
The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on business segments is presented in Note 6.

Fiduciary Activities
Assets and income arising from fiduciary activities together with related undertakings to return such assets to customers are excluded from the financial statements where the Parent Company and PSBank act in a fiduciary capacity such as nominee, trustee or agent.

**Standards Issued but not yet Effective**

The list below consists of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt these standards when they become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended standards and interpretations to have significant impact on its financial statements.

*Effective beginning on or after January 1, 2021*

- Amendments to PFRS 9, PFRS 7, PFRS 4 and PFRS 16, *Interest Rate Benchmark Reform - Phase 2*

  The amendments provide the following temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR):
  - Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform
  - Relief from discontinuing hedging relationships
  - Relief from the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

  The Group shall also disclose information about:
  - The about the nature and extent of risks to which the entity is exposed arising from financial instruments subject to IBOR reform, and how the entity manages those risks; and
  - Their progress in completing the transition to alternative benchmark rates, and how the entity is managing that transition

  The amendments are effective for annual reporting periods beginning on or after January 1, 2021 and apply retrospectively, however, the Group is not required to restate prior periods.

*Effective beginning on or after January 1, 2022*

Amendments to PFRS 3, *Reference to the Conceptual Framework*
The amendments added an exception to the recognition principle of PFRS 3, *Business Combinations* to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets* or Philippine-IFRIC 21, *Levies*, if incurred separately. It also clarified that contingent assets do not qualify for recognition at the acquisition date. The Group applies these amendments prospectively for annual reporting periods beginning on or after January 1, 2022.

Amendments to PAS 16 , *Plant and Equipment: Proceeds before Intended Use*
The amendments prohibit entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment are effective for annual reporting periods beginning on or after January 1, 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

Amendments to PAS 37, *Onerous Contract – Costs of Fulfilling a Contract*
The amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual reporting periods beginning on or after January 1, 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

*Annual Improvements to PFRSs 2018-2020 Cycle*
Amendments to PFRS 1, First-time Adoption of *Philippines Financial Reporting Standards, Subsidiary as a first-time adopter*
The amendments permit a subsidiary, joint venture or associate that elects to apply paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to PFRS. The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted

Amendments to PFRS 9, *Financial Instruments*, *Fees in the '10 per cent' test for derecognition financial liabilities*
The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

Amendments to PAS 41, *Agriculture, Taxation in fair value measurements*
The amendment removes the requirement in paragraph 22 of PAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of PAS 41. An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after January 1, 2022 with earlier adoption permitted.

*Effective beginning on or after January 1, 2023*

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, 2023. Early application is permitted but only if the entity also applies PFRS 9 and PFRS 15.

Amendments to PAS 1*, Classification of Liabilities as Current and Non-Current*
The amendments clarify the following to specify the requirements for classifying liabilities as current or non-current:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right;
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

*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. 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 investor's interests in the associate or joint venture. On January 13, 2016, the Financial Reporting Standards Council postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

## 3. Significant Accounting Judgments and Estimates

The preparation of the financial statements in compliance with PFRS requires the Group to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and the disclosures of contingent assets and contingent liabilities. Future events may occur which can cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The following are the critical judgments and key assumptions that have a significant risk of material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Judgments

a. *Classification of financial assets*
The Group classifies its financial assets depending on the business model for managing those financial assets and whether the contractual terms of the financial asset are SPPI on the principal amount outstanding. The Group performs the business model assessment based on observable factors such as:
- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the Group's key management personnel
- Risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- Compensation of business units whether based on the fair value of the assets managed or on the contractual cash flows collected
- Expected frequency, value and timing of sales

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

In 2020, the Parent Company disposed investment securities at amortized cost and assessed that this resulted from a change in business model. PSBank also disposed investment securities at amortized cost and assessed that the disposal was not inconsistent with the hold-to-collect (HTC) business model (see Note 8).

In 2019, FMIC disposed all of its investment securities at amortized cost and assessed that this resulted from unanticipated market changes that are significant to its operations (see Note 8).

b. *Consolidation of subsidiaries*
The determination whether the Group has control over an investee company requires significant judgment. The Group considers that the following criteria are all met, including: (a) an investor has the power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's return.

In accordance with PFRS 10, the Group included the accounts of First Metro Save and Learn Balance Fund, Inc. (FMSALBF), First Metro Save and Learn Equity Fund, Inc. (FMSALEF), First Metro Save and Learn Fixed Income Fund, Inc. (FMSLFIF), First Metro Philippine Equity Exchange Traded Fund, Inc. (FMPETF), First Metro Save and Learn F.O.C.C.U.S. Dynamic Fund, Inc. and First Metro Save and Learn Money Market Fund, Inc., collectively the "Funds", in its consolidated financial statements. The Group re-assessed the control conclusion for these Funds. Although the ownership is less than half of the voting power of these investees, the Group has control due to its power to direct the relevant activities of the Funds through First Metro Asset Management Inc. (FAMI), a subsidiary of FMIC, which acts as the fund manager of the Funds. Further, the Group has the exposure to variable returns from its investments and its ability to use its power over the Funds to affect their returns.

c. *Existence of significant influence over an associate with less than 20.00% ownership*
As discussed in Note 11, there are instances that an investor exercises significant influence even if its ownership is less than 20.00%. The Group applies significant judgment in assessing whether it holds significant influence over an investee and considers the following: (a) representation in the board of directors or equivalent governing body of the investee; (b) participation in policy-making processes, including participation in decisions about dividends or other distributions; (c) material transactions between the investor and the investee; (d) interchange of managerial personnel; (e) joint voting agreement with other investors; or (f) provision of essential technical information.

d. *Fair value of financial instruments*
Where the fair values of financial assets and financial liabilities recorded in the statement of financial position or disclosed in the notes to financial statements cannot be derived from active markets, these are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. These judgments may include considerations of liquidity and volatility for longer dated derivatives (Note 5).

e. *Leases*
Group as lessor
Operating leases
The Group has entered into commercial property leases on its investment properties portfolio and over various items of furniture, fixtures and equipment. The Group has determined, based on an evaluation of the terms and conditions of the arrangements (i.e., the lease does not transfer ownership of the asset to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable and the lease term is not for the major part of the asset's economic life), that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Finance leases
The Group has entered into leases on its transportation and office equipment portfolio. The Group has determined that it has transferred all the significant risks and rewards of ownership of the properties to the lessees, that at the inception of the lease, the present value of the minimum lease payments amounts to at least substantially all of the fair value of the lease asset.

Group as lessee
The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

*Extension and termination options*
The Group has several lease contracts that include extension and termination options. The Group applies judgment in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors such as leasehold improvements and location that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassess the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

*Estimating the IBR for lease liabilities*
The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its IBR to measure lease liabilities. The IBR for lease liabilities is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the ROU asset in a similar economic environment. The Group estimates the IBR for lease liabilities using observable inputs (by reference to prevailing risk-free rates) adjusted to take into account the entity's credit risk (i.e., credit spread).

*f.* *Contingencies*
The Group is currently involved in legal proceedings. The estimate of the probable cost for the resolution of claims has been developed in consultation with and the aid of the outside legal counsel handling the Group's defense in this matter and is based upon an analysis of potential results. It is probable, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (Note 30).

Estimates

*a.* *Credit losses on financial assets*
The Group reviews its debt financial assets subject to ECL at least on a semi-annual basis with updating provisions made during the intervals as necessary based on the continuing analysis and monitoring of individual accounts by credit officers, as in the case in 2020 when quarterly reviews and ECL adjustments were made in response to the changing credit environment brought about by the COVID-19 pandemic. The measurement of credit losses under PFRS 9 across all categories of such financial assets requires judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining credit losses and the assessment of a SICR. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgments and estimates include, among others:

- Segmentation of the portfolio, where the appropriate model or ECL approach is used
- Criteria for assessing if there has been a SICR and so allowances for debt financial assets should be measured on a lifetime ECL basis and the qualitative assessment. In 2019, Stage 2 included those accounts "Watchlisted" due to financial and repayment concerns, which were previously under Stage 1, and aligned the definition of default (previously more than 30 days past due) with the BSP's definition of non-performing loans, i.e., more than 90 days past due. In 2020, exposures that were granted payment reprieve strictly as provided for by laws and relevant regulations were retained under Stage 1, while exposures that were granted extended reprieve, provided not impaired or not non-performing under relevant rules, were included under Stage 2. The Parent Company likewise performed quarterly reviews of its credit exposures to determine the occurrence of SICR notwithstanding said reprieves. Exposures belonging to sectors widely determined to be most at-risk and non-essential (e.g., tourism, entertainment and leisure, hotels and restaurants, airlines), and projected to experience significant revenue and liquidity strain in the event of prolonged economic inactivity, were also included under Stage 2.
- Segmentation of debt financial assets when their ECL is assessed on a collective basis

- Development of ECL models, including the various formulas and the choice of inputs. In 2019, the Parent Company recalibrated its lifetime PD models and loss rates (for portfolios to which the loss rate approach is applied). In 2020, the Company further recalibrated its PD and overlay models following the conclusion of validation of the same by an independent external party.
- Determination of associations between macroeconomic scenarios and economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

The gross carrying amounts of financial assets subject to ECL as of December 31, 2020 and 2019 are disclosed in Note 4, while the related allowances for expected credit losses are disclosed in Note 15. In 2020 and 2019, provision for credit losses on these financial assets amounted to ₱40.8 billion and ₱9.6 billion, respectively, for the Group and ₱32.7 billion and ₱1.6 billion, respectively, for the Parent Company (Note 15). With the merger of MCC into the Parent Company in 2020 (Note 11), the Parent Company's provision for credit losses in 2020 includes the provision for credit losses on credit card receivables .

b. *Recognition of deferred income taxes*
Deferred tax assets are recognized for all unused tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The estimates of future taxable income indicate that certain temporary differences will be realized in the future. The Group and the Parent Company have considered the impact of the COVID-19 pandemic on future taxable income and on the recognition of deferred tax assets. The recognized net deferred tax assets and unrecognized deferred tax assets for the Group and the Parent Company are disclosed in Note 28.

c. *Present value of retirement liability*
The cost of defined retirement pension plan is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and the long-term nature of these plans, such estimates are subject to significant uncertainty. The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of the statement of financial position date. The present values of the retirement liability of the Group and the Parent Company are disclosed in Note 27.

d. *Impairment of non-financial assets*
The Group assesses impairment on non-financial assets (property and equipment, investments in subsidiaries, associates and a JV, investment properties, software costs, chattel mortgage properties and other assets) whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Group considers important which could trigger an impairment review include the following: a) significant underperformance relative to expected historical or projected future operating results; b) significant changes in the manner of use of the acquired assets or the strategy for overall business; and c) significant negative industry or economic trends.

The Group uses the higher of FVLCTS and VIU in determining the recoverable amount of the asset. As of December 31, 2020 and 2019, there has been a significant and prolonged decline in the fair value of an associate. In 2019, the VIU was used as the recoverable amount while in 2020, it was based on FVLCTS as it was higher than the VIU. The FVLCTS was based on the quoted price of the shares less expected selling costs. The VIU calculation is most sensitive to the following assumptions: (a) production volume; (b) price; (c) exchange rates; (d) capital expenditures and (e) long-term growth rates. In 2020, the Group considered the impact of the COVID-19 pandemic in determining the VIU. Based on the Group's impairment testing as of December 31, 2020 and 2019, allowance for impairment loss on investment on this associate amounted to ₱439.2 million.

The carrying values of the property and equipment, investments in subsidiaries, associates and a JV, investment properties, software costs, chattel mortgage properties, and other assets of the Group and the Parent Company are disclosed in Notes 10, 11, 12 and 14, respectively.

*Goodwill*
Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the CGU (or group of CGUs) to which goodwill has been allocated, an impairment loss is recognized immediately in the statement of income. The recoverable amount of the CGU is determined based on FVLCTS.

The fair value of the CGU is determined using the cost approach, specifically the adjusted Net Asset Value (NAV) method. This method requires the measurement of the fair value of the individual assets and liabilities recognized in the CGU, as well as the fair value of any unrecognized assets and liabilities at the measurement date. The resulting net fair values of the assets and liabilities represent the fair value of the CGU. In determining the fair value of the CGU's net assets, the Group used the discounted cash flow method for unquoted debt financial assets/liabilities at the appropriate market rate, the price-to-earnings (P/E) valuation and adjusted NAV model for unquoted equity investments, and the appraisal reports for the valuation of real properties. Fair values of listed debt and equity securities are based on their quoted market prices. The Group applied the P/E valuation model by reference to P/E ratios of listed comparable companies of the investee company. The FVLCTS calculation of the CGU is most sensitive to the P/E ratios of listed comparable companies of the investee company. Based on the sensitivity analysis performed, a one percent (1%) reduction in the P/E ratio used will result in impairment of the goodwill. The Group considered the impact of the COVID-19 pandemic in determining the recoverable amount. As of December 31, 2020 and 2019, the Group's goodwill amounted to ₱5.2 billion (Note 11).

## 4. Financial Risk and Capital Management

Introduction

The Group has exposure to the following risks from its use of financial instruments: (a) credit; (b) liquidity; and (c) market risks.

*Risk management framework*

The Board of Directors (BOD) has overall responsibility for the oversight of the Parent Company's risk management process. On the other hand, the risk management processes of the subsidiaries are the separate responsibilities of their respective BOD. Supporting the BOD in this function are certain Board-level committees such as Risk Oversight Committee (ROC), Audit Committee (AC) and senior management committees through the Executive Committee and Asset and Liability Committee (ALCO) among others.

The ROC, which is composed primarily of independent members of the BOD, is responsible for overseeing the Parent Company's risk infrastructure, the adequacy and relevance of risk policies, and the compliance to defined risk appetite and levels of exposure. The ROC is assisted in this responsibility by the Risk Management Group (RSK). The RSK undertakes the implementation and execution of the Parent Company's Risk Management framework which involves the identification, assessment, control, monitoring and reporting of risks.

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

Credit Risk

Credit risk is the risk of financial loss to the Group if a counterparty to a financial instrument fails to meet its contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties, related groups of borrowers, market segments, and industry concentrations, and by monitoring exposures in relation to such limits, among others. The same is true for treasury-related activities. Each business unit is responsible for the quality of its credit portfolio and for monitoring and controlling all credit risks in its portfolio. Regular reviews and audits of business units and credit processes are undertaken by the RSK and Internal Audit Group, respectively.

*Management of credit risk*

The Group faces potential credit risks every time it extends funds to borrowers, commits funds to counterparties, guarantees the paying performance of its clients, invests funds to issuers (e.g., investment securities issued by either sovereign or corporate entities) or enter into either market-traded or over-the-counter derivatives, either through implied or actual contractual agreements (i.e., on- or off-balance sheet exposures). The Parent Company manages its credit risk at various levels (i.e., strategic level, portfolio level down to individual obligor or transaction) by adopting a credit risk management environment that has the following components:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit/financial assessment, risk grading and reporting and compliance with regulatory requirements;
- Establishment of authorization limits for the approval and renewal of credit facilities;

- Limiting concentrations of exposure to counterparties and industries (for loans), and by issuer (for investment securities);
- Utilizing the Internal Credit Risk Rating System (ICRRS) in order to categorize exposures according to their risk profile. The risk grading system is used for determining impairment provisions against credit exposures. The current risk grading framework consists of ten grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation; and
- Monitoring compliance with approved exposure limits.

Borrowers, counterparties or group of related accounts across the Group are aggregated and managed by the Parent Company's Institutional Banking Sector as the "Control Unit". Group Limits for conglomerates are set-up and approved to guide subsidiaries and affiliates of the Group. Consolidated exposures are regularly reported to senior management and the ROC.

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

*Modification*
In certain circumstances, the Group modifies the original terms and conditions of a credit exposure to form a new loan agreement or payment schedule. The modifications can be given depending on the borrower's or counterparty's current or expected financial difficulty. The modifications may include, but are not limited to, change in interest rate and terms, principal amount, maturity date, date and amount of periodic payments and accrual of interest and charges.

On March 24, 2020, Republic Act No. 11469 or the "Bayanihan to Heal as One Act" (Bayanihan 1) was enacted declaring a state of national emergency over the entire country to control the spread of the Coronavirus Disease 2019 (COVID-19). Among the provisions of Bayanihan 1 is the implementation of a 30-day grace period for all loans with principal and/or interest falling due within the period of the Enhanced Community Quarantine without incurring interest on interest, on penalties, fees and other charges. Further, on September 11, 2020, Republic Act No. 11494 or the "Bayanihan to Recover as One Act" (Bayanihan 2) was enacted and part of the provisions of the Bayanihan 2 is the implementation of a one-time 60-day grace period to be granted for the payment of all existing, current and outstanding loans falling due, or any part thereof, on or before December 31, 2020, without incurring interest on interest, penalties, fees and other charges, thereby extending the maturity of said loans. In addition, Bayanihan 2 allows loans to be settled on a staggered basis without interest on interests, penalties, fees or other charges until December 31, 2020 or as may be agreed upon by both parties.

The impact of loan modifications as a result of the Bayanihan 1 and Bayanihan 2 Acts amounted to a loss of ₱1.7 billion for the Group and ₱1.2 billion for the Parent Company. For the year ended December 31, 2020, the net impact of the loan modifications (i.e., after subsequent accretion of the modified loans) amounted to a loss of ₱461.3 million, for the Group and nil for the Parent Company.

*Maximum exposure to credit risk*

An analysis of the maximum credit risk exposure (net of allowance for ECL) relating to financial assets with collateral or credit enhancements is shown below:

| | Consolidated | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **2020** | | | | 2019 | | | |
| | **Maximum Exposure to Credit Risk** | **Fair Value of Collateral** | **Financial Effect of Collateral or Credit Enhancement** | **Net Exposure** | Maximum Exposure to Credit Risk | Fair Value of Collateral | Financial Effect of Collateral or Credit Enhancement | Net Exposure |
| Interbank loans receivable and SPURA | **₱18,614** | **₱18,614** | **₱18,614** | **₱–** | ₱401 | ₱401 | ₱401 | ₱– |
| Loans and receivables - net | | | | | | | | |
| Receivables from customers | | | | | | | | |
| Commercial loans | **269,534** | **827,714** | **239,564** | **29,970** | 341,616 | 856,065 | 299,588 | 42,028 |
| Auto loans | **95,625** | **161,750** | **92,087** | **3,538** | 116,069 | 202,470 | 115,636 | 433 |
| Residential mortgage loans | **103,367** | **188,025** | **98,305** | **5,062** | 109,093 | 207,864 | 93,723 | 15,370 |
| Trade loans | **34,314** | **34,216** | **33,440** | **874** | 61,260 | 59,907 | 59,785 | 1,475 |
| Others | **268** | **300** | **262** | **6** | 796 | 738 | 702 | 94 |
| | **503,108** | **1,212,005** | **463,658** | **39,450** | 628,834 | 1,327,044 | 569,434 | 59,400 |
| Accrued interest receivable | **6,386** | **5,540** | **5,540** | **846** | 3,507 | 3,370 | 3,370 | 137 |
| Sales contract receivable | **79** | **272** | **76** | **3** | 142 | 414 | 100 | 42 |
| | **509,573** | **1,217,817** | **469,274** | **40,299** | 632,483 | 1,330,828 | 572,904 | 59,579 |
| Total | **₱528,187** | **₱1,236,431** | **₱487,888** | **₱40,299** | ₱632,884 | ₱1,331,229 | ₱573,305 | ₱59,579 |

| | Parent Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **2020** | | | | 2019 | | | |
| | **Maximum Exposure to Credit Risk** | **Fair Value of Collateral** | **Financial Effect of Collateral or Credit Enhancement** | **Net Exposure** | Maximum Exposure to Credit Risk | Fair Value of Collateral | Financial Effect of Collateral or Credit Enhancement | Net Exposure |
| Interbank loans receivable and SPURA | **₱15,819** | **₱15,819** | **₱15,819** | **₱–** | ₱– | ₱– | ₱– | ₱– |
| Loans and receivables - net | | | | | | | | |
| Receivables from customers | | | | | | | | |
| Commercial loans | **249,523** | **794,103** | **227,841** | **21,682** | 296,577 | 806,784 | 264,137 | 32,440 |
| Auto loans | **20,543** | **56,052** | **20,213** | **330** | 23,674 | 63,917 | 23,330 | 344 |
| Residential mortgage loans | **53,810** | **113,501** | **53,600** | **210** | 56,977 | 114,374 | 56,780 | 197 |
| Trade loans | **34,314** | **34,216** | **33,440** | **874** | 61,260 | 59,907 | 59,785 | 1,475 |
| Others | **268** | **300** | **262** | **6** | 796 | 738 | 703 | 93 |
| | **358,458** | **998,172** | **335,356** | **23,102** | 439,284 | 1,045,720 | 404,735 | 34,549 |
| Accrued interest receivable | **1,787** | **1,776** | **1,776** | **11** | 1,659 | 1,656 | 1,656 | 3 |
| Sales contract receivable | **54** | **189** | **54** | **–** | 100 | 187 | 100 | – |
| | **360,299** | **1,000,137** | **337,186** | **23,113** | 441,043 | 1,047,563 | 406,491 | 34,552 |
| Total | **₱376,118** | **₱1,015,956** | **₱353,005** | **₱23,113** | ₱441,043 | ₱1,047,563 | ₱406,491 | ₱34,552 |

The maximum exposure to credit risks for the other financial assets is limited to their carrying values as of December 31, 2020 and 2019.

Collaterals on loans and receivables includes real estate and chattel mortgages, guarantees, and other registered securities over assets. Generally, collateral is not held over loans and advances to banks except for reverse repurchase agreements and certain due from other banks. Collateral usually is not held against investment securities, and no such collateral was held as of December 31, 2020 and 2019. Estimates of fair values of the collateral are based on the value of collateral assessed at the time of borrowing and are regularly updated according to internal lending policies and regulatory guidelines. The Group is not permitted to sell or repledge the collateral in the absence of default by the counterparty.

The following tables show the effect of rights of set-off associated with the recognized financial assets and financial liabilities.

| | Gross Carrying Amounts (before offsetting) | Gross Amounts Offset in accordance with the Offsetting Criteria | Net Amount Presented in Statement of Financial Position | Effect of Remaining Rights of Set-Off (including rights to set-off financial collateral) Not Meeting Offsetting Criteria | | Net Exposure |
|---|---|---|---|---|---|---|
| | | | | Financial Instruments | Fair Value of Financial Collateral | |
| **Financial assets recognized by type** | | | | | | |
| **Consolidated** | | | | | | |
| **2020** | | | | | | |
| Derivative assets | **₱220,808** | **₱208,971** | **₱11,837** | **₱1,487** | **₱–** | **₱10,350** |
| SPURA | **26,653** | – | **26,653** | – | **26,653** | – |
| | **₱247,461** | **₱208,971** | **₱38,490** | **₱1,487** | **₱26,653** | **₱10,350** |
| 2019 | | | | | | |
| Derivative assets | ₱233,601 | ₱225,128 | ₱8,473 | ₱1,634 | ₱– | ₱6,839 |
| SPURA | 39,686 | – | 39,686 | – | 39,686 | – |
| | ₱273,287 | ₱225,128 | ₱48,159 | ₱1,634 | ₱39,686 | ₱6,839 |
| **Parent Company** | | | | | | |
| **2020** | | | | | | |
| Derivative assets | **₱220,795** | **₱208,971** | **₱11,824** | **₱1,474** | **₱–** | **₱10,350** |
| SPURA | **15,819** | **–** | **15,819** | **–** | **15,819** | **–** |
| | **₱236,614** | **₱208,971** | **₱27,643** | **₱1,474** | **₱15,819** | **₱10,350** |
| 2019 | | | | | | |
| Derivative assets | ₱233,601 | ₱225,128 | ₱8,473 | ₱1,634 | ₱– | ₱6,839 |
| SPURA | 36,921 | – | 36,921 | – | 36,921 | – |
| | ₱270,522 | ₱225,128 | ₱45,394 | ₱1,634 | ₱36,921 | ₱6,839 |
| **Financial liabilities recognized by type** | | | | | | |
| **Consolidated** | | | | | | |
| **2020** | | | | | | |
| Derivative liabilities | **₱239,694** | **₱226,244** | **₱13,450** | **₱3,121** | **₱–** | **₱10,329** |
| SSURA | **93,059** | – | **93,059** | – | **93,059** | – |
| | **₱332,753** | **₱226,244** | **₱106,509** | **₱3,121** | **₱93,059** | **₱10,329** |
| 2019 | | | | | | |
| Derivative liabilities | ₱236,188 | ₱228,780 | ₱7,408 | ₱1,634 | ₱– | ₱5,774 |
| SSURA | 91,492 | – | 91,492 | – | 91,428 | 64 |
| | ₱327,680 | ₱228,780 | ₱98,900 | ₱1,634 | ₱91,428 | ₱5,838 |
| **Parent Company** | | | | | | |
| **2020** | | | | | | |
| Derivative liabilities | **₱227,226** | **₱215,423** | **₱11,803** | **₱1,474** | **₱–** | **₱10,329** |
| SSURA | **93,059** | – | **93,059** | – | **93,059** | – |
| | **₱320,285** | **₱215,423** | **₱104,862** | **₱1,474** | **₱93,059** | **₱10,329** |
| 2019 | | | | | | |
| Derivative liabilities | ₱216,963 | ₱210,986 | ₱5,977 | ₱1,634 | ₱– | ₱4,343 |
| SSURA | 90,780 | – | 90,780 | – | 90,716 | 64 |
| | ₱307,743 | ₱210,986 | ₱96,757 | ₱1,634 | ₱90,716 | ₱4,407 |

*Excessive risk concentration*

Credit risk concentrations can arise whenever a significant number of borrowers have similar characteristics and are affected similarly by changes in economic or other conditions. The Parent Company analyzes the credit risk concentration to an individual borrower, related group of accounts, industry, internal rating buckets, and security. For risk concentration monitoring purposes, the financial assets are broadly categorized into (1) loans and receivables and (2) trading and financial investment securities. To mitigate risk concentration, the Parent Company constantly checks for breaches in regulatory and internal limits.

*Concentration of risks of financial assets with credit risk exposure*

Below is an analysis of concentrations of credit risk at the reporting date based on carrying amount:

| | Consolidated | | | | |
|---|---|---|---|---|---|
| | Loans and Receivables* | Loans and Advances to Banks** | Investment Securities*** | Others**** | Total |
| **2020** | | | | | |
| **Concentration by Industry** | | | | | |
| Financial and insurance activities | **₱142,620** | **₱422,671** | **₱87,277** | **₱12,427** | **₱664,995** |
| Activities of households as employers and undifferentiated goods and services and producing activities of households for own use | **247,398** | – | – | **206,006** | **453,404** |
| Real estate activities | **226,455** | – | **255** | **592** | **227,302** |
| Wholesale and retail trade, repair of motor vehicles, motorcycles | **176,730** | – | **150** | **23,460** | **200,340** |
| Manufacturing | **170,635** | – | **1,101** | **22,662** | **194,398** |
| Transportation and storage, information and communication | **100,883** | – | – | **2,167** | **103,050** |
| Electricity, gas, steam and air-conditioning supply and water supply, sewerage, waste management and remediation activities | **94,714** | – | **1,901** | **791** | **97,406** |
| Construction | **47,397** | – | – | **15,362** | **62,759** |
| Accommodation and food service activities | **29,705** | – | – | **26** | **29,731** |
| Agricultural, forestry and fishing | **28,182** | – | – | **280** | **28,462** |
| Others***** | **43,453** | – | **500,376** | **12,997** | **556,826** |
| | **1,308,172** | **422,671** | **591,060** | **296,770** | **2,618,673** |
| Less allowance for credit losses | **55,243** | **138** | **22** | **9,678** | **65,081** |
| | **₱1,252,929** | **₱422,533** | **₱591,038** | **₱287,092** | **₱2,553,592** |
| **Concentration by Location** | | | | | |
| Philippines | **₱1,250,718** | **₱332,031** | **₱510,114** | **₱272,474** | **₱2,365,337** |
| Asia | **57,256** | **62,458** | **63,070** | **24,144** | **206,928** |
| Europe | **50** | **21,761** | **7,065** | – | **28,876** |
| USA | **134** | **4,488** | **9,861** | **151** | **14,634** |
| Others | **14** | **1,933** | **950** | **1** | **2,898** |
| | **1,308,172** | **422,671** | **591,060** | **296,770** | **2,618,673** |
| Less allowance for credit losses | **55,243** | **138** | **22** | **9,678** | **65,081** |
| | **₱1,252,929** | **₱422,533** | **₱591,038** | **₱287,092** | **₱2,553,592** |
| 2019 | | | | | |
| Concentration by Industry | | | | | |
| Financial and insurance activities | ₱241,154 | ₱346,941 | ₱69,197 | ₱221,912 | ₱879,204 |
| Wholesale and retail trade, repair of motor vehicles, motorcycles | 233,963 | – | 154 | 25,268 | 259,385 |
| Manufacturing | 218,319 | – | 1,010 | 19,620 | 238,949 |
| Real estate activities | 232,781 | – | 5 | 1,105 | 233,891 |
| Transportation and storage, information and communication | 111,277 | – | 293 | 3,017 | 114,587 |
| Electricity, gas, steam and air-conditioning supply and water supply, sewerage, waste management and remediation activities | 101,210 | – | 1,812 | 1,781 | 104,803 |
| Activities of households as employers and undifferentiated goods and services and producing activities of households for own use | 82,359 | – | – | 185 | 82,544 |
| Construction | 64,442 | – | – | 10,326 | 74,768 |
| Agricultural, forestry and fishing | 41,102 | – | – | 508 | 41,610 |
| Accommodation and food service activities | 35,310 | – | – | 19 | 35,329 |
| Others***** | 142,633 | – | 380,043 | 3,040 | 525,716 |
| | 1,504,550 | 346,941 | 452,514 | 286,781 | 2,590,786 |
| Less allowance for credit losses | 24,223 | 6 | 26 | 9,681 | 33,936 |
| | ₱1,480,327 | ₱346,935 | ₱452,488 | ₱277,100 | ₱2,556,850 |
| Concentration by Location | | | | | |
| Philippines | ₱1,450,466 | ₱256,774 | ₱379,799 | ₱280,584 | ₱2,367,623 |
| Asia | 53,781 | 57,586 | 44,213 | 6,071 | 161,651 |
| USA | 237 | 13,369 | 17,778 | 125 | 31,509 |
| Europe | 51 | 16,897 | 7,561 | – | 24,509 |
| Others | 15 | 2,315 | 3,163 | 1 | 5,494 |
| | 1,504,550 | 346,941 | 452,514 | 286,781 | 2,590,786 |
| Less allowance for credit losses | 24,223 | 6 | 26 | 9,681 | 33,936 |
| | ₱1,480,327 | ₱346,935 | ₱452,488 | ₱277,100 | ₱2,556,850 |

| | Parent Company | | | | |
|---|---|---|---|---|---|
| | Loans and Receivables* | Loans and Advances to Banks** | Investment Securities*** | Others**** | Total |
| **2020** | | | | | |
| **Concentration by Industry** | | | | | |
| Financial and insurance activities | **₱140,606** | **₱342,140** | **₱55,867** | **₱12,204** | **₱550,817** |
| Activities of households as employers and undifferentiated goods and services and producing activities of households for own use | **159,696** | – | – | **206,006** | **365,702** |
| Manufacturing | **164,804** | – | **1,006** | **22,662** | **188,472** |
| Wholesale and retail trade, repair of motor vehicles, motorcycles | **162,513** | – | **150** | **23,460** | **186,123** |
| Real estate activities | **179,030** | – | – | **558** | **179,588** |
| Transportation and storage, information and communication | **89,498** | – | – | **2,167** | **91,665** |
| Electricity, gas, steam and air-conditioning supply and water supply, sewerage, waste management and remediation activities | **87,868** | – | **1,711** | **791** | **90,370** |
| Construction | **37,585** | – | – | **15,340** | **52,925** |
| Accommodation and food service activities | **29,322** | – | – | **26** | **29,348** |
| Agricultural, forestry and fishing | **25,050** | – | – | **280** | **25,330** |
| Others***** | **17,204** | – | **491,331** | **629** | **509,164** |
| | **1,093,176** | **342,140** | **550,065** | **284,123** | **2,269,504** |
| Less allowance for credit losses | **44,434** | **5** | – | **9,678** | **54,117** |
| | **₱1,048,742** | **₱342,135** | **₱550,065** | **₱274,445** | **₱2,215,387** |
| **Concentration by Location** | | | | | |
| Philippines | **₱1,074,007** | **₱279,718** | **₱484,802** | **₱271,256** | **₱2,109,783** |
| Asia | **18,984** | **34,520** | **47,392** | **12,717** | **113,613** |
| Europe | **45** | **21,739** | **7,065** | – | **28,849** |
| USA | **134** | **4,314** | **9,861** | **150** | **14,459** |
| Others | **6** | **1,849** | **945** | – | **2,800** |
| | **1,093,176** | **342,140** | **550,065** | **284,123** | **2,269,504** |
| Less allowance for credit losses | **44,434** | **5** | – | **9,678** | **54,117** |
| | **₱1,048,742** | **₱342,135** | **₱550,065** | **₱274,445** | **₱2,215,387** |
| 2019 | | | | | |
| Concentration by Industry | | | | | |
| Financial and insurance activities | ₱160,968 | ₱290,621 | ₱30,010 | ₱11,938 | ₱493,537 |
| Wholesale and retail trade, repair of motor vehicles, motorcycles | 215,828 | – | 154 | 25,268 | 241,250 |
| Manufacturing | 210,633 | – | 1,009 | 19,620 | 231,262 |
| Real estate activities | 182,336 | – | – | 660 | 182,996 |
| Transportation and storage, information and communication | 96,581 | – | 293 | 3,017 | 99,891 |
| Electricity, gas, steam and air-conditioning supply and water supply, sewerage, waste management and remediation activities | 95,041 | – | 1,672 | 1,780 | 98,493 |
| Activities of households as employers and undifferentiated goods and services and producing activities of households for own use | 81,911 | – | – | 185 | 82,096 |
| Construction | 50,120 | – | – | 10,273 | 60,393 |
| Agricultural, forestry and fishing | 37,474 | – | – | 509 | 37,983 |
| Accommodation and food service activities | 34,869 | – | – | 19 | 34,888 |
| Others***** | 22,021 | – | 371,682 | 1,844 | 395,547 |
| | 1,187,782 | 290,621 | 404,820 | 75,113 | 1,958,336 |
| Less allowance for credit losses | 13,922 | 1 | – | 9,681 | 23,604 |
| | ₱1,173,860 | ₱290,620 | ₱404,820 | ₱65,432 | ₱1,934,732 |
| Concentration by Location | | | | | |
| Philippines | ₱1,168,082 | ₱233,721 | ₱339,445 | ₱68,951 | ₱1,810,199 |
| Asia | 19,410 | 24,558 | 36,879 | 6,038 | 86,885 |
| USA | 230 | 13,198 | 17,778 | 124 | 31,330 |
| Europe | 46 | 16,885 | 7,560 | – | 24,491 |
| Others | 14 | 2,259 | 3,158 | – | 5,431 |
| | 1,187,782 | 290,621 | 404,820 | 75,113 | 1,958,336 |
| Less allowance for credit losses | 13,922 | 1 | – | 9,681 | 23,604 |
| | ₱1,173,860 | ₱290,620 | ₱404,820 | ₱65,432 | ₱1,934,732 |

* *Excludes statutory receivables in 2019 which are not considered financial assets.*
** *Comprised of due from BSP, due from other banks and interbank loans receivable and SPURA.*
*** *Comprised of debt securities at FVOCI and investment securities at amortized cost.*
**** *Comprised of applicable accounts under other assets, financial guarantees and loan commitments and other credit-related liabilities.*
***** *Includes government-issued debt securities.*

*Credit quality per class of financial assets*
The credit quality of financial assets is assessed and managed using external and internal ratings (applying ICRRS).

The ICRRS contains the following:
a. Borrower Risk Rating (BRR) - an assessment of the credit worthiness of the borrower (or guarantor) without considering the type or amount of the facility and security arrangements. It is an indicator of the probability that a borrower cannot meet its credit obligations when they fall due. The components of the assessment is described below:

| Component | Description | Credit Factor Weight |
|---|---|---|
| Financial Condition | Refers to the financial condition of the borrower based on audited financial statements as indicated by certain financial ratios. The Financial Factor Evaluation is conducted manually. | 40.00% |
| Industry Analysis | Refers to the prospects of the industry as well as the company's performance and position in the industry. | 30.00% |
| Management Quality | Refers to the management's ability to run the company successfully. | 30.00% |

b. Facility Risk Factor (FRF) - determined for each individual facility considering the term of the facility, security arrangement and quality of documentation. This factor can downgrade or upgrade the BRR based on the elements relating to cover (collateral including pledged cash deposits and guarantee), quality of documentation and structure of transactions.

c. Adjusted Borrower Risk Rating - combination of BRR and FRF.

Loans and receivables
The credit quality is generally monitored using the 10-grade ICRRS which is integrated in the credit process. Validation of the individual borrower's risk rating is performed by the Credit Group to maintain accurate and consistent risk ratings across the credit portfolio. For commercial loans, the credit quality with the corresponding ICRRS Grade and description follows:

<u>High Grade</u>
1 - Excellent
An excellent rating is given to a borrower with a very low probability of going into default and with high degree of stability, substance and diversity. Borrower has access to raise substantial amounts of funds through public market at any time; very strong debt service capacity and has conservative balance sheet ratios. Track record in profit terms is very good. Borrower exhibits highest quality under virtually all economic conditions.

2 - Strong
This rating is given to borrowers with low probability of going into default in the coming year. Normally has a comfortable degree of stability, substance and diversity. Under normal market conditions, borrower has good access to public markets to raise funds. Have a strong market and financial position with a history of successful performance. Overall debt service capacity is deemed very strong; critical balance sheet ratios are conservative. Concerned multinationals or local corporations are well capitalized.

<u>Standard Grade</u>
3 - Good
This rating is given to smaller corporations with limited access to public capital markets or to alternative financial markets during favorable economic and/or market conditions. As it bears characteristics of some degree of stability and substance, probability of default is quite low. However, susceptibility to cyclical changes and more concentration of business risk, by product or

market, may be present. Typical is the combination of comfortable asset protection and an acceptable balance sheet structure. Debt service capacity is strong.

4 - Satisfactory
A 'satisfactory' rating is given to a borrower where clear risk elements exist and probability of default is somewhat greater. Due to volatility of earnings and overall performance, borrower normally has limited access to public markets. Borrower should be able to withstand normal business cycles, but any prolonged unfavorable economic period would create deterioration beyond acceptable levels. With the combination of reasonable sound asset and cash flow protection, the debt service capacity is adequate. Reported profits in the past year and is expected to report a profit in the current year.

5 - Acceptable
An 'acceptable' rating is given to a borrower whose risk elements are sufficiently pronounced although borrower should still be able to withstand normal business cycles. Any prolonged unfavorable economic and/or market period would create an immediate deterioration beyond acceptable levels. Risk is still acceptable as there is sufficient cash flow either historically or expected in the future from new business or projected finance transaction; an existing borrower where the nature of the exposure represents a higher risk because of extraordinary developments but for which a decreasing risk within an acceptable period can be expected.

<u>Substandard Grade</u>
6 - Watchlist
This rating is given to a borrower that belongs to an unfavorable industry or has company-specific risk factors which represent a concern. Operating performance and financial strength may be marginal and it is uncertain if borrower can attract alternative course of finance. Borrower finds it hard to cope with any significant economic downturn and a default in such a case is more than a possibility. Borrower which incurs net losses and has salient financial weaknesses specifically in profitability. Credit exposure is not at risk of loss at the moment but performance of the borrower has weakened which, unless present trends are reversed, could lead to losses.

7 - Especially Mentioned
This rating is given to a borrower that exhibits potential weaknesses that deserve management's close attention. These potential weaknesses, if left uncorrected, may affect the repayment of the loan and thus, increase credit risk of the Group.

<u>Impaired</u>
8 - Substandard
These are loans or portions thereof which appear to involve a substantial and unreasonable degree of risk to the Group because of unfavorable record or unsatisfactory characteristics. There exists the possibility of future losses to the Group unless given closer supervision. Borrower has well-defined weaknesses or weaknesses that jeopardize loan liquidation. Such well-defined weaknesses may include adverse trends or development of financial, managerial, economic or political nature, or a significant weakness in collateral.

9 - Doubtful
This rating is given to a nonperforming borrower whose loans or portions thereof have the weaknesses inherent in those classified as Substandard, with the added characteristics that existing facts, conditions, and values make collection or liquidation in full, highly improbable and in which substantial loss is probable.

10 - Loss
This rating is given to a borrower whose loans or portions thereof are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted although the loans may have some recoveries or salvage value. The amount of loss is difficult to measure and it is not practical or desirable to defer writing off these basically worthless assets even though partial recovery may be obtained in the future.

The credit quality of consumer loan applicants are currently evaluated using quantitative and qualitative criteria. For booked consumer loans, the description of credit quality is as follows:

<u>High Grade</u>
Good credit rating
This rating is given to a good repeat client with very satisfactory track record of its loan repayment (paid at least 50.00%) and whose account did not turn past due during the entire term of the loan.

<u>Standard Grade</u>
Good
A good rating is given to accounts which did not turn past due for 90 days and over.

Limited
This rating is given to borrowers who have average track record on loan repayment (paid less than 50.00%) and whose account did not turn past due for 90 days and over.

<u>Substandard Grade</u>
Poor
A poor rating is given to accounts who reached 90 days past due regardless of the number of times and the number of months past due.

Poor litigation
This rating is given to accounts that were past due for 180 days and over and are currently being handled by lawyers.

<u>Impaired</u>
Poor repossessed
This rating is given to accounts whose collaterals were repossessed.

Poor written-off
This rating is given to accounts that were recommended for write-off.

Investment securities
In ensuring quality investment portfolio, the Group uses the credit risk rating from the published data providers like Moody’s, Standard & Poor’s (S&P) or other reputable rating agencies. The following indicates the levels of equivalent credit quality and its relevant external rating:

| **Credit Quality** | **External Rating** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| High grade | Aaa | Aa1 | Aa2 | A1 | A2 | A3 | Baa1 | Baa2 | Baa3 |
| Standard grade | Ba1 | Ba2 | Ba3 | B1 | B2 | | | | |
| Substandard grade | B3 | Caa1 | Caa2 | Caa3 | Ca | C | | | |
| Impaired | D | | | | | | | | |

The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to those rated by external rating agencies as ‘Investment grade’ (i.e., those under High grade in the table above).

The following tables show the credit quality of loans and advances to banks, gross of allowance for credit losses, as of December 31, 2020 and 2019. All loans and advances to banks are classified as Stage 1 in 2020 and 2019.

| | Consolidated | | Parent Company | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Due from BSP | | | | |
| High grade | **₱304,906** | ₱219,994 | **₱262,188** | ₱195,770 |
| Due from other banks | | | | |
| High grade | **36,830** | 53,472 | **22,110** | 38,671 |
| Standard grade | **715** | 941 | **607** | – |
| Unrated | **812** | 359 | **25** | 27 |
| | **38,357** | 54,772 | **22,742** | 38,698 |
| Interbank loans receivable and SPURA | | | | |
| High grade | **75,829** | 71,646 | **53,632** | 55,624 |
| Unrated | **3,579** | 529 | **3,578** | 529 |
| | **79,408** | 72,175 | **57,210** | 56,153 |
| Total loans and advances to banks | | | | |
| High grade | **417,565** | 345,112 | **337,930** | 290,065 |
| Standard grade | **715** | 941 | **607** | – |
| Unrated | **4,391** | 888 | **3,603** | 556 |
| | **₱422,671** | ₱346,941 | **₱342,140** | ₱290,621 |

As of December 31, 2020 and 2019, availments of interbank loans and SPURA amounted to ₱79.4 billion and ₱72.2 billion, respectively, for the Group and ₱57.2 billion and ₱56.2 billion, respectively, for the Parent Company while maturities of interbank loans and SPURA amounted to ₱72.2 billion and ₱50.7 billion, respectively, for the Group and ₱56.2 billion and ₱24.7 billion, respectively, for the Parent Company. As of December 31, 2020 and 2019, net increase/(decrease) in due from BSP amounted to ₱84.9 billion and (₱20.1 billion), respectively, for the Group, and ₱66.4 billion and (₱10.5 billion), respectively, for the Parent Company and net increase/(decrease) in due from other banks amounted to (₱16.4 billion) and ₱9.0 billion, respectively, for the Group, and (₱16.0 billion) and ₱3.5 billion, respectively, for the Parent Company.

The following tables show the credit quality of investment securities, gross of allowance for credit losses, as of December 31, 2020 and 2019.

| | Consolidated | | |
|---|---|---|---|
| | **Stage 1** | **Stage 3** | **Total** |
| **2020** | | | |
| Debt securities at FVOCI | | | |
| Private | | | |
| High grade | **₱33,739** | **₱–** | **₱33,739** |
| Standard grade | **2,956** | **–** | **2,956** |
| Unrated | **248** | **–** | **248** |
| | **36,943** | **–** | **36,943** |
| Treasury bills | | | |
| High grade | **81,497** | **–** | **81,497** |
| Treasury notes and bonds | | | |
| High grade | **342,355** | **–** | **342,355** |
| Government | | | |
| High grade | **76,900** | **–** | **76,900** |
| Standard grade | **1** | **–** | **1** |
| | **76,901** | **–** | **76,901** |
| BSP | | | |
| High grade | **30,049** | **–** | **30,049** |
| Total debt securities at FVOCI | | | |
| High grade | **564,540** | **–** | **564,540** |
| Standard grade | **2,957** | **–** | **2,957** |
| Unrated | **248** | **–** | **248** |
| | **567,745** | **–** | **567,745** |

| | Consolidated | | |
|---|---|---|---|
| | **Stage 1** | **Stage 3** | **Total** |
| Investment securities at amortized cost | | | |
| Private | | | |
| High grade | **₱3,219** | **₱–** | **₱3,219** |
| Standard grade | **400** | – | **400** |
| Unrated | **6** | – | **6** |
| | **3,625** | – | **3,625** |
| Treasury bills | | | |
| High grade | **294** | – | **294** |
| Treasury notes and bonds | | | |
| High grade | **243** | – | **243** |
| Government | | | |
| High grade | **19,036** | – | **19,036** |
| Standard grade | **117** | – | **117** |
| | **19,153** | – | **19,153** |
| Total investment securities at amortized cost | | | |
| High grade | **22,792** | – | **22,792** |
| Standard grade | **517** | – | **517** |
| Unrated | **6** | – | **6** |
| | **23,315** | – | **23,315** |
| Total debt investment securities | | | |
| High grade | **587,332** | – | **587,332** |
| Standard grade | **3,474** | – | **3,474** |
| Unrated | **254** | – | **254** |
| | **₱591,060** | **₱–** | **₱591,060** |
| 2019 | | | |
| Debt securities at FVOCI | | | |
| Private | | | |
| High grade | ₱32,793 | ₱– | ₱32,793 |
| Standard grade | 3,163 | – | 3,163 |
| Unrated | 243 | – | 243 |
| | 36,199 | – | 36,199 |
| Treasury notes and bonds | | | |
| High grade | 111,791 | – | 111,791 |
| Government | | | |
| High grade | 52,841 | – | 52,841 |
| Sub-standard grade | – | 29 | 29 |
| | 52,841 | 29 | 52,870 |
| Total debt securities at FVOCI | | | |
| High grade | 197,425 | – | 197,425 |
| Standard grade | 3,163 | – | 3,163 |
| Sub-standard grade | – | 29 | 29 |
| Unrated | 243 | – | 243 |
| | 200,831 | 29 | 200,860 |
| Investment securities at amortized cost | | | |
| Private | | | |
| High grade | 331 | – | 331 |
| Standard grade | 3,543 | – | 3,543 |
| Unrated | 6 | – | 6 |
| | 3,880 | – | 3,880 |
| Treasury notes and bonds | | | |
| High grade | 227,442 | – | 227,442 |
| Government | | | |
| High grade | 20,110 | – | 20,110 |
| Standard grade | 122 | – | 122 |
| | 20,232 | – | 20,232 |
| Treasury bills | | | |
| High grade | 100 | – | 100 |
| Total investment securities at amortized cost | | | |
| High grade | 247,983 | – | 247,983 |
| Standard grade | 3,665 | – | 3,665 |
| Unrated | 6 | – | 6 |
| | 251,654 | – | 251,654 |
| Total debt investment securities | | | |
| High grade | 445,408 | – | 445,408 |
| Standard grade | 6,828 | – | 6,828 |
| Substandard grade | – | 29 | 29 |
| Unrated | 249 | – | 249 |
| | ₱452,485 | ₱29 | ₱452,514 |

| | Parent Company | | |
|---|---|---|---|
| | **Stage 1** | **Stage 3** | **Total** |
| **2020** | | | |
| Debt securities at FVOCI | | | |
| Private | | | |
| High grade | **₱18,789** | **₱–** | **₱18,789** |
| Unrated | **248** | **–** | **248** |
| | **19,037** | **–** | **19,037** |
| Treasury notes and bonds | | | |
| High grade | **339,258** | **–** | **339,258** |
| Government | | | |
| High grade | **72,315** | **–** | **72,315** |
| Treasury bills | | | |
| High grade | **81,497** | **–** | **81,497** |
| BSP | | | |
| High grade | **30,049** | **–** | **30,049** |
| Total debt securities at FVOCI | | | |
| High grade | **541,908** | **–** | **541,908** |
| Unrated | **248** | **–** | **248** |
| | **542,156** | **–** | **542,156** |
| Investment securities at amortized cost | | | |
| Government | | | |
| High grade | **7,909** | **–** | **7,909** |
| Total debt investment securities | | | |
| High grade | **549,817** | **–** | **549,817** |
| Unrated | **248** | **–** | **248** |
| | **₱550,065** | **₱–** | **₱550,065** |
| 2019 | | | |
| Debt securities at FVOCI | | | |
| Private | | | |
| High grade | ₱25,827 | ₱– | ₱25,827 |
| Standard grade | 254 | – | 254 |
| Unrated | 243 | – | 243 |
| | 26,324 | – | 26,324 |
| Treasury notes and bonds | | | |
| High grade | 109,203 | – | 109,203 |
| Government | | | |
| High grade | 52,620 | – | 52,620 |
| Sub-standard grade | – | 29 | 29 |
| | 52,620 | 29 | 52,649 |
| Total debt securities at FVOCI | | | |
| High grade | 187,650 | – | 187,650 |
| Standard grade | 254 | – | 254 |
| Sub-standard grade | – | 29 | 29 |
| Unrated | 243 | – | 243 |
| | 188,147 | 29 | 188,176 |
| Investment securities at amortized cost | | | |
| Treasury notes and bonds | | | |
| High grade | 208,514 | – | 208,514 |
| Government | | | |
| High grade | 8,130 | – | 8,130 |
| Total investment securities at amortized cost | | | |
| High grade | 216,644 | – | 216,644 |
| Total debt investment securities | | | |
| High grade | 404,294 | – | 404,294 |
| Standard grade | 254 | – | 254 |
| Sub-standard grade | – | 29 | 29 |
| Unrated | 243 | – | 243 |
| | ₱404,791 | ₱29 | ₱404,820 |

As of December 31, 2020 and 2019, purchases of investment in debt securities at FVOCI amounted to ₱2.1 trillion and ₱1.3 trillion, respectively, for the Group and the Parent Company while proceeds from disposals/maturities amounted to ₱1.8 trillion and ₱1.2 trillion, respectively, for the Group and Parent Company. Other movements, which include reclassification from investment securities at amortized cost (see Note 8), amortization of premiums/discounts, mark-to-market and foreign exchange revaluations, resulted in an increase in carrying value of debt securities at FVOCI as of December 31, 2020 and 2019 amounting to ₱114.8 billion and ₱8.6 billion, respectively, for the Group and an increase in carrying value of ₱90.2 billion and ₱9.2 billion, respectively, for the Parent Company.

As of December 31, 2020 and 2019, purchases of investment securities at amortized cost amounted to nil and ₱4.5 billion, respectively, for the Group and nil and ₱4.3 billion, respectively, for the Parent Company while proceeds from maturities and disposals amounted to ₱136.8 billion and ₱17.6 billion, respectively, for the Group and ₱115.7 billion and ₱468.8 million, respectively, for the Parent Company. Other movements, which include reclassification to investment securities at FVOCI (Note 8), amortization of premiums/discounts, mark-to-market and foreign exchange revaluations, resulted in a decrease in carrying value of investment securities at amortized cost as of December 31, 2020 and 2019 amounting to ₱99.7 billion and ₱651.2 million, respectively, for the Group and a decrease in carrying value of ₱99.9 billion and ₱0.1 billion, respectively, for the Parent Company.

The credit quality of receivables from customers, net of unearned discount and capitalized interest, as of December 31, 2020 and 2019 follow:

| | Consolidated | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| **2020** | | | | |
| Commercial loans | | | | |
| High grade | **₱230,890** | **₱2,294** | **₱–** | **₱233,184** |
| Standard grade | **376,173** | **27,274** | **–** | **403,447** |
| Sub-standard grade | **169,468** | **108,553** | **–** | **278,021** |
| Non-performing individually impaired | **–** | **–** | **14,492** | **14,492** |
| | **776,531** | **138,121** | **14,492** | **929,144** |
| Auto loans | | | | |
| High grade | **59,355** | **17,734** | **–** | **77,089** |
| Standard grade | **9,057** | **3,729** | **–** | **12,786** |
| Sub-standard grade | **2,583** | **1,787** | **–** | **4,370** |
| Non-performing individually impaired | **–** | **–** | **5,767** | **5,767** |
| | **70,995** | **23,250** | **5,767** | **100,012** |
| Residential mortgage loans | | | | |
| High grade | **38,585** | **13,791** | **–** | **52,376** |
| Standard grade | **20,545** | **10,990** | **–** | **31,535** |
| Sub-standard grade | **10,623** | **7,584** | **–** | **18,207** |
| Non-performing individually impaired | **–** | **–** | **3,688** | **3,688** |
| | **69,753** | **32,365** | **3,688** | **105,806** |
| Trade loans | | | | |
| High grade | **4,687** | **–** | **–** | **4,687** |
| Standard grade | **19,659** | **1,971** | **–** | **21,630** |
| Sub-standard grade | **6,183** | **4,192** | **–** | **10,375** |
| Non-performing individually impaired | **–** | **–** | **376** | **376** |
| | **30,529** | **6,163** | **376** | **37,068** |
| Credit card | | | | |
| Standard grade | **75,539** | **–** | **–** | **75,539** |
| Sub-standard grade | **–** | **921** | **–** | **921** |
| Non-performing individually impaired | **–** | **–** | **5,273** | **5,273** |
| | **75,539** | **921** | **5,273** | **81,733** |
| Other loans | | | | |
| High grade | **11,709** | **1,154** | **–** | **12,863** |
| Standard grade | **11,037** | **263** | **–** | **11,300** |
| Sub-standard grade | **8** | **1,856** | **–** | **1,864** |
| Unrated | **9** | **–** | **–** | **9** |
| Non-performing individually impaired | **–** | **–** | **2,506** | **2,506** |
| | **22,763** | **3,273** | **2,506** | **28,542** |
| Total receivables from customers | | | | |
| High grade | **345,226** | **34,973** | **–** | **380,199** |
| Standard grade | **512,010** | **44,227** | **–** | **556,237** |
| Sub-standard grade | **188,865** | **124,893** | **–** | **313,758** |
| Unrated | **9** | **–** | **–** | **9** |
| Non-performing individually impaired | **–** | **–** | **32,102** | **32,102** |
| | **₱1,046,110** | **₱204,093** | **₱32,102** | **₱1,282,305** |
| 2019 | | | | |
| Commercial loans | | | | |
| High grade | ₱320,456 | ₱662 | ₱– | ₱321,118 |
| Standard grade | 540,388 | 1,670 | – | 542,058 |
| Sub-standard grade | 52,925 | 133,775 | – | 186,700 |

(Forward)

| | Consolidated | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| Unrated | ₱93 | ₱– | ₱– | ₱93 |
| Non-performing individually impaired | – | – | 10,652 | 10,652 |
| | 913,862 | 136,107 | 10,652 | 1,060,621 |
| Auto loans | | | | |
| High grade | 83,179 | 6,418 | – | 89,597 |
| Standard grade | 20,186 | 5,245 | – | 25,431 |
| Sub-standard grade | 12 | 8 | – | 20 |
| Non-performing individually impaired | – | – | 3,360 | 3,360 |
| | 103,377 | 11,671 | 3,360 | 118,408 |
| Residential mortgage loans | | | | |
| High grade | 42,893 | 8,595 | – | 51,488 |
| Standard grade | 53,176 | 1,186 | – | 54,362 |
| Sub-standard grade | 1,506 | 292 | – | 1,798 |
| Non-performing individually impaired | – | – | 2,351 | 2,351 |
| | 97,575 | 10,073 | 2,351 | 109,999 |
| Trade loans | | | | |
| High grade | 8,530 | – | – | 8,530 |
| Standard grade | 47,930 | 17 | – | 47,947 |
| Sub-standard grade | 4,636 | 2,142 | – | 6,778 |
| Non-performing individually impaired | – | – | 105 | 105 |
| | 61,096 | 2,159 | 105 | 63,360 |
| Credit card | | | | |
| Standard grade | 83,481 | – | – | 83,481 |
| Sub-standard grade | – | 2,040 | – | 2,040 |
| Non-performing individually impaired | – | – | 1,509 | 1,509 |
| | 83,481 | 2,040 | 1,509 | 87,030 |
| Other loans | | | | |
| High grade | 14,705 | 241 | – | 14,946 |
| Standard grade | 21,733 | 2,117 | – | 23,850 |
| Sub-standard grade | 54 | 712 | – | 766 |
| Unrated | 13 | – | – | 13 |
| Non-performing individually impaired | – | – | 1,494 | 1,494 |
| | 36,505 | 3,070 | 1,494 | 41,069 |
| Total receivables from customers | | | | |
| High grade | 469,763 | 15,916 | – | 485,679 |
| Standard grade | 766,894 | 10,235 | – | 777,129 |
| Sub-standard grade | 59,133 | 138,969 | – | 198,102 |
| Unrated | 106 | – | – | 106 |
| Non-performing individually impaired | – | – | 19,471 | 19,471 |
| | ₱1,295,896 | ₱165,120 | ₱19,471 | ₱1,480,487 |

| | **Parent Company** | | | | |
|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** |
| **2020** | | | | | |
| Commercial loans | | | | | |
| High grade | **₱187,014** | **₱–** | **₱–** | **₱–** | **₱187,014** |
| Standard grade | **368,056** | **26,699** | – | – | **394,755** |
| Sub-standard grade | **169,374** | **107,305** | – | – | **276,679** |
| Non-performing individually impaired | – | – | **9,344** | **3,013** | **12,357** |
| | **724,444** | **134,004** | **9,344** | **3,013** | **870,805** |
| Auto loans | | | | | |
| High grade | **8,129** | – | – | – | **8,129** |
| Standard grade | **8,625** | **1,330** | – | – | **9,955** |
| Sub-standard grade | **2,583** | **652** | – | – | **3,235** |
| Non-performing individually impaired | – | – | **193** | – | **193** |
| | **19,337** | **1,982** | **193** | – | **21,512** |
| Residential mortgage loans | | | | | |
| High grade | **7,562** | – | – | – | **7,562** |
| Standard grade | **20,544** | **8,767** | – | – | **29,311** |
| Sub-standard grade | **10,623** | **7,223** | – | – | **17,846** |
| Non-performing individually impaired | – | – | **672** | – | **672** |
| | **38,729** | **15,990** | **672** | – | **55,391** |
| Trade loans | | | | | |
| High grade | **3,795** | – | – | – | **3,795** |
| Standard grade | **19,659** | **1,971** | – | – | **21,630** |
| Sub-standard grade | **6,182** | **4,192** | – | – | **10,374** |
| Non-performing individually impaired | – | – | **376** | – | **376** |
| | **29,636** | **6,163** | **376** | – | **36,175** |

| | Parent Company | | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| Credit card | | | | | |
| Standard grade | **₱75,539** | **₱–** | **₱–** | **₱–** | **₱75,539** |
| Sub-standard grade | **–** | **921** | **–** | – | **921** |
| Non-performing individually impaired | **–** | **–** | **5,273** | – | **5,273** |
| | **75,539** | **921** | **5,273** | – | **81,733** |
| Other loans | | | | | |
| High grade | **11,024** | – | – | – | **11,024** |
| Standard grade | **503** | – | – | – | **503** |
| Non-performing individually impaired | – | – | **41** | – | **41** |
| | **11,527** | – | **41** | – | **11,568** |
| Total receivables from customers | | | | | |
| High grade | **217,524** | – | – | – | **217,524** |
| Standard grade | **492,926** | **38,767** | – | – | **531,693** |
| Sub-standard grade | **188,762** | **120,293** | – | – | **309,055** |
| Non-performing individually impaired | – | – | **15,899** | **3,013** | **18,912** |
| | **₱899,212** | **₱159,060** | **₱15,899** | **₱3,013** | **₱1,077,184** |
| 2019 | | | | | |
| Commercial loans | | | | | |
| High grade | ₱275,842 | ₱– | ₱– | ₱– | ₱275,842 |
| Standard grade | 538,993 | 1,200 | – | – | 540,193 |
| Sub-standard grade | 52,898 | 133,472 | – | – | 186,370 |
| Non-performing individually impaired | – | – | 6,753 | 2,992 | 9,745 |
| | 867,733 | 134,672 | 6,753 | 2,992 | 1,012,150 |
| Auto loans | | | | | |
| High grade | 3,804 | – | – | – | 3,804 |
| Standard grade | 20,162 | 54 | – | – | 20,216 |
| Sub-standard grade | 12 | 8 | – | – | 20 |
| Non-performing individually impaired | – | – | 142 | – | 142 |
| | 23,978 | 62 | 142 | – | 24,182 |
| Residential mortgage loans | | | | | |
| High grade | 1,843 | – | – | – | 1,843 |
| Standard grade | 53,176 | 225 | – | – | 53,401 |
| Sub-standard grade | 1,506 | 292 | – | – | 1,798 |
| Non-performing individually impaired | – | – | 478 | – | 478 |
| | 56,525 | 517 | 478 | – | 57,520 |
| Trade loans | | | | | |
| High grade | 7,824 | – | – | – | 7,824 |
| Standard grade | 47,930 | 17 | – | – | 47,947 |
| Sub-standard grade | 4,636 | 2,142 | – | – | 6,778 |
| Non-performing individually impaired | – | – | 105 | – | 105 |
| | 60,390 | 2,159 | 105 | – | 62,654 |
| Other loans | | | | | |
| High grade | 14,120 | – | – | – | 14,120 |
| Standard grade | 376 | – | – | – | 376 |
| Sub-standard grade | 6 | – | – | – | 6 |
| Non-performing individually impaired | – | – | 40 | – | 40 |
| | 14,502 | – | 40 | – | 14,542 |
| Total receivables from customers | | | | | |
| High grade | 303,433 | – | – | – | 303,433 |
| Standard grade | 660,637 | 1,496 | – | – | 662,133 |
| Sub-standard grade | 59,058 | 135,914 | – | – | 194,972 |
| Non-performing individually impaired | – | – | 7,518 | 2,992 | 10,510 |
| | ₱1,023,128 | ₱137,410 | ₱7,518 | ₱2,992 | ₱1,171,048 |

Movements during 2020 and 2019 for receivables from customers follows:

| | Consolidated | | | |
|---|---|---|---|---|
| | Receivables from Customers | | | |
| | Stage 1 | Stage 2 | Stage 3 | Total |
| **2020** | | | | |
| Commercial loans | | | | |
| Balance at January 1, 2020 | **₱913,862** | **₱136,107** | **₱10,652** | **₱1,060,621** |
| New assets originated | **329,947** | – | – | **329,947** |
| Assets derecognized or repaid | **(402,535)** | **(54,982)** | **(1,646)** | **(459,163)** |
| Amounts written-off | – | – | **(73)** | **(73)** |
| Transfers to/(from) Stage 1 | **(62,621)** | – | – | **(62,621)** |
| Transfers to/(from) Stage 2 | – | **56,996** | – | **56,996** |
| Transfers to/(from) Stage 3 | – | – | **5,625** | **5,625** |
| Others | **(2,122)** | – | **(66)** | **(2,188)** |
| Balance at December 31, 2020 | **776,531** | **138,121** | **14,492** | **929,144** |

| | Consolidated | | | |
|---|---|---|---|---|
| | Receivables from Customers | | | |
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| Auto loans | | | | |
| Balance at January 1, 2020 | **₱103,377** | **₱11,671** | **₱3,360** | **₱118,408** |
| New assets originated | **32,459** | – | – | **32,459** |
| Assets derecognized or repaid | **(38,516)** | **(9,936)** | **(1,383)** | **(49,835)** |
| Amounts written-off | **–** | **–** | **(746)** | **(746)** |
| Transfers to/(from) Stage 1 | **(26,137)** | – | – | **(26,137)** |
| Transfers to/(from) Stage 2 | – | **21,584** | – | **21,584** |
| Transfers to/(from) Stage 3 | **–** | **–** | **4,553** | **4,553** |
| Others | **(188)** | **(69)** | **(17)** | **(274)** |
| Balance at December 31, 2020 | **70,995** | **23,250** | **5,767** | **100,012** |
| Residential mortgage loans | | | | |
| Balance at January 1, 2020 | **97,575** | **10,073** | **2,351** | **109,999** |
| New assets originated | **12,067** | – | – | **12,067** |
| Assets derecognized or repaid | **(12,229)** | **(3,418)** | **(376)** | **(16,023)** |
| Amounts written-off | **–** | **–** | **(84)** | **(84)** |
| Transfers to/(from) Stage 1 | **(27,565)** | – | – | **(27,565)** |
| Transfers to/(from) Stage 2 | **–** | **25,762** | **–** | **25,762** |
| Transfers to/(from) Stage 3 | **–** | **–** | **1,804** | **1,804** |
| Others | **(95)** | **(52)** | **(7)** | **(154)** |
| Balance at December 31, 2020 | **69,753** | **32,365** | **3,688** | **105,806** |
| Trade loans | | | | |
| Balance at January 1, 2020 | **61,096** | **2,159** | **105** | **63,360** |
| New assets originated | **35,992** | – | – | **35,992** |
| Assets derecognized or repaid | **(59,979)** | **(2,313)** | – | **(62,292)** |
| Transfers to/(from) Stage 1 | **(6,589)** | – | – | **(6,589)** |
| Transfers to/(from) Stage 2 | – | **6,317** | – | **6,317** |
| Transfers to/(from) Stage 3 | – | – | **272** | **272** |
| Others | **9** | – | **(1)** | **8** |
| Balance at December 31, 2020 | **30,529** | **6,163** | **376** | **37,068** |
| Credit card | | | | |
| Balance at January 1, 2020 | **83,481** | **2,040** | **1,509** | **87,030** |
| New assets originated | **8,687** | – | – | **8,687** |
| Assets derecognized or repaid | **(702)** | **(4,686)** | **(123)** | **(5,511)** |
| Amounts written-off | – | – | **(8,473)** | **(8,473)** |
| Transfers to/(from) Stage 1 | **(15,927)** | – | – | **(15,927)** |
| Transfers to/(from) Stage 2 | – | **3,567** | – | **3,567** |
| Transfers to/(from) Stage 3 | – | – | **12,360** | **12,360** |
| Balance at December 31, 2020 | **75,539** | **921** | **5,273** | **81,733** |
| Other loans | | | | |
| Balance at January 1, 2020 | **36,505** | **3,070** | **1,494** | **41,069** |
| New assets originated | **12,206** | – | – | **12,206** |
| Assets derecognized or repaid | **(22,250)** | **(1,857)** | **(311)** | **(24,418)** |
| Amounts written-off | – | – | **(315)** | **(315)** |
| Transfers to/(from) Stage 1 | **(3,698)** | – | – | **(3,698)** |
| Transfers to/(from) Stage 2 | – | **2,060** | – | **2,060** |
| Transfers to/(from) Stage 3 | – | – | **1,638** | **1,638** |
| Balance at December 31, 2020 | **22,763** | **3,273** | **2,506** | **28,542** |
| Total receivables from customers | | | | |
| Balance at January 1, 2020 | **1,295,896** | **165,120** | **19,471** | **1,480,487** |
| New assets originated | **431,358** | – | – | **431,358** |
| Assets derecognized or repaid | **(536,211)** | **(77,192)** | **(3,839)** | **(617,242)** |
| Amounts written-off | – | – | **(9,691)** | **(9,691)** |
| Transfers to/(from) Stage 1 | **(142,537)** | – | – | **(142,537)** |
| Transfers to/(from) Stage 2 | – | **116,286** | – | **116,286** |
| Transfers to/(from) Stage 3 | – | – | **26,252** | **26,252** |
| Others | **(2,396)** | **(121)** | **(91)** | **(2,608)** |
| Balance at December 31, 2020 | **₱1,046,110** | **₱204,093** | **₱32,102** | **₱1,282,305** |
| 2019 | | | | |
| Commercial loans | | | | |
| Balance at January 1, 2019 | ₱966,389 | ₱8,621 | ₱10,907 | ₱985,917 |
| New assets originated | 533,499 | – | – | 533,499 |
| Assets derecognized or repaid | (440,204) | (12,696) | (3,570) | (456,470) |
| Amounts written-off | – | – | (294) | (294) |
| Transfers to/(from) Stage 1 | (143,955) | – | – | (143,955) |
| Transfers to/(from) Stage 2 | – | 140,182 | – | 140,182 |
| Transfers to/(from) Stage 3 | – | – | 3,773 | 3,773 |
| Others | (1,867) | – | (164) | (2,031) |
| Balance at December 31, 2019 | 913,862 | 136,107 | 10,652 | 1,060,621 |

| | Consolidated | | | |
|---|---|---|---|---|
| | Receivables from Customers | | | |
| | Stage 1 | Stage 2 | Stage 3 | Total |
| Auto loans | | | | |
| Balance at January 1, 2019 | ₱96,751 | ₱19,202 | ₱4,019 | ₱119,972 |
| New assets originated | 44,354 | – | – | 44,354 |
| Assets derecognized or repaid | (34,357) | (8,527) | (2,876) | (45,760) |
| Amounts written-off | (1) | (45) | (112) | (158) |
| Transfers to/(from) Stage 1 | (3,370) | – | – | (3,370) |
| Transfers to/(from) Stage 2 | – | 1,041 | – | 1,041 |
| Transfers to/(from) Stage 3 | – | – | 2,329 | 2,329 |
| Balance at December 31, 2019 | 103,377 | 11,671 | 3,360 | 118,408 |
| Residential mortgage loans | | | | |
| Balance at January 1, 2019 | 94,695 | 10,678 | 2,574 | 107,947 |
| New assets originated | 21,914 | – | – | 21,914 |
| Assets derecognized or repaid | (16,607) | (2,462) | (793) | (19,862) |
| Amounts written-off | – | – | – | – |
| Transfers to/(from) Stage 1 | (2,427) | – | – | (2,427) |
| Transfers to/(from) Stage 2 | – | 1,857 | – | 1,857 |
| Transfers to/(from) Stage 3 | – | – | 570 | 570 |
| Balance at December 31, 2019 | 97,575 | 10,073 | 2,351 | 109,999 |
| Trade loans | | | | |
| Balance at January 1, 2019 | 62,751 | 276 | 99 | 63,126 |
| New assets originated | 63,143 | – | – | 63,143 |
| Assets derecognized or repaid | (62,673) | (232) | – | (62,905) |
| Transfers to/(from) Stage 1 | (2,122) | – | – | (2,122) |
| Transfers to/(from) Stage 2 | – | 2,115 | – | 2,115 |
| Transfers to/(from) Stage 3 | – | – | 7 | 7 |
| Others | (3) | – | (1) | (4) |
| Balance at December 31, 2019 | 61,096 | 2,159 | 105 | 63,360 |
| Credit card | | | | |
| Balance at January 1, 2019 | 67,776 | 1,692 | 1,186 | 70,654 |
| New assets originated | 22,868 | – | – | 22,868 |
| Amounts written-off | – | – | (6,492) | (6,492) |
| Transfers to/(from) Stage 1 | (7,163) | – | – | (7,163) |
| Transfers to/(from) Stage 2 | – | 348 | – | 348 |
| Transfers to/(from) Stage 3 | – | – | 6,815 | 6,815 |
| Balance at December 31, 2019 | 83,481 | 2,040 | 1,509 | 87,030 |
| Other loans | | | | |
| Balance at January 1, 2019 | 37,015 | 2,670 | 920 | 40,605 |
| New assets originated | 30,574 | – | – | 30,574 |
| Assets derecognized or repaid | (28,522) | (690) | (628) | (29,840) |
| Amounts written-off | (1) | (96) | (866) | (963) |
| Transfers to/(from) Stage 1 | (2,559) | – | – | (2,559) |
| Transfers to/(from) Stage 2 | – | 1,186 | – | 1,186 |
| Transfers to/(from) Stage 3 | – | – | 1,373 | 1,373 |
| Others | (2) | – | 695 | 693 |
| Balance at December 31, 2019 | 36,505 | 3,070 | 1,494 | 41,069 |
| Total receivables from customers | | | | |
| Balance at January 1, 2019 | 1,325,377 | 43,139 | 19,705 | 1,388,221 |
| New assets originated | 716,352 | – | – | 716,352 |
| Assets derecognized or repaid | (582,363) | (24,607) | (7,867) | (614,837) |
| Amounts written-off | (2) | (141) | (7,764) | (7,907) |
| Transfers to/(from) Stage 1 | (161,596) | – | – | (161,596) |
| Transfers to/(from) Stage 2 | – | 146,729 | – | 146,729 |
| Transfers to/(from) Stage 3 | – | – | 14,867 | 14,867 |
| Others | (1,872) | – | 530 | (1,342) |
| Balance at December 31, 2019 | ₱1,295,896 | ₱165,120 | ₱19,471 | ₱1,480,487 |

| | **Parent Company** | | | | |
|---|---|---|---|---|---|
| | **Receivables from Customers** | | | | |
| | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** |
| **2020** | | | | | |
| Commercial loans | | | | | |
| Balance at January 1, 2020 | **₱867,733** | **₱134,672** | **₱6,753** | **₱2,992** | **₱1,012,150** |
| New assets originated | **316,641** | – | – | – | **316,641** |
| Assets derecognized or repaid | **(400,065)** | **(53,799)** | **(1,549)** | – | **(455,413)** |
| Accounts written off | – | – | **(1)** | – | **(1)** |
| Transfers to/(from) Stage 1 | **(57,360)** | – | – | – | **(57,360)** |
| Transfers to/(from) Stage 2 | – | **53,131** | – | – | **53,131** |
| Transfers to/(from) Stage 3 | – | – | **4,229** | – | **4,229** |
| Others | **(2,505)** | – | **(88)** | **21** | **(2,572)** |
| Balance at December 31, 2020 | **724,444** | **134,004** | **9,344** | **3,013** | **870,805** |

| | Parent Company | | | | |
|---|---|---|---|---|---|
| | Receivables from Customers | | | | |
| | **Stage 1** | **Stage 2** | **Stage 3** | **POCI** | **Total** |
| Auto loans | | | | | |
| Balance at January 1, 2020 | **₱23,978** | **₱62** | **₱142** | **₱–** | **₱24,182** |
| New assets originated | **7,351** | – | – | – | **7,351** |
| Assets derecognized or repaid | **(9,023)** | **(977)** | **(21)** | – | **(10,021)** |
| Transfers to/(from) Stage 1 | **(2,969)** | – | – | – | **(2,969)** |
| Transfers to/(from) Stage 2 | – | **2,897** | – | – | **2,897** |
| Transfers to/(from) Stage 3 | – | – | **72** | – | **72** |
| Balance at December 31, 2020 | **19,337** | **1,982** | **193** | – | **21,512** |
| Residential mortgage loans | | | | | |
| Balance at January 1, 2020 | **56,525** | **517** | **478** | – | **57,520** |
| New assets originated | **7,911** | – | – | – | **7,911** |
| Assets derecognized or repaid | **(7,829)** | **(2,076)** | **(135)** | – | **(10,040)** |
| Transfers to/(from) Stage 1 | **(17,878)** | – | – | – | **(17,878)** |
| Transfers to/(from) Stage 2 | – | **17,549** | – | – | **17,549** |
| Transfers to/(from) Stage 3 | – | – | **329** | – | **329** |
| Balance at December 31, 2020 | **38,729** | **15,990** | **672** | – | **55,391** |
| Trade loans | | | | | |
| Balance at January 1, 2020 | **60,390** | **2,159** | **105** | – | **62,654** |
| New assets originated | **35,813** | – | – | – | **35,813** |
| Assets derecognized or repaid | **(59,979)** | **(2,312)** | – | – | **(62,291)** |
| Transfers to/(from) Stage 1 | **(6,588)** | – | – | – | **(6,588)** |
| Transfers to/(from) Stage 2 | – | **6,316** | – | – | **6,316** |
| Transfers to/(from) Stage 3 | – | – | **272** | – | **272** |
| Others | – | – | **(1)** | – | **(1)** |
| Balance at December 31, 2020 | **29,636** | **6,163** | **376** | – | **36,175** |
| Credit card | | | | | |
| Balance at January 1, 2020 | – | – | – | – | – |
| Impact of merger (Note 11) | **83,481** | **2,040** | **1,509** | – | **87,030** |
| New assets originated | **8,687** | – | – | – | **8,687** |
| Assets derecognized or repaid | **(702)** | **(4,686)** | **(123)** | – | **(5,511)** |
| Amounts written-off | – | – | **(8,473)** | – | **(8,473)** |
| Transfers to/(from) Stage 1 | **(15,927)** | – | – | – | **(15,927)** |
| Transfers to/(from) Stage 2 | – | **3,567** | – | – | **3,567** |
| Transfers to/(from) Stage 3 | – | – | **12,360** | – | **12,360** |
| Balance at December 31, 2020 | **75,539** | **921** | **5,273** | – | **81,733** |
| Other loans | | | | | |
| Balance at January 1, 2020 | **14,502** | – | **40** | – | **14,542** |
| New assets originated | **7,829** | – | – | – | **7,829** |
| Assets derecognized or repaid | **(10,803)** | – | – | – | **(10,803)** |
| Transfers to/(from) Stage 1 | **(1)** | – | – | – | **(1)** |
| Transfers to/(from) Stage 3 | – | – | **1** | – | **1** |
| Balance at December 31, 2020 | **11,527** | – | **41** | – | **11,568** |
| Total receivables from customers | | | | | |
| Balance at January 1, 2020 | **1,023,128** | **137,410** | **7,518** | **2,992** | **1,171,048** |
| Impact of merger (Note 11) | **83,481** | **2,040** | **1,509** | – | **87,030** |
| New assets originated | **384,232** | – | – | – | **384,232** |
| Assets derecognized or repaid | **(488,401)** | **(63,850)** | **(1,828)** | – | **(554,079)** |
| Amounts written-off | – | – | **(8,474)** | – | **(8,474)** |
| Transfers to/(from) Stage 1 | **(100,723)** | – | – | – | **(100,723)** |
| Transfers to/(from) Stage 2 | – | **83,460** | – | – | **83,460** |
| Transfers to/(from) Stage 3 | – | – | **17,263** | – | **17,263** |
| Others | **(2,505)** | – | **(89)** | **21** | **(2,573)** |
| Balance at December 31, 2020 | **₱899,212** | **₱159,060** | **₱15,899** | **₱3,013** | **₱1,077,184** |
| 2019 | | | | | |
| Commercial loans | | | | | |
| Balance at January 1, 2019 | ₱930,074 | ₱7,347 | ₱6,920 | ₱3,309 | ₱947,650 |
| New assets originated | 505,051 | – | – | – | 505,051 |
| Assets derecognized or repaid | (423,882) | (12,287) | (3,007) | (247) | (439,423) |
| Amounts written-off | – | – | (233) | – | (233) |
| Transfers to/(from) Stage 1 | (142,769) | – | – | – | (142,769) |
| Transfers to/(from) Stage 2 | – | 139,612 | – | – | 139,612 |
| Transfers to/(from) Stage 3 | – | – | 3,157 | – | 3,157 |
| Others | (741) | – | (84) | (70) | (895) |
| Balance at December 31, 2019 | 867,733 | 134,672 | 6,753 | 2,992 | 1,012,150 |

| | Parent Company | | | | |
|---|---|---|---|---|---|
| | Receivables from Customers | | | | |
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| Auto loans | | | | | |
| Balance at January 1, 2019 | ₱29,150 | ₱350 | ₱181 | ₱– | ₱29,681 |
| New assets originated | 8,710 | – | – | – | 8,710 |
| Assets derecognized or repaid | (14,066) | (87) | (51) | – | (14,204) |
| Amounts written-off | – | – | (5) | – | (5) |
| Transfers to/(from) Stage 1 | 184 | – | – | – | 184 |
| Transfers to/(from) Stage 2 | – | (201) | – | – | (201) |
| Transfers to/(from) Stage 3 | – | – | 17 | – | 17 |
| Balance at December 31, 2019 | 23,978 | 62 | 142 | – | 24,182 |
| Residential mortgage loans | | | | | |
| Balance at January 1, 2019 | 55,239 | 1,787 | 948 | – | 57,974 |
| New assets originated | 11,842 | – | – | – | 11,842 |
| Assets derecognized or repaid | (11,750) | (265) | (281) | – | (12,296) |
| Transfers to/(from) Stage 1 | 1,194 | – | – | – | 1,194 |
| Transfers to/(from) Stage 2 | – | (1,005) | – | – | (1,005) |
| Transfers to/(from) Stage 3 | – | – | (189) | – | (189) |
| Balance at December 31, 2019 | 56,525 | 517 | 478 | – | 57,520 |
| Trade loans | | | | | |
| Balance at January 1, 2019 | 62,687 | 276 | 99 | – | 63,062 |
| New assets originated | 62,499 | – | – | – | 62,499 |
| Assets derecognized or repaid | (62,673) | (232) | – | – | (62,905) |
| Transfers to/(from) Stage 1 | (2,123) | – | – | – | (2,123) |
| Transfers to/(from) Stage 2 | – | 2,115 | – | – | 2,115 |
| Transfers to/(from) Stage 3 | – | – | 7 | – | 7 |
| Others | – | – | (1) | – | (1) |
| Balance at December 31, 2019 | 60,390 | 2,159 | 105 | – | 62,654 |
| Other loans | | | | | |
| Balance at January 1, 2019 | 12,530 | – | 41 | – | 12,571 |
| New assets originated | 9,633 | – | – | – | 9,633 |
| Assets derecognized or repaid | (7,644) | – | (18) | – | (7,662) |
| Transfers to/(from) Stage 1 | (17) | – | – | – | (17) |
| Transfers to/(from) Stage 3 | – | – | 17 | – | 17 |
| Balance at December 31, 2019 | 14,502 | – | 40 | – | 14,542 |
| Total receivables from customers | | | | | |
| Balance at January 1, 2019 | 1,089,680 | 9,760 | 8,189 | 3,309 | 1,110,938 |
| New assets originated | 597,735 | – | – | – | 597,735 |
| Assets derecognized or repaid | (520,015) | (12,871) | (3,357) | (247) | (536,490) |
| Amounts written-off | – | – | (238) | – | (238) |
| Transfers to/(from) Stage 1 | (143,531) | – | – | – | (143,531) |
| Transfers to/(from) Stage 2 | – | 140,521 | – | – | 140,521 |
| Transfers to/(from) Stage 3 | – | – | 3,009 | – | 3,009 |
| Others | (741) | – | (85) | (70) | (896) |
| Balance at December 31, 2019 | ₱1,023,128 | ₱137,410 | ₱7,518 | ₱2,992 | ₱1,171,048 |

The credit quality of other receivables, gross of allowance for credit losses, as of December 31, 2020 and 2019 follows:

| | **Consolidated** | | | |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| **2020** | | | | |
| Unquoted debt securities | | | | |
| Standard grade | **₱65** | **₱–** | **₱–** | **₱65** |
| Non-performing individually impaired | – | – | **386** | **386** |
| | **65** | – | **386** | **451** |
| Accrued interest receivable | | | | |
| High grade | **7,837** | **1,064** | – | **8,901** |
| Standard grade | **1,499** | **249** | – | **1,748** |
| Sub-standard grade | **797** | **854** | – | **1,651** |
| Unrated | **13** | – | – | **13** |
| Non-performing individually impaired | – | – | **1,414** | **1,414** |
| | **10,146** | **2,167** | **1,414** | **13,727** |
| Sales contract receivables | | | | |
| High grade | **4** | – | – | **4** |
| Unrated | **54** | – | – | **54** |
| Non-performing individually impaired | – | – | **24** | **24** |
| | **58** | – | **24** | **82** |

| | Consolidated | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| Other receivables | | | | |
| Standard grade | **₱–** | **₱296** | **₱–** | **₱296** |
| Unrated | **31** | – | – | **31** |
| Non-performing individually impaired | – | – | **2** | **2** |
| | **31** | **296** | **2** | **329** |
| Total other receivables | | | | |
| High grade | **7,841** | **1,064** | – | **8,905** |
| Standard grade | **1,564** | **545** | – | **2,109** |
| Sub-standard grade | **797** | **854** | – | **1,651** |
| Unrated | **98** | – | – | **98** |
| Non-performing individually impaired | – | – | **1,826** | **1,826** |
| | **₱10,300** | **₱2,463** | **₱1,826** | **₱14,589** |
| 2019 | | | | |
| Unquoted debt securities | | | | |
| High grade | ₱630 | ₱– | ₱– | ₱630 |
| Non-performing individually impaired | – | – | 386 | 386 |
| | 630 | – | 386 | 1,016 |
| Accrued interest receivable | | | | |
| High grade | 8,404 | 134 | – | 8,538 |
| Standard grade | 2,517 | 153 | – | 2,670 |
| Sub-standard grade | 285 | 745 | – | 1,030 |
| Unrated | 12 | – | – | 12 |
| Non-performing individually impaired | – | – | 855 | 855 |
| | 11,218 | 1,032 | 855 | 13,105 |
| Sales contract receivables | | | | |
| High grade | 23 | – | – | 23 |
| Unrated | 100 | – | – | 100 |
| Non-performing individually impaired | – | – | 22 | 22 |
| | 123 | – | 22 | 145 |
| Other receivables | | | | |
| High grade | 3 | – | – | 3 |
| Standard grade | 261 | – | – | 261 |
| Unrated | 65 | – | – | 65 |
| Non-performing individually impaired | – | – | 2 | 2 |
| | 329 | – | 2 | 331 |
| Total other receivables | | | | |
| High grade | 9,060 | 134 | – | 9,194 |
| Standard grade | 2,778 | 153 | – | 2,931 |
| Sub-standard grade | 285 | 745 | – | 1,030 |
| Unrated | 177 | – | – | 177 |
| Non-performing individually impaired | – | – | 1,265 | 1,265 |
| | ₱12,300 | ₱1,032 | ₱1,265 | ₱14,597 |

| | Parent Company | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| **2020** | | | | |
| Unquoted debt securities | | | | |
| Non-performing individually impaired | **₱–** | **₱–** | **₱386** | **₱386** |
| Accrued interest receivable | | | | |
| High grade | **4,993** | – | – | **4,993** |
| Standard grade | **1,468** | **81** | – | **1,549** |
| Sub-standard grade | **796** | **765** | – | **1,561** |
| Unrated | **11** | – | – | **11** |
| Non-performing individually impaired | – | – | **421** | **421** |
| | **7,268** | **846** | **421** | **8,535** |
| Sales contract receivables | | | | |
| Unrated | **54** | – | – | **54** |
| Non-performing individually impaired | – | – | **2** | **2** |
| | **54** | – | **2** | **56** |
| Other receivables | | | | |
| Unrated | **9** | – | – | **9** |
| Non-performing individually impaired | – | – | **2** | **2** |
| | **9** | – | **2** | **11** |
| Total other receivables | | | | |
| High grade | **4,993** | – | – | **4,993** |
| Standard grade | **1,468** | **81** | – | **1,549** |
| Sub-standard grade | **796** | **765** | – | **1,561** |
| Unrated | **74** | – | – | **74** |
| Non-performing individually impaired | – | – | **811** | **811** |
| | **₱7,331** | **₱846** | **₱811** | **₱8,988** |

| | Parent Company | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| 2019 | | | | |
| Unquoted debt securities | | | | |
| Non-performing individually impaired | ₱– | ₱– | ₱386 | ₱386 |
| Accrued interest receivable | | | | |
| High grade | 6,600 | – | – | 6,600 |
| Standard grade | 2,468 | 5 | – | 2,473 |
| Sub-standard grade | 285 | 741 | – | 1,026 |
| Unrated | 10 | – | – | 10 |
| Non-performing individually impaired | – | – | 394 | 394 |
| | 9,363 | 746 | 394 | 10,503 |
| Sales contract receivables | | | | |
| Unrated | 100 | – | – | 100 |
| Non-performing individually impaired | – | – | 2 | 2 |
| | 100 | – | 2 | 102 |
| Other receivables | | | | |
| Unrated | 10 | – | – | 10 |
| Non-performing individually impaired | – | – | 2 | 2 |
| | 10 | – | 2 | 12 |
| Total other receivables | | | | |
| High grade | 6,600 | – | – | 6,600 |
| Standard grade | 2,468 | 5 | – | 2,473 |
| Sub-standard grade | 285 | 741 | – | 1,026 |
| Unrated | 120 | – | – | 120 |
| Non-performing individually impaired | – | – | 784 | 784 |
| | ₱9,473 | ₱746 | ₱784 | ₱11,003 |

Movements during 2020 and 2019 for other receivables follow:

| | **Consolidated** | | | |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| **2020** | | | | |
| Balance at January 1, 2020 | **₱12,300** | **₱1,032** | **₱1,265** | **₱14,597** |
| New assets originated | **11,574** | – | – | **11,574** |
| Assets derecognized or repaid | **(10,677)** | **(532)** | **(373)** | **(11,582)** |
| Transfers to/(from) Stage 1 | **(2,897)** | – | – | **(2,897)** |
| Transfers to/(from) Stage 2 | – | **1,963** | – | **1,963** |
| Transfers to/(from) Stage 3 | – | – | **934** | **934** |
| Balance at December 31, 2020 | **₱10,300** | **₱2,463** | **₱1,826** | **₱14,589** |
| 2019 | | | | |
| Balance at January 1, 2019 | ₱10,489 | ₱370 | ₱1,351 | ₱12,210 |
| New assets originated | 8,985 | – | – | 8,985 |
| Assets derecognized or repaid | (5,522) | (366) | (709) | (6,597) |
| Amounts written-off | – | – | (1) | (1) |
| Transfers to/(from) Stage 1 | (1,652) | – | – | (1,652) |
| Transfers to/(from) Stage 2 | – | 1,028 | – | 1,028 |
| Transfers to/(from) Stage 3 | – | – | 624 | 624 |
| Balance at December 31, 2019 | ₱12,300 | ₱1,032 | ₱1,265 | ₱14,597 |

| | **Parent Company** | | | |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| **2020** | | | | |
| Balance at January 1, 2020 | **₱9,473** | **₱746** | **₱784** | **₱11,003** |
| New assets originated | **5,575** | – | – | **5,575** |
| Assets derecognized or repaid | **(7,321)** | **(243)** | **(26)** | **(7,590)** |
| Transfers to/(from) Stage 1 | **(396)** | – | – | **(396)** |
| Transfers to/(from) Stage 2 | – | **343** | – | **343** |
| Transfers to/(from) Stage 3 | – | – | **53** | **53** |
| Balance at December 31, 2020 | **₱7,331** | **₱846** | **₱811** | **₱8,988** |

| | Parent Company | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| 2019 | | | | |
| Balance at January 1, 2019 | ₱7,564 | ₱30 | ₱911 | ₱8,505 |
| New assets originated | 7,575 | – | – | 7,575 |
| Assets derecognized or repaid | (4,487) | (219) | (370) | (5,076) |
| Amounts written-off | – | – | (1) | (1) |
| Transfers to/(from) Stage 1 | (1,179) | – | – | (1,179) |
| Transfers to/(from) Stage 2 | – | 935 | – | 935 |
| Transfers to/(from) Stage 3 | – | – | 244 | 244 |
| Balance at December 31, 2019 | ₱9,473 | ₱746 | ₱784 | ₱11,003 |

The credit risk exposure on the accounts receivable (excluding statutory receivables which are not considered financial assets) of the Group and the Parent Company based on their aging as of December 31, 2020 and 2019 follows:

| | **Consolidated** | | **Parent Company** | |
|---|---|---|---|---|
| Age of accounts receivables | **2020** | 2019 | **2020** | 2019 |
| Up to 1 month | **₱6,992** | ₱5,775 | **₱3,396** | ₱2,191 |
| > 1 to 2 months | **114** | 76 | **34** | 41 |
| > 2 to 3 months | **28** | 36 | **16** | 26 |
| More than 3 months | **4,144** | 3,579 | **3,558** | 3,473 |
| Total gross carrying amount | **₱11,278** | ₱9,466 | **₱7,004** | ₱5,731 |

The maximum exposure and credit quality of loan commitments and financial guarantees as of December 31, 2020 and 2019 follows:

| | **Consolidated** | | | |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| **2020** | | | | |
| High grade | **₱11,389** | **₱–** | **₱–** | **₱11,389** |
| Standard grade | **201,587** | **1,790** | – | **203,377** |
| Substandard grade | – | – | **2,480** | **2,480** |
| Unrated | **66,062** | **2,401** | **16** | **68,479** |
| | **₱279,038** | **₱4,191** | **₱2,496** | **₱285,725** |
| 2019 | | | | |
| Standard grade | ₱210,260 | ₱– | ₱– | ₱210,260 |
| Unrated | 62,768 | 1,460 | – | 64,228 |
| | ₱273,028 | ₱1,460 | ₱– | ₱274,488 |

| | **Parent Company** | | | |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| **2020** | | | | |
| Standard grade | **₱201,545** | **₱1,790** | **₱–** | **₱203,335** |
| Substandard grade | – | – | **2,480** | **2,480** |
| Unrated | **66,062** | **2,401** | **16** | **68,479** |
| | **₱267,607** | **₱4,191** | **₱2,496** | **₱274,294** |
| 2019 | | | | |
| Unrated | ₱62,768 | ₱1,460 | ₱– | ₱64,228 |

Movements during 2020 and 2019 for loan commitments and financial guarantees follow:

| | **Consolidated** | | | |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| **2020** | | | | |
| Balance at January 1, 2020 | **₱273,028** | **₱1,460** | **₱–** | **₱274,488** |
| New assets originated or purchased | **46,625** | **–** | **–** | **46,625** |
| Assets derecognized or repaid | **(29,274)** | **(3,633)** | **(2,481)** | **(35,388)** |
| Transfers to/(from) Stage 1 | **(11,341)** | **–** | **–** | **(11,341)** |
| Transfers to/(from) Stage 2 | **–** | **6,364** | **–** | **6,364** |
| Transfers to/(from) Stage 3 | **–** | **–** | **4,977** | **4,977** |
| Balance at December 31, 2020 | **₱279,038** | **₱4,191** | **₱2,496** | **₱285,725** |
| 2019 | | | | |
| Balance at January 1, 2019 | ₱257,795 | ₱84 | ₱– | ₱257,879 |
| New assets originated or purchased | 47,799 | – | – | 47,799 |
| Assets derecognized or repaid | (30,939) | (251) | – | (31,190) |

(Forward)

| | Consolidated | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| Transfers to/(from) Stage 1 | (₱1,627) | ₱– | ₱– | (₱1,627) |
| Transfers to/(from) Stage 2 | – | 1,627 | – | 1,627 |
| Balance at December 31, 2019 | ₱273,028 | ₱1,460 | ₱– | ₱274,488 |

| | **Parent Company** | | | |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| **2020** | | | | |
| Balance at January 1, 2020 | **₱62,768** | **₱1,460** | **₱–** | **₱64,228** |
| Impact of merger | **209,766** | **–** | **–** | **209,766** |
| New assets originated or purchased | **35,194** | **–** | **–** | **35,194** |
| Assets derecognized or repaid | **(28,780)** | **(3,633)** | **(2,481)** | **(34,894)** |
| Transfers to/(from) Stage 1 | **(11,341)** | **–** | **–** | **(11,341)** |
| Transfers to/(from) Stage 2 | **–** | **6,364** | **–** | **6,364** |
| Transfers to/(from) Stage 3 | **–** | **–** | **4,977** | **4,977** |
| Balance at December 31, 2020 | **₱267,607** | **₱4,191** | **₱2,496** | **₱274,294** |
| 2019 | | | | |
| Balance at January 1, 2019 | ₱69,513 | ₱84 | ₱– | ₱69,597 |
| New assets originated or purchased | 25,821 | – | – | 25,821 |
| Assets derecognized or repaid | (30,939) | (251) | – | (31,190) |
| Transfers to/(from) Stage 1 | (1,627) | – | – | (1,627) |
| Transfers to/(from) Stage 2 | – | 1,627 | – | 1,627 |
| Balance at December 31, 2019 | ₱62,768 | ₱1,460 | ₱– | ₱64,228 |

Breakdown of restructured receivables from customers by class are shown below:

| | **Consolidated** | | **Parent Company** | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Commercial loans | **₱4,346** | ₱2,048 | **₱3,614** | ₱2,044 |
| Residential mortgage loans | **59** | 95 | **7** | 11 |
| Auto loans | **7** | 16 | **–** | – |
| Others | **174** | 276 | **–** | – |
| | **₱4,586** | ₱2,435 | **₱3,621** | ₱2,055 |

As of December 31, 2020 and 2019, an analysis by past due status of receivables from customers wherein the SICR is based only on the past due information is as follows:

| | **Consolidated** | | | | | |
|---|---|---|---|---|---|---|
| | **Number of days past due** | | | | | |
| | **Within 30 days** | **31-60 days** | **61-90 days** | **91-180 days** | **Over 180 days** | **Total** |
| **2020** | | | | | | |
| Auto loans | **₱890** | **₱287** | **₱189** | **₱1,161** | **₱3,255** | **₱5,782** |
| Residential mortgage loans | **704** | **220** | **104** | **572** | **2,139** | **3,739** |
| Credit card | **–** | **974** | **922** | **5,273** | **–** | **7,169** |
| | **₱1,594** | **₱1,481** | **₱1,215** | **₱7,006** | **₱5,394** | **₱16,690** |
| 2019 | | | | | | |
| Auto loans | ₱419 | ₱165 | ₱330 | ₱1,392 | ₱1,132 | ₱3,438 |
| Residential mortgage loans | 807 | 328 | 187 | 422 | 1,035 | 2,779 |
| Credit card | – | 1,175 | 865 | 1,509 | – | 3,549 |
| | ₱1,226 | ₱1,668 | ₱1,382 | ₱3,323 | ₱2,167 | ₱9,766 |

| | **Parent Company** | | | | | |
|---|---|---|---|---|---|---|
| | **Number of days past due** | | | | | |
| | **Within 30 days** | **31-60 days** | **61-90 days** | **91-180 days** | **Over 180 days** | **Total** |
| **2020** | | | | | | |
| Auto loans | **₱2** | **₱2** | **₱2** | **₱4** | **₱181** | **₱191** |
| Residential mortgage loans | **27** | **22** | **18** | **43** | **607** | **717** |
| Credit card | **–** | **974** | **922** | **5,273** | **–** | **7,169** |
| | **₱29** | **₱998** | **₱942** | **₱5,320** | **₱788** | **₱8,077** |
| 2019 | | | | | | |
| Auto loans | ₱61 | ₱20 | ₱8 | ₱11 | ₱121 | ₱221 |
| Residential mortgage loans | 322 | 84 | 39 | 105 | 357 | 907 |
| | ₱383 | ₱104 | ₱47 | ₱116 | ₱478 | ₱1,128 |

Liquidity Risk

Liquidity risk is the current and prospective risk to earnings or capital arising from the inability to meet obligations when they come due. This may be caused by the inability to liquidate assets or to obtain funding to meet liquidity needs.

The Group manages its liquidity risk by holding adequate stock of high quality liquid assets, analyzing net funding requirements over time, diversifying funding sources and contingency planning.

To measure the prospective liquidity needs, the Group uses Maximum Cumulative Outflow (MCO), a liquidity gap tool to project short-term as well as long-term cash flow expectations on a business-as-usual condition.

The MCO is generated by distributing the cash flows of the Group's assets, liabilities and off-balance sheet items to time bands based on cash flow expectations such as contractual maturity, nature of the account, behavioral patterns, projections on business strategies, and/or optionality of certain products. The incorporation of behavioral cash flow assumptions and business projections or targets results in a dynamic gap report which realistically captures the behavior of the products and creates a forward-looking cash flow projection.

Cash flows from assets are considered as cash inflows, while cash flows from liabilities are considered cash outflows. The net cash flows are determined for each given time period. If the inflows exceed the outflows, the Group is said to have a positive liquidity gap or excess funds for the given time bucket. Conversely, if the outflows exceed the inflows, the Group is said to have a negative liquidity gap or funding need for the given time bucket.

The MCO is monitored regularly to ensure that it remains within the set limits. The Parent Company generates and monitors daily its MCO, while the subsidiaries generate the report at least monthly. The liquidity profile of the Group is reported monthly to the Parent Company's ALCO and ROC.

To supplement the business-as-usual scenario parameters reflected in the MCO report, the Group also conducts liquidity stress testing to determine the impact of extreme factors, scenarios and/or events to the Group's liquidity profile. Liquidity stress testing exercise is performed quarterly on a per firm basis, and at least annually on the Group-wide level.

*Financial assets*

Analysis of debt securities into maturity groupings is based on the expected date on which these assets will be realized. For other financial assets, the analysis into maturity groupings is based on the remaining period from the end of the reporting period to the contractual maturity date or, if earlier, the expected date the assets will be realized.

*Financial liabilities*

The maturity groupings are based on the remaining period from the end of the reporting period to the contractual maturity date. When a counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the Group can be required to pay.

The table below summarizes the maturity profile of financial instruments and gross-settled derivatives based on contractual undiscounted cash flows.

| | Consolidated | | | | | | |
|---|---|---|---|---|---|---|---|
| | On demand | Up to 1 month | 1 to 3 months | 3 to 6 months | 6 to 12 months | Beyond 1 year | Total |
| **2020** | | | | | | | |
| **Financial Assets** | | | | | | | |
| Cash and other cash items | **₱38,469** | **₱–** | **₱–** | **₱–** | **₱–** | **₱–** | **₱38,469** |
| Due from BSP | **304,906** | – | – | – | – | – | **304,906** |
| Due from other banks | **32,858** | **2,926** | **2,491** | **73** | **15** | – | **38,363** |
| Interbank loans receivable and SPURA | **8,040** | **37,348** | **19,961** | **7,636** | **6,502** | – | **79,487** |
| Investment securities at FVTPL | | | | | | | |
| FVTPL investments | **6,416** | **56** | **54,947** | **247** | **376** | **2,290** | **64,332** |
| Derivative assets | | | | | | | |
| Trading: | | | | | | | |
| Receive | – | **55,125** | **38,586** | **17,521** | **22,010** | **87,816** | **221,058** |
| Pay | – | **(54,325)** | **(37,826)** | **(17,026)** | **(20,678)** | **(79,260)** | **(209,115)** |
| | – | **800** | **760** | **495** | **1,332** | **8,556** | **11,943** |
| Investment securities at FVOCI | – | **45,802** | **8,572** | **25,666** | **84,796** | **432,711** | **597,547** |
| Investment securities at amortized cost | – | **55** | **3,033** | **164** | **344** | **24,093** | **27,689** |
| Loans and receivables | | | | | | | |
| Receivables from customers | **76,042** | **207,770** | **177,373** | **70,980** | **92,321** | **876,411** | **1,500,897** |
| Unquoted debt securities | – | – | – | – | – | **435** | **435** |
| Accrued interest receivable | **11,667** | **528** | **196** | **696** | **450** | **190** | **13,727** |
| Accounts receivable | **10,130** | **533** | **85** | **9** | **28** | **493** | **11,278** |
| Sales contract receivable | **10** | **3** | **12** | **22** | **4** | **35** | **86** |
| Other receivables | **9** | **320** | – | – | – | – | **329** |
| Other assets | | | | | | | |
| Returned checks and other cash items | **250** | – | – | – | – | – | **250** |
| Residual values of leased assets | **103** | **40** | **51** | **65** | **143** | **528** | **930** |
| Miscellaneous | **56** | **4** | **3** | **4** | **6** | **175** | **248** |
| | **₱488,956** | **₱296,185** | **₱267,484** | **₱106,057** | **₱186,317** | **₱1,345,917** | **₱2,690,916** |
| **Financial Liabilities** | | | | | | | |
| Non-derivative liabilities | | | | | | | |
| Deposit liabilities | | | | | | | |
| Demand | **₱515,378** | **₱–** | **₱–** | **₱–** | **₱–** | **₱–** | **₱515,378** |
| Savings | **795,979** | – | – | – | – | – | **795,979** |
| Time | **2** | **285,744** | **105,265** | **27,748** | **16,987** | **16,174** | **451,920** |
| LTNCD | – | **13** | **103** | **295** | **6,840** | **32,596** | **39,847** |
| | **1,311,359** | **285,757** | **105,368** | **28,043** | **23,827** | **48,770** | **1,803,124** |
| Bills payable and SSURA | – | **73,338** | **34,887** | **3,403** | **15,600** | **13,531** | **140,759** |
| Manager's checks and demand drafts outstanding | **6,024** | – | – | – | – | – | **6,024** |
| Accrued interest payable | **39** | **704** | **692** | **66** | **161** | **72** | **1,734** |
| Accrued other expenses | **3,843** | **1,623** | **256** | – | **165** | – | **5,887** |
| Bonds payable | – | **22** | **215** | **763** | **33,777** | **63,575** | **98,352** |
| Subordinated debts | – | – | **19** | **19** | **37** | **1,319** | **1,394** |
| Non-equity non-controlling interest | **8,315** | – | – | – | – | – | **8,315** |
| Other liabilities | | | | | | | |
| Bills purchased - contra | **10,994** | – | – | – | – | – | **10,994** |
| Accounts payable | **7,629** | **10,319** | – | **2,073** | – | **6** | **20,027** |
| Marginal deposits | – | – | **5,600** | – | – | – | **5,600** |
| Outstanding acceptances | – | **405** | **468** | **289** | **166** | – | **1,328** |
| Deposits on lease contracts | **12** | **214** | **118** | **101** | **236** | **777** | **1,458** |
| Dividends payable | – | **90** | – | – | – | – | **90** |
| Lease liability | **27** | **87** | **188** | **276** | **493** | **2,851** | **3,922** |
| Miscellaneous | **181** | – | – | – | – | – | **181** |
| | **1,348,423** | **372,559** | **147,811** | **35,033** | **74,462** | **130,901** | **2,109,189** |
| Derivative liabilities* | | | | | | | |
| Trading: | | | | | | | |
| Pay | – | **76,203** | **30,594** | **13,130** | **13,537** | **95,048** | **228,512** |
| Receive | – | **(74,804)** | **(30,218)** | **(12,872)** | **(12,769)** | **(84,933)** | **(215,596)** |
| | – | **1,399** | **376** | **258** | **768** | **10,115** | **12,916** |
| Loan commitments and financial guarantees | **212,711** | **6,907** | **20,983** | **8,531** | **26,218** | **10,375** | **285,725** |
| | **₱1,561,134** | **₱380,865** | **₱169,170** | **₱43,822** | **₱101,448** | **₱151,391** | **₱2,407,830** |

| | Consolidated | | | | | | |
|---|---|---|---|---|---|---|---|
| | On demand | Up to 1 month | 1 to 3 months | 3 to 6 months | 6 to 12 months | Beyond 1 year | Total |
| 2019 | | | | | | | |
| Financial Assets | | | | | | | |
| Cash and other cash items | ₱32,956 | ₱– | ₱– | ₱– | ₱– | ₱– | ₱32,956 |
| Due from BSP | 219,994 | – | – | – | – | – | 219,994 |
| Due from other banks | 51,867 | 26 | 2,724 | 164 | 4 | – | 54,785 |
| Interbank loans receivable and SPURA | 175 | 66,185 | 3,632 | 2,196 | – | – | 72,188 |
| Investment securities at FVTPL | | | | | | | |
| FVTPL investments | – | 12,310 | 38,502 | – | – | 38 | 50,850 |
| Derivative assets | | | | | | | |
| Trading: | | | | | | | |
| Receive | – | 53,050 | 27,989 | 29,617 | 14,099 | 3,018 | 127,773 |
| Pay | – | (53,625) | (28,447) | (30,201) | (14,307) | (3,151) | (129,731) |
| | – | (575) | (458) | (584) | (208) | (133) | (1,958) |
| Investment securities at FVOCI | – | 546 | 2,799 | 5,049 | 2,940 | 230,995 | 242,329 |
| Investment securities at amortized cost | – | 15,370 | 150 | 312 | 9,766 | 317,901 | 343,499 |
| Loans and receivables | | | | | | | |
| Receivables from customers | 60,348 | 276,769 | 178,037 | 129,824 | 103,398 | 994,261 | 1,742,637 |
| Unquoted debt securities | – | 10 | 1 | 161 | 18 | 980 | 1,170 |
| Accrued interest receivable | 11,220 | 1,276 | 251 | 52 | 306 | – | 13,105 |
| Accounts receivable | 7,761 | 259 | 21 | 11 | 1,413 | 1 | 9,466 |
| Sales contract receivable | 9 | – | 19 | 13 | 26 | 86 | 153 |
| Other receivables | 15 | 316 | – | – | – | – | 331 |
| Other assets | | | | | | | |
| Returned checks and other cash items | 407 | – | – | – | – | – | 407 |
| Miscellaneous | 8 | – | 1 | 4 | 8 | 172 | 193 |
| | ₱384,760 | ₱372,492 | ₱225,679 | ₱137,202 | ₱117,671 | ₱1,544,301 | ₱2,782,105 |
| Financial Liabilities | | | | | | | |
| Non-derivative liabilities | | | | | | | |
| Deposit liabilities | | | | | | | |
| Demand | ₱411,873 | ₱– | ₱– | ₱– | ₱– | ₱– | ₱411,873 |
| Savings | 665,634 | – | – | – | – | – | 665,634 |
| Time | – | 394,827 | 125,808 | 23,838 | 30,119 | 21,280 | 595,872 |
| LTNCD | – | 34 | 104 | 8,375 | 590 | 40,253 | 49,356 |
| | 1,077,507 | 394,861 | 125,912 | 32,213 | 30,709 | 61,533 | 1,722,735 |
| Bills payable and SSURA | – | 91,394 | 50,379 | 22,665 | 26,319 | 51,687 | 242,444 |
| Manager's checks and demand drafts outstanding | p6,806 | – | – | – | – | – | 6,806 |
| Accrued interest payable | 766 | 1,295 | 1,199 | 171 | 339 | 146 | 3,916 |
| Accrued other expenses | 3,395 | 792 | 1 | – | 180 | – | 4,368 |
| Bonds payable | – | – | 442 | 1,098 | 30,283 | 56,468 | 88,291 |
| Subordinated debts | – | – | 54 | 104 | 6,623 | 1,394 | 8,175 |
| Non-equity non-controlling interest | 6,553 | – | – | – | – | – | 6,553 |
| Other liabilities | | | | | | | |
| Bills purchased - contra | 14,089 | – | – | – | – | – | 14,089 |
| Accounts payable | 5,089 | 9,964 | – | 2,384 | – | – | 17,437 |
| Marginal deposits | 6,138 | – | 236 | – | – | – | 6,374 |
| Outstanding acceptances | – | 488 | 378 | 324 | 398 | 23 | 1,611 |
| Deposits on lease contracts | 36 | 54 | 83 | 121 | 291 | 1,140 | 1,725 |
| Notes payable | – | – | – | 1,881 | 1,028 | – | 2,909 |
| Dividends payable | 90 | – | – | – | – | – | 90 |
| Lease liability | 59 | 125 | 225 | 341 | 644 | 3,593 | 4,987 |
| Miscellaneous | 3 | – | – | – | – | – | 3 |
| | 1,120,531 | 498,973 | 178,909 | 61,302 | 96,814 | 175,984 | 2,132,513 |
| Derivative liabilities* | | | | | | | |
| Trading: | | | | | | | |
| Pay | – | 84,202 | 26,452 | 17,814 | 17,521 | 2,097 | 148,086 |
| Receive | – | (83,588) | (26,100) | (17,699) | (17,462) | (1,930) | (146,779) |
| | – | 614 | 352 | 115 | 59 | 167 | 1,307 |
| Loan commitments and financial guarantees | 218,613 | 6,182 | 16,531 | 12,967 | 12,457 | 7,738 | 274,488 |
| | ₱1,339,144 | ₱505,769 | ₱195,792 | ₱74,384 | ₱109,330 | ₱183,889 | ₱2,408,308 |

| | Parent Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | On demand | Up to 1 month | 1 to 3 months | 3 to 6 months | 6 to 12 months | Beyond 1 year | Total |
| **2020** | | | | | | | |
| **Financial Assets** | | | | | | | |
| Cash and other cash items | ₱35,606 | ₱– | ₱– | ₱– | ₱– | ₱– | ₱35,606 |
| Due from BSP | 262,188 | – | – | – | – | – | 262,188 |
| Due from other banks | 17,365 | 2,892 | 2,491 | – | – | – | 22,748 |
| Interbank loans receivable and SPURA | – | 30,046 | 14,679 | 6,061 | 6,502 | – | 57,288 |
| Investment securities at FVTPL | | | | | | | |
| FVTPL investments | – | – | 54,689 | – | – | 43 | 54,732 |
| Derivative assets | | | | | | | |
| Trading: | | | | | | | |
| Receive | – | 55,124 | 38,586 | 17,521 | 22,005 | 87,805 | 221,041 |
| Pay | – | (54,325) | (37,826) | (17,027) | (20,677) | (79,260) | (209,115) |
| | – | 799 | 760 | 494 | 1,328 | 8,545 | 11,926 |
| Investment securities at FVOCI | – | 34,441 | 5,884 | 24,898 | 83,149 | 422,227 | 570,599 |
| Investment securities at amortized cost | – | – | 2,902 | – | 82 | 5,569 | 8,553 |
| Loans and receivables | | | | | | | |
| Receivables from customers | 65,906 | 202,697 | 166,484 | 57,835 | 55,240 | 665,268 | 1,213,430 |
| Unquoted debt securities | – | – | – | – | – | 370 | 370 |
| Accrued interest receivable | 8,535 | – | – | – | – | – | 8,535 |
| Accounts receivable | 7,004 | – | – | – | – | – | 7,004 |
| Sales contract receivable | 6 | 1 | 12 | 22 | 3 | 15 | 59 |
| Other receivables | 11 | – | – | – | – | – | 11 |
| Other assets | | | | | | | |
| Returned checks and other cash items | 239 | – | – | – | – | – | 239 |
| | ₱396,860 | ₱270,876 | ₱247,901 | ₱89,310 | ₱146,304 | ₱1,102,037 | ₱2,253,288 |
| **Financial Liabilities** | | | | | | | |
| Non-derivative liabilities | | | | | | | |
| Deposit liabilities | | | | | | | |
| Demand | ₱467,545 | ₱– | ₱– | ₱– | ₱– | ₱– | ₱467,545 |
| Savings | 755,713 | – | – | – | – | – | 755,713 |
| Time | – | 217,790 | 82,984 | 21,569 | 9,575 | 566 | 332,484 |
| LTNCD | – | 13 | 103 | 295 | 6,840 | 23,176 | 30,427 |
| | 1,223,258 | 217,803 | 83,087 | 21,864 | 16,415 | 23,742 | 1,586,169 |
| Bills payable and SSURA | – | 65,195 | 30,371 | 375 | 8,555 | 4,451 | 108,947 |
| Manager's checks and demand drafts outstanding | 5,493 | – | – | – | – | – | 5,493 |
| Accrued interest payable | 33 | 444 | 390 | 73 | 59 | 72 | 1,071 |
| Accrued other expenses | 3,834 | – | – | – | – | – | 3,834 |
| Bonds payable | – | 22 | 215 | 763 | 22,971 | 58,486 | 82,457 |
| Subordinated debts | – | – | 19 | 19 | 37 | 1,319 | 1,394 |
| Other liabilities | | | | | | | |
| Bills purchased - contra | 10,990 | – | – | – | – | – | 10,990 |
| Accounts payable | 1,838 | 9,153 | – | – | – | – | 10,991 |
| Outstanding acceptances | – | 405 | 468 | 289 | 166 | – | 1,328 |
| Marginal deposits | – | – | 398 | – | – | – | 398 |
| Lease liability | 19 | 52 | 101 | 143 | 263 | 1,670 | 2,248 |
| | 1,245,465 | 293,074 | 115,049 | 23,526 | 48,466 | 89,740 | 1,815,320 |
| Derivative liabilities* | | | | | | | |
| Trading: | | | | | | | |
| Pay | – | 76,203 | 30,594 | 13,130 | 13,537 | 95,048 | 228,512 |
| Receive | – | (74,804) | (30,218) | (12,872) | (12,769) | (84,933) | (215,596) |
| | – | 1,399 | 376 | 258 | 768 | 10,115 | 12,916 |
| Loan commitments and financial guarantees | 212,669 | 6,906 | 20,983 | 8,531 | 14,830 | 10,375 | 274,294 |
| | ₱1,458,134 | ₱301,379 | ₱136,408 | ₱32,315 | ₱64,064 | ₱110,230 | ₱2,102,530 |
| 2019 | | | | | | | |
| Financial Assets | | | | | | | |
| Cash and other cash items | ₱30,659 | ₱– | ₱– | ₱– | ₱– | ₱– | ₱30,659 |
| Due from BSP | 195,770 | – | – | – | – | – | 195,770 |
| Due from other banks | 34,495 | 1,498 | 2,717 | – | – | – | 38,710 |
| Interbank loans receivable and SPURA | – | 55,708 | 426 | 33 | – | – | 56,167 |
| Investment securities at FVTPL | | | | | | | |
| FVTPL investments | – | – | 38,502 | – | – | 38 | 38,540 |

(Forward)

| | Parent Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | On demand | Up to 1 month | 1 to 3 months | 3 to 6 months | 6 to 12 months | Beyond 1 year | Total |
| Derivative assets | | | | | | | |
| Trading: | | | | | | | |
| Receive | ₱– | ₱53,050 | ₱27,989 | ₱29,617 | ₱14,099 | ₱3,018 | ₱127,773 |
| Pay | – | (53,625) | (28,447) | (30,201) | (14,307) | (3,151) | (129,731) |
| | – | (575) | (458) | (584) | (208) | (133) | (1,958) |
| Investment securities at FVOCI | – | 381 | 1,574 | 2,914 | 2,022 | 220,905 | 227,796 |
| Investment securities at amortized cost | – | 15,017 | – | – | 7,605 | 275,365 | 297,987 |
| Loans and receivables | | | | | | | |
| Receivables from customers | 10,053 | 276,409 | 160,093 | 105,231 | 49,435 | 722,173 | 1,323,394 |
| Unquoted debt securities | – | – | – | – | – | 482 | 482 |
| Accrued interest receivable | 10,503 | – | – | – | – | – | 10,503 |
| Accounts receivable | 5,731 | – | – | – | – | – | 5,731 |
| Sales contract receivable | 5 | – | 19 | 12 | 25 | 49 | 110 |
| Other receivables | 12 | – | – | – | – | – | 12 |
| Other assets | | | | | | | |
| Returned checks and other cash items | 378 | – | – | – | – | – | 378 |
| | ₱287,606 | ₱348,438 | ₱202,873 | ₱107,606 | ₱58,879 | ₱1,218,879 | ₱2,224,281 |
| Financial Liabilities | | | | | | | |
| Non-derivative liabilities | | | | | | | |
| Deposit liabilities | | | | | | | |
| Demand | ₱372,303 | ₱– | ₱– | ₱– | ₱– | ₱– | ₱372,303 |
| Savings | 630,946 | – | – | – | – | – | 630,946 |
| Time | – | 318,644 | 114,318 | 18,571 | 9,812 | 1,248 | 462,593 |
| LTNCD | – | 34 | 104 | 8,375 | 590 | 30,606 | 39,709 |
| | 1,003,249 | 318,678 | 114,422 | 26,946 | 10,402 | 31,854 | 1,505,551 |
| Bills payable and SSURA | – | 73,962 | 17,763 | 13,313 | 13,299 | 22,656 | 140,993 |
| Manager's checks and demand drafts outstanding | 5,508 | – | – | – | – | – | 5,508 |
| Accrued interest payable | – | 1,058 | 835 | 170 | 272 | 146 | 2,481 |
| Accrued other expenses | 2,124 | – | – | – | – | – | 2,124 |
| Bonds payable | – | – | 442 | 1,097 | 29,930 | 45,694 | 77,163 |
| Subordinated debts | – | – | 36 | 85 | 6,585 | – | 6,706 |
| Other liabilities | | | | | | | |
| Bills purchased - contra | 14,080 | – | – | – | – | – | 14,080 |
| Accounts payable | – | 8,269 | – | – | – | – | 8,269 |
| Outstanding acceptances | – | 488 | 378 | 324 | 398 | 23 | 1,611 |
| Marginal deposits | – | – | 236 | – | – | – | 236 |
| Lease liability | 59 | 62 | 121 | 181 | 340 | 1,981 | 2,744 |
| | 1,025,020 | 402,517 | 134,233 | 42,116 | 61,226 | 102,354 | 1,767,466 |
| Derivative liabilities* | | | | | | | |
| Trading: | | | | | | | |
| Pay | – | 80,750 | 26,452 | 17,814 | 18,566 | – | 143,582 |
| Receive | – | (80,276) | (26,100) | (17,699) | (18,487) | – | (142,562) |
| | – | 474 | 352 | 115 | 79 | – | 1,020 |
| Loan commitments and financial guarantees | 8,776 | 6,169 | 16,531 | 12,557 | 12,457 | 7,738 | 64,228 |
| | ₱1,033,796 | ₱409,160 | ₱151,116 | ₱54,788 | ₱73,762 | ₱110,092 | ₱1,832,714 |

*Does not include derivatives embedded in financial and non-financial contracts.

Market Risk

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

Depending on the business model for the product, i.e., whether they belong to the trading book or banking book, the Group applies different tools and processes to manage market risk exposures. Risk limits, approved by the BOD, are enforced to monitor and control this risk. RSK, as an independent body under the ROC, performs daily market risk analyses to ensure compliance to policies and limits, while Treasury Group manages the asset/liability risks arising from both banking book and trading operations in financial markets. The ALCO, chaired by the President, manages market risks within the parameters approved by the BOD.

As part of group supervision, the Parent Company regularly coordinates with subsidiaries to monitor their compliance to their respective risk tolerances and to ensure alignment of risk management practices. Each subsidiary has its own risk management unit responsible for monitoring its market risk exposures. The Parent, however, requires regular submission of market risk profiles which are presented to ALCO and ROC in both individual and consolidated forms to provide senior management and ROC a holistic perspective, and ensure alignment of strategies and risk appetite across the Group.

*Market risk - trading book*
In measuring the potential loss in its trading portfolio, the Parent Company uses VaR. VaR is an estimate of the potential decline in the value of a portfolio, under normal market conditions, for a given "confidence level" over a specified holding period. The Parent Company measures and monitors the Trading Book VaR daily, and this value is compared against the set VaR limit. Meanwhile, the Group VaR is monitored and reported monthly.

*VaR methodology assumptions and parameters*
Historical Simulation (HS) is used to compute the VaR. This method assumes that market rates volatility in the future will follow the same movement that occurred within the 260-day historical period. In calculating VaR, a 99.00% confidence level and a one-day holding period are assumed. This means that, statistically, within a one-day horizon, the trading losses will exceed VaR in 1 out of 100 trading days.

Like any other model, the HS method has its own limitations. To wit, it cannot predict volatility levels which did not happen in the specified historical period. The validity of the VaR model is verified through a daily backtesting analysis, which examines how frequently both actual and hypothetical daily losses exceed VaR. The result of the daily backtesting analysis is reported to the ALCO and ROC monthly.

A summary of the VaR levels of the trading portfolio of the Parent Company appears below:

| | **Rates and FX** | **Fixed Income** | **FX Options** |
|---|---|---|---|
| **As of December 31, 2020** | | | |
| December 29 | **₱182.03** | **₱286.09** | **₱9.26** |
| Average | **236.42** | **223.21** | **25.78** |
| Highest | **320.70** | **399.15** | **65.58** |
| Lowest | **177.83** | **61.27** | **4.60** |
| As of December 31, 2019 | | | |
| December 27 | ₱189.27 | ₱139.49 | ₱9.18 |
| Average | 146.87 | 141.22 | 12.26 |
| Highest | 223.46 | 269.07 | 42.02 |
| Lowest | 57.91 | 32.93 | 2.12 |

Rates and Foreign Exchange (FX) VaR is the correlated VaR of the following products: FX spot, outright forward, non-deliverable forwards, FX swaps, interest rate swaps, and cross-currency swaps. The Fixed Income VaR is the correlated VaR of these products: peso and foreign currency bonds, bond forwards and credit default swaps (CDS).

Subsidiaries with trading books perform daily mark-to-market valuation and VaR calculations for their exposures. Risk exposures are bounded by a system of risk limits and monitoring tools to effectively manage the risks.

The table below summarizes the VaR levels of FMIC and PSBank:

| | FMIC | | | PSBank | |
|---|---|---|---|---|---|
| | | Bonds | | Bonds | |
| | Equities | PHP | USD | PHP | FX |
| **As of December 31, 2020** | | | | | |
| December 29 | **₱0** | **₱3.22** | **₱0** | **₱0.00** | **₱0.85** |
| Average | | **9.48** | **2.74** | **4.98** | **0.90** |
| Highest | | **72.34** | **6.84** | **27.43** | **1.63** |
| Lowest | | **1.88** | **0.18** | **0.00** | **0.00** |
| As of December 31, 2019 | | | | | |
| December 27 | ₱– | ₱9.05 | ₱0.18 | ₱0.00 | ₱0.98 |
| Average | 0.99 | 30.26 | 3.63 | 0.00 | 0.75 |
| Highest | 9.42 | 89.66 | 11.34 | 0.00 | 1.33 |
| Lowest | 0.64 | 4.86 | 0.18 | 0.00 | 0.01 |

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 Group and the Parent Company, even before the VaR limit is hit.

Stress testing is performed by the Parent Company on a quarterly basis and the results are reported to the ALCO and, subsequently, to the ROC and BOD. On a Group-wide perspective, stress testing is done, at least, annually. The results are reported by the Parent Company's Risk Management Group to the BOD through ROC.

*Market risk - banking book*
The Group has in place their own risk management system and processes to quantify and manage market risks in the banking book. To the extent applicable, these are generally aligned with the Parent's framework/tools.

The Group assesses interest rate risk in the banking book using measurement tools such as Interest Rate Repricing Gap, Earnings-at-Risk (EaR), Delta Economic Value of Equity (ΔEVE), and Sensitivity Analysis.

Interest Rate Repricing Gap is a tool that distributes rate-sensitive assets and liabilities into pre-defined tenor buckets according to time remaining to their maturity (if fixed rate) or repricing (if floating rate). Items lacking definitive repricing schedule (e.g., current and savings account) and items with actual maturities that could vary from contractual maturities (e.g., securities with embedded options) are assigned to repricing tenor buckets based on analysis of historical patterns, past experience and/or expert judgment.

EaR measures the possible decline in the Group's net interest income as a result of adverse interest rate movements, given the current repricing profile. It is a tool used to evaluate the sensitivity of the accrual portfolio to changes in interest rates in the adverse direction over the next twelve (12) months.

*EaR methodology assumptions and parameters*
The Group calculates EaR using Historical Simulations (HS) approach, with one-year horizon and using five years data. EaR is then derived as the 99th percentile biggest drop in net interest income.

The table below shows the EaR profile of the Parent Company and certain subsidiaries as of December 31, 2020 and 2019:

| | Parent Company | FMIC | PSBank | ORIX Metro | MCC* | Group |
|---|---|---|---|---|---|---|
| **2020** | **(₱2,795.47)** | **(₱13.57)** | **(₱405.28)** | **(₱72.42)** | **₱–** | **(₱2,598.13)** |
| 2019 | (2,892.41) | (88.73) | (1,411.33) | (97.92) | (140.61) | (2,498.06) |

** Merged into the Parent Company effective January 3, 2020 (Note 11)*

The Parent Company generates and monitors daily its EaR exposure while the subsidiaries generate their EaR reports at least monthly.

The Parent Company employs the Delta EVE model to measure the overall change in the economic value of the bank at one point. It reflects the changes in the net present value of its banking book at different interest rate shocks and stress scenarios. 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 as well as scenarios internally developed by the Parent Company.

For 2020, the ΔEVE of the Parent Company ranges from (₱5.26 billion) to (₱25.09 billion). As of December 29, 2020, the ΔEVE stood at (₱25.09 billion) or 11.24% of CETI Capital. Metrobank has adequate capital to support potential change in value of equity even at worst stress scenario.

Aside from the tools above, the Parent Company and its subsidiaries perform regular sensitivity and stress testing analyses on their banking books to broaden their forward-looking analysis. This way, management can craft strategies to address and/or arrest probable risks, if necessary.

*Foreign currency risk*

Foreign exchange risk is the probability of loss to earnings or capital arising from changes in foreign exchange rates. Foreign currency liabilities generally consist of foreign currency deposits in the Group's FCDU account. Foreign currency deposits are generally used to fund the Group's foreign currency-denominated loan and investment portfolio in the FCDU. Banks are required by the BSP to match the foreign currency liabilities with the foreign currency assets held in FCDUs. Outside the FCDU, the Group has additional foreign currency assets and liabilities in its foreign branch network. The Group's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines.

The following table sets forth, for the year indicated, the impact of reasonably possible changes in the USD exchange rate and other currencies per Philippine peso on pre-tax income and equity:

| | **Consolidated** | | | | | | **Parent Company** | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2020** | | | 2019 | | | **2020** | | | 2019 | | |
| **Currency** | **Change in currency rate in %** | **Effect on profit before tax** | **Effect on equity** | Change in currency rate in % | Effect on profit before tax | Effect on equity | **Change in currency rate in %** | **Effect on profit before tax** | **Effect on equity** | Change in currency rate in % | Effect on profit before tax | Effect on equity |
| USD | +1.00% | **30.17** | **4.88** | +1.00% | (12.81) | 5.04 | +1.00% | **136.27** | **1.61** | +1.00% | 107.32 | 1.21 |
| EUR | +1.00% | **12.53** | **0.00** | +1.00% | (36.41) | 0.00 | +1.00% | **12.43** | **–** | +1.00% | (36.41) | – |
| JPY | +1.00% | **(88.01)** | **0.00** | +1.00% | 9.37 | 0.00 | +1.00% | **(87.96)** | **–** | +1.00% | 9.37 | – |
| GBP | +1.00% | **23.40** | **0.00** | +1.00% | 8.16 | 0.00 | +1.00% | **23.69** | **–** | +1.00% | 8.16 | – |
| Others | +1.00% | **(181.19)** | **0.00** | +1.00% | (162.34) | 0.00 | +1.00% | **(182.31)** | **–** | +1.00% | (162.34) | – |
| USD | -1.00% | **(30.28)** | **(4.88)** | -1.00% | 12.81 | (5.04) | -1.00% | **(136.27)** | **(1.61)** | -1.00% | (107.32) | (1.21) |
| EUR | -1.00% | **(12.43)** | **0.00** | -1.00% | 36.41 | 0.00 | -1.00% | **(12.43)** | **–** | -1.00% | 36.41 | – |
| JPY | -1.00% | **87.96** | **0.00** | -1.00% | (9.37) | 0.00 | -1.00% | **87.96** | **–** | -1.00% | (9.37) | – |
| GBP | -1.00% | **23.69** | **0.00** | -1.00% | (8.16) | 0.00 | -1.00% | **(23.69)** | **–** | -1.00% | (8.16) | – |
| Others | -1.00% | **182.31** | **0.00** | -1.00% | 162.34 | 0.00 | -1.00% | **182.31** | **–** | -1.00% | 162.34 | – |

Information relating to the Parent Company's currency derivatives is included in Note 8. As of December 31, 2020 and 2019, the Parent Company has outstanding foreign currency spot transactions (in equivalent peso amounts) of ₱12.3 billion and ₱21.24 billion, respectively (sold), and ₱4.0 billion and ₱13.85 billion, respectively (bought).

The impact on the Parent Company's equity already excludes the impact on transactions affecting the profit and loss.

Capital Management

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

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital structure, or issue capital securities. No changes were made in the objectives, policies and processes from the previous year.

BSP Reporting

*Regulatory Qualifying Capital*

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

The Group complied with BSP Circular No. 781, *Basel III Implementing Guidelines on Minimum Capital Requirements*, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. The Circular sets out a minimum Common Equity Tier 1 (CET1) ratio of 6.00% and Tier 1 capital ratio of 7.50%; capital conservation buffer of 2.50% comprised of CET1 capital and Total Capital Adequacy Ratio (CAR) of 10.00%. These ratios shall be maintained at all times. Further, BSP Circular No. 856 covers the implementing guidelines on the framework for dealing with domestic systemically important banks (DSIBs) in accordance with the Basel III standards. Banks identified as DSIBs shall be required to have higher loss absorbency, on top of the minimum CET1 capital and capital conservation buffer. Compliance with this requirement was phased-in starting January 1, 2017, with full compliance on January 1, 2019.

The details of CAR, as reported to the BSP, as of December 31, 2020 and 2019 follow:

| | **Consolidated** | | **Parent Company** | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Tier 1 capital | **₱320,958** | ₱310,100 | **₱312,194** | ₱310,971 |
| CET1 Capital | **320,958** | 310,100 | **312,194** | 310,971 |
| Less: Required deductions | **33,250** | 33,812 | **91,562** | 127,872 |
| Net Tier 1 Capital | **287,708** | 276,288 | **220,632** | 183,099 |
| Tier 2 capital | **13,075** | 22,032 | **10,691** | 17,271 |
| Total Qualifying Capital | **₱300,783** | ₱298,320 | **₱231,323** | ₱200,370 |
| Credit Risk-Weighted Assets | **₱1,256,895** | ₱1,487,360 | **₱1,019,586** | ₱1,143,218 |
| Market Risk-Weighted Assets | **70,526** | 72,042 | **65,607** | 66,166 |
| Operational Risk-Weighted Assets | **165,001** | 146,694 | **99,592** | 86,437 |
| Total Risk-Weighted Assets | **1,492,422** | 1,706,096 | **1,184,785** | 1,295,821 |

| | Consolidated | | Parent Company | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| CET1 Ratio* | **19.28%** | 16.19% | **18.62%** | 14.13% |
| Tier 1 capital ratio | **19.28%** | 16.19% | **18.62%** | 14.13% |
| Total capital ratio | **20.15%** | 17.49% | **19.52%** | 15.46% |

** of which capital conservation buffer in 2020 and 2019 is 13.28% and 10.19%, respectively, for the Group and 12.62% and 8.13%, respectively, for the Parent Company*

Qualifying capital and risk-weighted assets (RWA) are computed based on BSP regulations. Under Basel III, the regulatory qualifying capital of the Parent Company consists of CET1 capital, which comprises paid-up common stock, additional paid-in capital, retained earnings including current year profit, retained earnings reserves, OCI and non-controlling interest less required regulatory deductions. The other component of regulatory capital is Tier 2 (supplementary) capital, which includes unsecured subordinated debts and general loan loss provision. RWA consist of total assets excluding cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the Monetary Board (MB) of the BSP. Operational RWA are computed using the Basic Indicator Approach.

The Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the year.

The Internal Capital Adequacy Assessment Process (ICAAP) supplements the BSP's risk-based capital adequacy framework. In compliance with this, the Group has adopted and developed its ICAAP framework to ensure that appropriate level and quality of capital are maintained by the Group. Under this framework, the assessment of risks extends beyond the Pillar 1 set of credit, market and operational risks and onto other risks deemed material by the Group. The level and structure of capital are assessed and determined in light of the Group's business environment, plans, performance, risks and budget as well as regulatory edicts.

*Basel III Leverage Ratio (BLR)*
BSP Circular Nos. 881 and 990 cover the implementing guidelines on the BLR framework designed to act as a supplementary measure to the risk-based capital requirements and shall not be less than 5.00%. The monitoring period has been set every quarter starting December 31, 2014 and extended until June 30, 2018. Effective July 1, 2018, the monitoring of the leverage ratio was implemented as a Pillar I minimum requirement.

The details of the BLR, as reported to the BSP, as of December 31, 2020 and 2019 follow:

| | Consolidated | | Parent Company | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Tier 1 Capital | **₱287,708** | ₱276,288 | **₱220,632** | ₱183,099 |
| Exposure Measure | **₱2,520,462** | ₱2,532,633 | **₱2,167,207** | ₱2,055,498 |
| BLR | **11.41%** | 10.91% | **10.18%** | 8.91% |

Under the framework, BLR is defined as the capital measure divided by the exposure measure. Capital measure is Tier 1 capital. Exposure measure is the sum of on-balance sheet exposures, derivative exposures, security financing exposures and off-balance sheet items.

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

for 2018 and 100.00% effective January 1, 2019. As of December 31, 2020 and 2019, the LCR in single currency as reported to the BSP, was at 303.47% and 245.10%, respectively for the Group, and 321.18% and 279.11%, respectively for the Parent Company.

*Net Stable Funding Ratio (NSFR)*
On June 6, 2018, the BSP issued BSP Circular No.1007 covering the implementing guidelines on the adoption of the Basel III Framework on Liquidity Standards – NSFR. The NSFR is aimed to promote long-term resilience against liquidity risk by requiring banks to maintain a stable funding profile in relation to the composition of its assets and off-balance sheet activities. It complements the LCR, which promotes short term resilience of a bank's liquidity profile. Banks shall maintain an NSFR of at least 100 percent (100%) at all times. The implementation of the minimum NSFR shall be phased in to help ensure that covered banks can meet the standard through reasonable measures without disrupting credit extension and financial market activities. An observation period was set from July 1 to December 31, 2018. Effective, January 1, 2019, banks shall comply with the prescribed minimum ratio of 100%. As of December 31, 2020 and 2019, the NSFR as reported to the BSP, was at 169.94% and 148.53%, respectively for the Group, and 173.27% and 150.61%, respectively for the Parent Company.

## 5. Fair Value Measurement

Financial Instruments
The methods and assumptions used by the Group and the Parent Company in estimating the fair values of financial assets and financial liabilities are:

*Cash and other cash items, due from BSP and other banks and interbank loans receivable and SPURA*
Carrying amounts approximate fair values in view of the relatively short-term maturities of these instruments.

*Trading and investment securities*
Fair values of debt and equity securities are generally based on quoted market prices. Where the debt securities are not quoted or the market prices are not readily available, the Group and the Parent Company obtained valuations from independent parties offering pricing services, used adjusted quoted market prices of comparable investments, or applied discounted cash flow methodologies. For equity securities that are not quoted, remeasurement to their fair values is not material to the financial statements.

*Derivative instruments*
Fair values are estimated based on quoted market prices, prices provided by independent parties, or prices derived using acceptable valuation models. The models utilize published underlying rates (e.g. interest rates, FX rates, CDS rates, FX volatilities and spot and forward FX rates) and are implemented through validated calculation engines.

*Loans and receivables*
Fair values of the Group’s loans and receivables are estimated using the discounted cash flow methodology, using current incremental lending rates for similar types of loans. Where the instrument reprices on a quarterly basis or has a relatively short maturity, the carrying amounts approximate fair values.

*Liabilities*
Fair values are estimated using the discounted cash flow methodology using the Group's current borrowing rate for similar borrowings with maturities consistent with those remaining for the liability being valued, if any. The carrying amounts of demand and savings deposit liabilities and other short-term liabilities approximate fair values considering that these are either due and demandable or with short-term maturities.

<u>Non-Financial Assets</u>
*Investment properties*
Fair value of investment properties is determined based on valuations performed by independent and in-house appraisers using valuation technique with significant inputs that are not based on observable market data (Level 3). The valuation of investment properties was based on the Sales Comparison Approach and considered recent sales of similar or substitute properties in the same areas where the investment properties are located, taking into account the economic conditions prevailing at the time of the valuation. Other factors considered were the location and shape of the properties, environmental issues, development controls such as the height restrictions, building coverage and floor area ratio restrictions, among others. The fair value of investment properties is based on its highest and best use, which is their current use.

The following tables summarize the carrying amounts and fair values of assets and liabilities, analyzed among those whose fair value is based on:

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

| | Consolidated | | | | |
|---|---|---|---|---|---|
| | **Carrying Value** | **Level 1** | **Level 2** | **Level 3** | **Total Fair Value** |
| **2020** | | | | | |
| **Assets Measured at Fair Value** | | | | | |
| **Financial Assets** | | | | | |
| Investment securities at FVTPL | | | | | |
| FVTPL investments | | | | | |
| Debt securities | | | | | |
| Treasury notes and bonds | **₱35,828** | **₱35,828** | **₱–** | **₱–** | **₱35,828** |
| Government | **14,531** | **14,531** | – | – | **14,531** |
| Private | **6,540** | **6,540** | – | – | **6,540** |
| Treasury bills | **2,346** | **2,346** | – | – | **2,346** |
| BSP | **2** | **2** | – | – | **2** |
| | **59,247** | **59,247** | – | – | **59,247** |
| Equity securities | **6,458** | **6,458** | – | – | **6,458** |
| Derivative assets | | | | | |
| Cross-currency swaps | **8,708** | – | **8,708** | – | **8,708** |
| Currency forwards | **2,092** | – | **2,092** | – | **2,092** |
| Interest rate swaps | **1,038** | – | **1,038** | – | **1,038** |
| Put option | **7** | – | **7** | – | **7** |
| Call option | **1** | – | **1** | – | **1** |
| | **11,846** | – | **11,846** | – | **11,846** |
| | **77,551** | **65,705** | **11,846** | – | **77,551** |
| Investment securities at FVOCI | | | | | |
| Debt securities | | | | | |
| Treasury notes and bonds | **342,355** | **342,355** | – | – | **342,355** |
| Treasury bills | **81,497** | **81,497** | – | – | **81,497** |
| Government | **76,901** | **76,199** | **702** | – | **76,901** |
| Private | **36,943** | **21,274** | **15,669** | – | **36,943** |
| BSP | **30,049** | **30,049** | – | – | **30,049** |
| | **567,745** | **551,374** | **16,371** | – | **567,745** |
| Equity securities | **1,700** | **1,498** | **202** | – | **1,700** |
| | **569,445** | **552,872** | **16,573** | – | **569,445** |
| | **₱646,996** | **₱618,577** | **₱28,419** | **₱–** | **₱646,996** |

| | Consolidated | | | | |
|---|---|---|---|---|---|
| | 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 | | | | | |
| Government | **₱19,134** | **₱20,446** | **₱322** | **₱–** | **₱20,768** |
| Private | **3,622** | **2,491** | **1,207** | – | **3,698** |
| Treasury bills | **294** | **266** | – | – | **266** |
| Treasury notes and bonds | **243** | **284** | – | – | **284** |
| | **23,293** | **23,487** | **1,529** | – | **25,016** |
| Loans and receivables - net | | | | | |
| Receivables from customers | | | | | |
| Commercial loans | **898,309** | – | – | **891,872** | **891,872** |
| Residential mortgage loans | **103,216** | – | – | **130,681** | **130,681** |
| Auto loans | **95,735** | – | – | **117,075** | **117,075** |
| Credit card | **72,001** | **–** | **–** | **72,001** | **72,001** |
| Trade loans | **36,166** | – | – | **36,166** | **36,166** |
| Others | **26,478** | – | – | **28,738** | **28,738** |
| | **1,231,905** | – | – | **1,276,533** | **1,276,533** |
| Unquoted debt securities | **65** | – | – | **70** | **70** |
| Sales contract receivable | **79** | – | – | **81** | **81** |
| | **1,232,049** | – | – | **1,276,684** | **1,276,684** |
| Other assets | **208** | – | – | **276** | **276** |
| | **1,255,550** | **23,487** | **1,529** | **1,276,960** | **1,301,976** |
| **Non-Financial Assets** | | | | | |
| Investment properties | **7,667** | – | – | **14,493** | **14,493** |
| Residual value of leased assets | **930** | – | – | **790** | **790** |
| | **8,597** | – | – | **15,283** | **15,283** |
| | **₱1,264,147** | **₱23,487** | **₱1,529** | **₱1,292,243** | **₱1,317,259** |
| **Liabilities Measured at Fair Value** | | | | | |
| **Financial Liabilities** | | | | | |
| Financial liabilities at FVTPL | | | | | |
| Derivative liabilities | | | | | |
| Cross-currency swaps | **₱7,401** | **₱–** | **₱7,401** | **₱–** | **₱7,401** |
| Interest rate swaps | **4,834** | – | **4,834** | – | **4,834** |
| Currency forwards | **1,215** | – | **1,215** | – | **1,215** |
| Call option | **10** | – | **10** | – | **10** |
| Put option | **4** | – | **4** | – | **4** |
| Credit default swaps | **1** | – | **1** | – | **1** |
| Non-equity non-controlling interest | **8,315** | – | **8,315** | – | **8,315** |
| | **₱21,780** | **₱–** | **₱21,780** | **₱–** | **₱21,780** |
| **Liabilities for which Fair Values are Disclosed** | | | | | |
| **Financial Liabilities** | | | | | |
| Deposit liabilities | | | | | |
| Time | **₱450,103** | **₱–** | **₱–** | **₱451,759** | **₱451,759** |
| LTNCD | **35,755** | **27,527** | **9,355** | – | **36,882** |
| | **485,858** | **27,527** | **9,355** | **451,759** | **488,641** |
| Bills payable and SSURA | **139,614** | – | – | **140,415** | **140,415** |
| Bonds payable | **91,397** | **93,946** | – | – | **93,946** |
| Subordinated debts | **1,167** | – | – | **1,232** | **1,232** |
| Other liabilities | | | | | |
| Deposits on lease contracts | **1,458** | – | – | **1,169** | **1,169** |
| | **₱719,494** | **₱121,473** | **₱9,355** | **₱594,575** | **₱725,403** |
| 2019 | | | | | |
| Assets Measured at Fair Value | | | | | |
| Financial Assets | | | | | |
| Investment securities at FVTPL | | | | | |
| FVTPL investments | | | | | |
| Debt securities | | | | | |
| Treasury notes and bonds | ₱24,145 | ₱24,145 | ₱– | ₱– | ₱24,145 |
| Government | 13,048 | 13,048 | – | – | 13,048 |
| Private | 7,935 | 7,935 | – | – | 7,935 |
| Treasury bills | 1,662 | 1,662 | – | – | 1,662 |
| BSP | 2 | 2 | – | – | 2 |
| | 46,792 | 46,792 | – | – | 46,792 |
| Equity securities | 6,585 | 6,585 | – | – | 6,585 |
| Derivative assets | | | | | |
| Cross-currency swaps | 6,007 | – | 6,007 | – | 6,007 |
| Currency forwards | 1,756 | – | 1,756 | – | 1,756 |
| Interest rate swaps | 711 | – | 711 | – | 711 |

(Forward)

| | Consolidated | | | | |
|---|---|---|---|---|---|
| | Carrying Value | Level 1 | Level 2 | Level 3 | Total Fair Value |
| Put option | ₱10 | ₱– | ₱10 | ₱– | ₱10 |
| Call option | 6 | – | 6 | – | 6 |
| | 8,490 | – | 8,490 | – | 8,490 |
| | 61,867 | 53,377 | 8,490 | – | 61,867 |
| Investment securities at FVOCI | | | | | |
| Debt securities | | | | | |
| Treasury notes and bonds | 111,791 | 110,346 | 1,445 | – | 111,791 |
| Government | 52,870 | 52,495 | 375 | – | 52,870 |
| Private | 36,199 | 28,487 | 7,712 | – | 36,199 |
| | 200,860 | 191,328 | 9,532 | – | 200,860 |
| Equity securities | 1,660 | 1,454 | 206 | – | 1,660 |
| | 202,520 | 192,782 | 9,738 | – | 202,520 |
| | ₱264,387 | ₱246,159 | ₱18,228 | ₱– | ₱264,387 |
| Assets for which Fair Values are Disclosed | | | | | |
| Financial Assets | | | | | |
| Investment securities at amortized cost | | | | | |
| Treasury notes and bonds | ₱227,438 | ₱200,742 | ₱11,585 | ₱– | ₱212,327 |
| Government | 20,213 | 20,554 | 338 | – | 20,892 |
| Private | 3,877 | 2,482 | 1,367 | – | 3,849 |
| Treasury bills | 100 | 101 | – | – | 101 |
| | 251,628 | 223,879 | 13,290 | – | 237,169 |
| Loans and receivables - net | | | | | |
| Receivables from customers | | | | | |
| Commercial loans | 1,049,544 | – | – | 1,039,249 | 1,039,249 |
| Auto loans | 116,434 | – | – | 137,168 | 137,168 |
| Residential mortgage loans | 109,292 | – | – | 133,645 | 133,645 |
| Credit card | 82,449 | – | – | 82,449 | 82,449 |
| Trade loans | 63,093 | – | – | 63,093 | 63,093 |
| Others | 39,812 | – | – | 40,858 | 40,858 |
| | 1,460,624 | – | – | 1,496,462 | 1,496,462 |
| Unquoted debt securities | 630 | – | – | 647 | 647 |
| Sales contract receivable | 142 | – | – | 146 | 146 |
| | 1,461,396 | – | – | 1,497,255 | 1,497,255 |
| Other assets | 185 | – | – | 257 | 257 |
| | 1,713,209 | 223,879 | 13,290 | 1,497,512 | 1,734,681 |
| Non-Financial Assets | | | | | |
| Investment properties | 7,762 | – | – | 14,283 | 14,283 |
| Residual value of leased assets | 1,135 | – | – | 1,001 | 1,001 |
| | 8,897 | – | – | 15,284 | 15,284 |
| | ₱1,722,106 | ₱223,879 | ₱13,290 | ₱1,512,796 | ₱1,749,965 |
| Liabilities Measured at Fair Value | | | | | |
| Financial Liabilities | | | | | |
| Financial liabilities at FVTPL | | | | | |
| Derivative liabilities | | | | | |
| Cross-currency swaps | ₱3,772 | ₱– | ₱3,772 | ₱– | ₱3,772 |
| Interest rate swaps | 2,235 | – | 2,235 | – | 2,235 |
| Currency forwards | 1,401 | – | 1,401 | – | 1,401 |
| Call option | 12 | – | 12 | – | 12 |
| Put option | 6 | – | 6 | – | 6 |
| Credit default swaps | 1 | – | 1 | – | 1 |
| Non-equity non-controlling interest | 6,553 | – | 6,553 | – | 6,553 |
| | ₱13,980 | ₱– | ₱13,980 | ₱– | ₱13,980 |
| Liabilities for which Fair Values are Disclosed | | | | | |
| Financial Liabilities | | | | | |
| Deposit liabilities | | | | | |
| Time | ₱592,897 | ₱– | ₱– | ₱594,991 | ₱594,991 |
| LTNCD | 43,740 | 35,122 | 9,042 | – | 44,164 |
| | 636,637 | 35,122 | 9,042 | 594,991 | 639,155 |
| Bills payable and SSURA | 238,281 | – | – | 243,017 | 243,017 |
| Bonds payable | 80,486 | 82,297 | – | – | 82,297 |
| Subordinated debts | 7,660 | 6,502 | – | 1,195 | 7,697 |
| Other liabilities | | | | | |
| Deposits on lease contracts | 1,725 | – | – | 1,440 | 1,440 |
| Notes payable | 2,592 | – | – | 2,677 | 2,677 |
| | ₱967,381 | ₱123,921 | ₱9,042 | ₱843,320 | ₱976,283 |

| | Parent Company | | | | |
|---|---|---|---|---|---|
| | Carrying Value | Level 1 | Level 2 | Level 3 | Total Fair Value |
| **2020** | | | | | |
| **Assets Measured at Fair Value** | | | | | |
| **Financial Assets** | | | | | |
| Investment securities at FVTPL | | | | | |
| FVTPL investments | | | | | |
| Debt securities | | | | | |
| Treasury notes and bonds | **₱34,052** | **₱34,052** | **₱–** | **₱–** | **₱34,052** |
| Government | **14,220** | **14,220** | – | – | **14,220** |
| Private | **5,962** | **5,962** | – | – | **5,962** |
| Treasury bills | **1,848** | **1,848** | – | – | **1,848** |
| BSP | **2** | **2** | – | – | **2** |
| | **56,084** | **56,084** | – | – | **56,084** |
| Equity securities | **43** | **43** | – | – | **43** |
| Derivative assets | | | | | |
| Cross-currency swaps | **8,706** | – | **8,706** | – | **8,706** |
| Currency forwards | **2,080** | – | **2,080** | – | **2,080** |
| Interest rate swaps | **1,038** | – | **1,038** | – | **1,038** |
| Put option | **4** | – | **4** | – | **4** |
| Call option | **1** | – | **1** | – | **1** |
| | **11,829** | – | **11,829** | – | **11,829** |
| | **67,956** | **56,127** | **11,829** | – | **67,956** |
| Investment securities at FVOCI | | | | | |
| Debt securities | | | | | |
| Treasury notes and bonds | **339,258** | **339,258** | – | – | **339,258** |
| Treasury bills | **81,497** | **81,497** | – | – | **81,497** |
| Government | **72,315** | **72,199** | **116** | – | **72,315** |
| BSP | **30,049** | **30,049** | – | – | **30,049** |
| Private | **19,037** | **18,501** | **536** | – | **19,037** |
| | **542,156** | **541,504** | **652** | – | **542,156** |
| Equity securities | **510** | **421** | **89** | – | **510** |
| | **542,666** | **541,925** | **741** | – | **542,666** |
| | **₱610,622** | **₱598,052** | **₱12,570** | **₱–** | **₱610,622** |
| **Assets for which Fair Values are Disclosed** | | | | | |
| **Financial Assets** | | | | | |
| Investment securities at amortized cost | | | | | |
| Government | **₱7,909** | **₱8,310** | **₱–** | **₱–** | **₱8,310** |
| Loans and receivables - net | | | | | |
| Receivables from customers | | | | | |
| Commercial loans | **842,636** | – | – | **832,318** | **832,318** |
| Credit card | **72,001** | – | – | **72,001** | **72,001** |
| Residential mortgage loans | **53,812** | – | – | **54,145** | **54,145** |
| Trade loans | **35,273** | – | – | **35,273** | **35,273** |
| Auto loans | **20,932** | – | – | **21,045** | **21,045** |
| Others | **11,521** | – | – | **11,521** | **11,521** |
| | **1,036,175** | – | – | **1,026,303** | **1,026,303** |
| Sales contract receivable | **54** | – | – | **54** | **54** |
| | **1,036,229** | – | – | **1,026,357** | **1,026,357** |
| | **1,044,138** | **8,310** | – | **1,026,357** | **1,034,667** |
| **Non-Financial Assets** | | | | | |
| Investment properties | **3,369** | – | – | **7,440** | **7,440** |
| | **₱1,047,507** | **₱8,310** | **₱–** | **₱1,033,797** | **₱1,042,107** |
| **Liabilities Measured at Fair Value** | | | | | |
| **Financial Liabilities** | | | | | |
| Financial liabilities at FVTPL | | | | | |
| Derivative liabilities | | | | | |
| Cross-currency swaps | **₱5,766** | **₱–** | **₱5,766** | **₱–** | **₱5,766** |
| Interest rate swaps | **4,834** | – | **4,834** | – | **4,834** |
| Currency forwards | **1,203** | – | **1,203** | – | **1,203** |
| Call option | **10** | – | **10** | – | **10** |
| | **₱11,813** | **₱–** | **₱11,813** | **₱–** | **₱11,813** |
| **Liabilities for which Fair Values are Disclosed** | | | | | |
| **Financial Liabilities** | | | | | |
| Deposit liabilities | | | | | |
| Time | **₱332,323** | **₱–** | **₱–** | **₱332,323** | **₱332,323** |
| LTNCD | **27,330** | **18,562** | **9,355** | – | **27,917** |
| | **359,653** | **18,562** | **9,355** | **332,323** | **360,240** |
| Bills payable and SSURA | **108,651** | – | – | **108,669** | **108,669** |
| Bonds payable | **76,355** | **78,607** | – | – | **78,607** |
| Subordinated debts | **1,167** | – | – | **1,232** | **1,232** |
| | **₱545,826** | **₱97,169** | **₱9,355** | **₱442,224** | **₱548,748** |

| | Parent Company | | | | |
|---|---|---|---|---|---|
| | Carrying Value | Level 1 | Level 2 | Level 3 | Total Fair Value |
| 2019 | | | | | |
| Assets Measured at Fair Value | | | | | |
| Financial Assets | | | | | |
| Investment securities at FVTPL | | | | | |
| FVTPL investments | | | | | |
| Debt securities | | | | | |
| Private | ₱7,213 | ₱7,213 | ₱– | ₱– | ₱7,213 |
| Government | 12,838 | 12,838 | – | – | 12,838 |
| Treasury notes and bonds | 20,210 | 20,210 | – | – | 20,210 |
| Treasury bills | 761 | 761 | – | – | 761 |
| BSP | 2 | 2 | – | – | 2 |
| | 41,024 | 41,024 | – | – | 41,024 |
| Equity securities | 38 | 38 | – | – | 38 |
| Derivative assets | | | | | |
| Cross-currency swaps | 6,007 | – | 6,007 | – | 6,007 |
| Currency forwards | 1,755 | – | 1,755 | – | 1,755 |
| Interest rate swaps | 711 | – | 711 | – | 711 |
| Put option | 9 | – | 9 | – | 9 |
| Call option | 6 | – | 6 | – | 6 |
| | 8,488 | – | 8,488 | – | 8,488 |
| | 49,550 | 41,062 | 8,488 | – | 49,550 |
| Investment securities at FVOCI | | | | | |
| Debt securities | | | | | |
| Treasury notes and bonds | 109,203 | 109,203 | – | – | 109,203 |
| Private | 26,324 | 25,766 | 558 | – | 26,324 |
| Government | 52,649 | 52,494 | 155 | – | 52,649 |
| | 188,176 | 187,463 | 713 | – | 188,176 |
| Equity securities | 500 | 439 | 61 | – | 500 |
| | 188,676 | 187,902 | 774 | – | 188,676 |
| | ₱238,226 | ₱228,964 | ₱9,262 | ₱– | ₱238,226 |
| Assets for which Fair Values are Disclosed | | | | | |
| Financial Assets | | | | | |
| Investment securities at amortized cost | | | | | |
| Treasury notes and bonds | ₱208,514 | ₱193,267 | ₱– | ₱– | ₱193,267 |
| Government | 8,130 | 8,223 | – | – | 8,223 |
| | 216,644 | 201,490 | – | – | 201,490 |
| Loans and receivables – net | | | | | |
| Receivables from customers | | | | | |
| Commercial loans | 1,002,413 | – | – | 989,097 | 989,097 |
| Auto loans | 24,038 | – | – | 24,243 | 24,243 |
| Residential mortgage loans | 57,176 | – | – | 57,635 | 57,635 |
| Trade loans | 62,387 | – | – | 62,387 | 62,387 |
| Others | 14,505 | – | – | 14,505 | 14,505 |
| | 1,160,519 | – | – | 1,147,867 | 1,147,867 |
| Sales contract receivable | 100 | – | – | 100 | 100 |
| | 1,160,619 | – | – | 1,147,967 | 1,147,967 |
| | 1,377,263 | 201,490 | – | 1,147,967 | 1,349,457 |
| Non-Financial Assets | | | | | |
| Investment properties | 3,291 | – | – | 7,179 | 7,179 |
| | ₱1,380,554 | ₱201,490 | ₱– | ₱1,155,146 | ₱1,356,636 |
| Liabilities Measured at Fair Value | | | | | |
| Financial Liabilities | | | | | |
| Financial liabilities at FVTPL | | | | | |
| Derivative liabilities | | | | | |
| Cross-currency swaps | ₱2,341 | ₱– | ₱2,341 | ₱– | ₱2,341 |
| Currency forwards | 1,401 | – | 1,401 | – | 1,401 |
| Interest rate swaps | 2,234 | – | 2,234 | – | 2,234 |
| Credit default swaps | 1 | – | 1 | – | 1 |
| Call option | 12 | – | 12 | – | 12 |
| Put option | 5 | – | 5 | – | 5 |
| | ₱5,994 | ₱– | ₱5,994 | ₱– | ₱5,994 |
| Liabilities for which Fair Values are Disclosed | | | | | |
| Financial Liabilities | | | | | |
| Deposit liabilities | | | | | |
| Time | ₱461,713 | ₱– | ₱– | ₱461,713 | ₱461,713 |
| LTNCD | 35,330 | 26,536 | 9,042 | – | 35,578 |
| | 497,043 | 26,536 | 9,042 | 461,713 | 497,291 |

(Forward)

| | Parent Company | | | | |
| --- | --- | --- | --- | --- | --- |
| | Carrying Value | Level 1 | Level 2 | Level 3 | Total Fair Value |
| Bills payable and SSURA | ₱139,072 | ₱– | ₱– | ₱139,223 | ₱139,223 |
| Bonds payable | 70,110 | 71,741 | – | – | 71,741 |
| Subordinated debts | 6,494 | 6,502 | – | – | 6,502 |
| | ₱712,719 | ₱104,779 | ₱9,042 | ₱600,936 | ₱714,757 |

When fair values of listed equity and debt securities, as well as publicly traded derivatives at the reporting date are based on quoted market prices or binding dealer price quotations, without any adjustments for transaction costs, the instruments are included within Level 1 of the hierarchy.

For all other financial instruments, fair value is determined using valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist and other revaluation models. Instruments included in Level 3 include those for which there is currently no active market.

As of December 31, 2019, the fair value hierarchy of FVOCI debt and equity securities amounting to ₱1.4 billion and ₱1.2 million, respectively, were transferred from Level 1 to Level 2 due to absence of an active market.

## 6. Segment Information

The Group's operating businesses are recognized and managed separately according to the nature of services provided and the different markets served with segment representing a strategic business unit. Operating segments are reported in accordance with internal reporting to the Senior Management who is responsible for allocating resources to the segments and assessing its performance.

The Group's business segments follow:

- Consumer Banking - principally providing consumer type loans and support for effective sourcing and generation of consumer business;
- Corporate Banking - principally handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers;
- Investment Banking - principally arranging structured financing, and providing services relating to privatizations, initial public offerings, mergers and acquisitions; and providing advisory services primarily aimed to create wealth to individuals and institutions;
- Treasury - principally providing money market, trading and treasury services, as well as the management of the Group's funding operations by use of treasury bills, government securities and placements and acceptances with other banks, through treasury and corporate banking;
- Branch Banking - principally handling branch deposits and providing loans and other loan related businesses for domestic middle market clients; and
- Others - principally handling other services including but not limited to remittances, leasing, account financing, and other support services. Other operations of the Group comprise the operations and financial control groups.

Segment assets are those operating assets that are employed by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment liabilities are those operating liabilities that result from the operating activities of a segment and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Interest income is reported net, as management primarily relies on the net interest income as performance measure, not the gross income and expense. The Group has no significant customers which contributes 10.00% or more of the consolidated revenue net of interest expense. Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is charged/credited to business segments based on a pool rate which approximates the cost of funds.

The following table presents revenue and income information of operating segments presented in accordance with PFRS and segment assets and liabilities:

| | Consumer Banking | Corporate Banking | Investment Banking | Treasury | Branch Banking | Others | Total |
|---|---|---|---|---|---|---|---|
| **2020** | | | | | | | |
| **Results of Operations** | | | | | | | |
| Net interest income (expense) | | | | | | | |
| Third party | **₱20,371** | **₱42,058** | **₱–** | **₱12,497** | **₱7,127** | **₱4,054** | **₱86,107** |
| Intersegment | **(451)** | **(29,487)** | – | **(16,694)** | **46,632** | – | – |
| Net interest income after intersegment transactions | **19,920** | **12,571** | – | **(4,197)** | **53,759** | **4,054** | **86,107** |
| Non-interest income | **5,084** | **786** | **118** | **18,581** | **4,430** | **6,130** | **35,129** |
| Revenue - net of interest expense | **25,004** | **13,357** | **118** | **14,384** | **58,189** | **10,184** | **121,236** |
| Non-interest expense | **27,062** | **25,306** | **9** | **4,648** | **21,398** | **22,457** | **100,880** |
| Income (loss) before share in net income of subsidiaries, associates and a JV | **(2,058)** | **(11,949)** | **109** | **9,736** | **36,791** | **(12,273)** | **20,356** |
| Share in net income of subsidiaries, associates and a JV | – | **38** | – | – | – | **626** | **664** |
| Provision for income tax | **(574)** | **(398)** | – | **(3,838)** | **110** | **(2,346)** | **(7,046)** |
| Non-controlling interest in net income of consolidated subsidiaries | – | – | – | – | – | **(143)** | **(143)** |
| **Net income (loss)** | **(₱2,632)** | **(₱12,309)** | **₱109** | **₱5,898** | **₱36,901** | **(₱14,136)** | **₱13,831** |
| **Statement of Financial Position** | | | | | | | |
| Total assets | **₱193,530** | **₱906,031** | **₱–** | **₱869,277** | **₱181,470** | **₱304,855** | **₱2,455,163** |
| Total liabilities | **₱87,922** | **₱874,214** | **₱–** | **₱840,692** | **₱289,001** | **₱30,159** | **₱2,121,988** |
| **Other Segment Information** | | | | | | | |
| Capital expenditures | **₱279** | **₱92** | **₱–** | **₱58** | **₱28** | **₱2,502** | **₱2,959** |
| Depreciation and amortization | **₱726** | **₱197** | **₱–** | **₱52** | **₱2,143** | **₱2,427** | **₱5,545** |
| Provision for credit and impairment losses | **₱19,005** | **₱20,278** | **₱–** | **₱–** | **₱37** | **₱1,440** | **₱40,760** |
| 2019 | | | | | | | |
| Results of Operations | | | | | | | |
| Net interest income (expense) | | | | | | | |
| Third party | ₱17,710 | ₱53,360 | ₱– | ₱7,885 | (₱5,702) | ₱3,744 | ₱76,997 |
| Intersegment | (663) | (41,061) | – | 2,746 | 38,978 | – | – |
| Net interest income after intersegment transactions | 17,047 | 12,299 | – | 10,631 | 33,276 | 3,744 | 76,997 |
| Non-interest income | 6,476 | 2,042 | 441 | 7,983 | 5,116 | 6,996 | 29,054 |
| Revenue - net of interest expense | 23,523 | 14,341 | 441 | 18,614 | 38,392 | 10,740 | 106,051 |
| Non-interest expense | 15,359 | 6,977 | 49 | 2,519 | 22,747 | 20,333 | 67,984 |
| Income (loss) before share in net income of subsidiaries, associates and a JV | 8,164 | 7,364 | 392 | 16,095 | 15,645 | (9,593) | 38,067 |
| Share in net income of subsidiaries, associates and a JV | – | 106 | – | – | – | 762 | 868 |
| Provision for income tax | (2,178) | (471) | – | (3,344) | (137) | (3,931) | (10,061) |
| Non-controlling interest in net income of consolidated subsidiaries | – | – | – | – | – | (819) | (819) |
| Net income (loss) | ₱5,986 | ₱6,999 | ₱392 | ₱12,751 | ₱15,508 | (₱13,581) | ₱28,055 |
| Statement of Financial Position | | | | | | | |
| Total assets | ₱119,984 | ₱1,199,477 | ₱– | ₱624,354 | ₱162,413 | ₱344,585 | ₱2,450,813 |
| Total liabilities | ₱76,840 | ₱1,039,196 | ₱– | ₱633,147 | ₱266,212 | ₱116,927 | ₱2,132,322 |
| Other Segment Information | | | | | | | |
| Capital expenditures | ₱649 | ₱538 | ₱– | ₱95 | ₱35 | ₱3,455 | ₱4,772 |
| Depreciation and amortization | ₱623 | ₱175 | ₱– | ₱70 | ₱2,451 | ₱2,219 | ₱5,538 |
| Provision for credit and impairment losses | ₱6,853 | ₱1,766 | ₱– | ₱– | ₱350 | ₱1,109 | ₱10,078 |

| | Consumer Banking | Corporate Banking | Investment Banking | Treasury | Branch Banking | Others | Total |
|---|---|---|---|---|---|---|---|
| 2018 | | | | | | | |
| Results of Operations | | | | | | | |
| Net interest income (expense) | | | | | | | |
| Third party | ₱17,881 | ₱40,602 | ₱– | ₱9,444 | (₱1,997) | ₱2,892 | ₱68,822 |
| Intersegment | (476) | (30,190) | – | 1,761 | 27,639 | 1,266 | – |
| Net interest income after intersegment transactions | 17,405 | 10,412 | – | 11,205 | 25,642 | 4,158 | 68,822 |
| Non-interest income | 6,892 | 1,078 | 347 | 1,748 | 4,771 | 8,074 | 22,910 |
| Revenue - net of interest expense | 24,297 | 11,490 | 347 | 12,953 | 30,413 | 12,232 | 91,732 |
| Non-interest expense | 14,523 | 4,877 | 26 | 2,418 | 23,203 | 16,379 | 61,426 |
| Income (loss) before share in net income of subsidiaries, associates and a JV | 9,774 | 6,613 | 321 | 10,535 | 7,210 | (4,147) | 30,306 |
| Share in net income of subsidiaries, associates and a JV | – | 77 | – | – | – | 797 | 874 |
| Provision for income tax | (2,212) | (455) | – | (2,637) | (88) | (2,353) | (7,745) |
| Non-controlling interest in net income of consolidated subsidiaries | – | – | – | – | – | (1,427) | (1,427) |
| Net income (loss) | ₱7,562 | ₱6,235 | ₱321 | ₱7,898 | ₱7,122 | (₱7,130) | ₱22,008 |
| Statement of Financial Position | | | | | | | |
| Total assets | ₱221,884 | ₱1,043,630 | ₱– | ₱464,751 | ₱153,913 | ₱359,515 | ₱2,243,693 |
| Total liabilities | ₱75,848 | ₱999,803 | ₱– | ₱488,041 | ₱259,621 | ₱129,676 | ₱1,952,989 |
| Other Segment Information | | | | | | | |
| Capital expenditures | ₱488 | ₱62 | ₱– | ₱108 | ₱60 | ₱2,807 | ₱3,525 |
| Depreciation and amortization | ₱586 | ₱130 | ₱– | ₱28 | ₱1,557 | ₱1,783 | ₱4,084 |
| Provision for credit and impairment losses | ₱6,607 | ₱669 | ₱– | ₱126 | ₱172 | ₱196 | ₱7,770 |

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

Geographical Information

The Group operates in four geographic markets: Philippines, Asia other than Philippines, USA and Europe (Note 2).

The following tables show the distribution of Group's external net operating income and non-current assets allocated based on the location of the customers and assets, respectively, for the years ended December 31:

| | **Philippines** | **Asia (Other than Philippines)** | **USA** | **Europe** | **Total** |
|---|---|---|---|---|---|
| **2020** | | | | | |
| Interest income | **₱104,707** | **₱3,065** | **₱15** | **₱–** | **₱107,787** |
| Interest expense | **20,641** | **1,033** | **6** | – | **21,680** |
| Net interest income | **84,066** | **2,032** | **9** | – | **86,107** |
| Non-interest income | **33,796** | **868** | **428** | **37** | **35,129** |
| Provision for credit and impairment losses | **40,544** | **214** | **2** | – | **40,760** |
| **Total external net operating income** | **₱77,318** | **₱2,686** | **₱435** | **₱37** | **₱80,476** |
| **Non-current assets** | **₱31,945** | **₱661** | **₱15** | **₱3** | **₱32,624** |
| 2019 | | | | | |
| Interest income | ₱113,173 | ₱2,966 | ₱44 | ₱– | ₱116,183 |
| Interest expense | 37,882 | 1,291 | 13 | – | 39,186 |
| Net interest income | 75,291 | 1,675 | 31 | – | 76,997 |
| Non-interest income | 27,493 | 1,108 | 406 | 47 | 29,054 |
| Provision for credit and impairment losses | 9,871 | 207 | – | – | 10,078 |
| Total external net operating income | ₱92,913 | ₱2,576 | ₱437 | ₱47 | ₱95,973 |
| Non-current assets | ₱32,636 | ₱672 | ₱16 | ₱4 | ₱33,328 |

| | Philippines | Asia (Other than Philippines) | USA | Europe | Total |
|---|---|---|---|---|---|
| 2018 | | | | | |
| Interest income | ₱94,670 | ₱2,461 | ₱55 | ₱– | ₱97,186 |
| Interest expense | 27,269 | 1,075 | 20 | – | 28,364 |
| Net interest income | 67,401 | 1,386 | 35 | – | 68,822 |
| Non-interest income | 21,189 | 1,065 | 602 | 54 | 22,910 |
| Provision for credit and impairment losses | 7,576 | 194 | – | – | 7,770 |
| Total external net operating income | ₱81,014 | ₱2,257 | ₱637 | ₱54 | ₱83,962 |
| Non-current assets | ₱31,635 | ₱653 | ₱15 | ₱5 | ₱32,308 |

Non-current assets consist of property and equipment, investment properties, chattel properties acquired in foreclosure, software costs and assets held under joint operations.

## 7. Interbank Loans Receivable and Securities Purchased Under Resale Agreements

This account consists of:

| | **Consolidated** | | **Parent Company** | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Interbank loans receivable - net (Note 31) | **₱52,741** | ₱32,488 | **₱41,386** | ₱19,231 |
| SPURA | **26,653** | 39,686 | **15,819** | 36,921 |
| | **₱79,394** | ₱72,174 | **₱57,205** | ₱56,152 |

As of December 31, 2020 and 2019, the allowance for credit losses for interbank loans receivable amounted to ₱13.6 million and ₱0.7 million, respectively, for the Group and ₱4.6 million and ₱0.7 million, respectively, for the Parent Company (Note 15).

In 2020, 2019 and 2018, the interest rates of the interbank loans receivables ranged from 0.00% to 4.65%, 0.00% to 4.60%, and 0.00% to 5.40%, respectively, for the Group and 0.00% to 3.45%, 0.00% to 4.00%, and 0.00% to 3.54%, respectively, for the Parent Company.

## 8. Trading and Investment Securities

This account consists of:

| | **Consolidated** | | **Parent Company** | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Investment securities at: | | | | |
| FVTPL | **₱77,551** | ₱61,867 | **₱67,956** | ₱49,550 |
| FVOCI (Note 29) | **569,445** | 202,520 | **542,666** | 188,676 |
| Amortized cost (Note 29) | **23,293** | 251,628 | **7,909** | 216,644 |
| | **₱670,289** | ₱516,015 | **₱618,531** | ₱454,870 |

Investment securities at FVTPL consist of the following:

| | Consolidated | | Parent Company | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| HFT investments | | | | |
| Debt securities | | | | |
| Treasury notes and bonds | **₱35,828** | ₱24,145 | **₱34,052** | ₱20,210 |
| Government | **14,531** | 13,048 | **14,220** | 12,838 |
| Private | **6,540** | 7,935 | **5,962** | 7,213 |
| Treasury bills | **2,346** | 1,662 | **1,848** | 761 |
| BSP | **2** | 2 | **2** | 2 |
| | **59,247** | 46,792 | **56,084** | 41,024 |
| Equity securities | **6,458** | 6,585 | **43** | 38 |
| | **65,705** | 53,377 | **56,127** | 41,062 |
| Derivative assets | **11,846** | 8,490 | **11,829** | 8,488 |
| | **₱77,551** | ₱61,867 | **₱67,956** | ₱49,550 |

The following are the fair values of the Parent Company's derivative financial instruments recorded as 'Derivative assets/liabilities', together with the notional amounts. The notional amount is the amount or quantity of a derivative's underlying asset, and is the basis upon which changes in the value are measured. The notional amounts indicate the volume of transactions outstanding as of December 31, 2020 and 2019 and are not indicative of either market risk or credit risk.

| | Derivative Assets | Derivative Liabilities | Notional Amount | Average Forward Rate (in every USD 1) |
|---|---|---|---|---|
| **December 31, 2020** | | | | |
| Freestanding derivatives: | | | | |
| Currency forwards | | | | |
| BOUGHT: | | | | |
| USD | **₱1** | **₱931** | **USD 2,073** | **₱48.6578** |
| CNY | **1** | **0** | **CNY 232** | **CNY 0.1532** |
| EUR | **133** | – | **EUR 186** | **EUR 1.2173** |
| THB | **4** | **0** | **THB 264** | **THB 0.0330** |
| TWD | **17** | **59** | **TWD 3,116** | **TWD 0.0348** |
| GBP | **13** | **2** | **GBP 25** | **GBP 1.3445** |
| AUD | **4** | – | **AUD 27** | **AUD 0.7572** |
| JPY | **16** | – | **JPY 5,756** | **JPY 0.0096** |
| SGD | **6** | – | **SGD 38** | **SGD 0.7502** |
| CAD | **0** | **12** | **CAD 58** | **CAD 0.7849** |
| CHF | **1** | – | **CHF 9** | **CHF 1.1269** |
| SOLD: | | | | |
| USD | **1,853** | **1** | **USD 1,805** | **₱49.1599** |
| CNY | – | **15** | **CNY 729** | **CNY 0.1529** |
| JPY | **29** | **59** | **JPY 23,180** | **JPY 0.0096** |
| EUR | **1** | **120** | **EUR 163** | **EUR 1.2134** |
| MXN | – | – | **MXN 1** | **MXN 0.0464** |
| THB | – | **3** | **THB 261** | **THB 0.0331** |
| CHF | **1** | **0** | **CHF 12** | **CHF 1.1310** |
| HKD | – | – | **HKD 79** | **HKD 0.1290** |
| SGD | – | **0** | **SGD 14** | **SGD 0.7541** |
| TRY | – | **0** | **TRY 1** | **TRY 0.1269** |
| DKK | – | **0** | **DKK 2** | **DKK 0.1635** |
| CAD | – | **1** | **CAD 12** | **CAD 0.7793** |
| AUD | – | **0** | **AUD 5** | **AUD 0.7625** |
| Interest rate swaps - PHP | **768** | **594** | **₱41,485** | |
| Interest rate swaps – FX | **270** | **4,240** | **USD 2,181** | |
| Cross-currency swaps – PHP | **7,670** | **7** | **₱68,124** | |
| Cross-currency swaps - FX | **835** | **5,508** | **USD 1,953** | |
| Cross-currency swaps - EUR | **107** | **211** | **EUR 93** | |
| Cross-currency swaps - JPY | **94** | **40** | **JPY 9,590** | |
| Credit default swaps - USD | – | **0** | **USD 1** | |
| Over-the-counter FX options | **5** | **10** | **USD 193** | |
| | **₱11,829** | **₱11,813** | | |

| | Derivative Assets | Derivative Liabilities | Notional Amount | Average Forward Rate (in every USD 1) |
|---|---|---|---|---|
| December 31, 2019 | | | | |
| Freestanding derivatives: | | | | |
| Currency forwards | | | | |
| BOUGHT: | | | | |
| USD | ₱13 | ₱992 | USD 1,932 | ₱51.2254 |
| CNY | 24 | 81 | CNY 1,010 | CNY 0.1435 |
| EUR | 1 | 94 | EUR 57 | EUR 1.1493 |
| THB | 1 | – | THB 113 | THB 0.0330 |
| TWD | – | 77 | TWD 2,591 | TWD 0.0328 |
| JPY | – | 57 | JPY 9,049 | JPY 0.0093 |
| HKD | 22 | 4 | HKD 2,341 | HKD 0.1281 |
| SOLD: | | | | |
| USD | 1,550 | 1 | USD 1,911 | ₱51.6015 |
| CNY | 42 | 51 | CNY 2,028 | CNY 0.1426 |
| JPY | 59 | 1 | JPY 9,287 | JPY 0.0093 |
| EUR | 40 | 4 | EUR 66 | EUR 1.1283 |
| MXN | – | 0 | MXN 1 | MXN 0.0526 |
| THB | 0 | 2 | THB 189 | THB 0.0330 |
| CHF | – | 1 | CHF 13 | CHF 1.0207 |
| NZD | – | 1 | NZD 2 | NZD 0.6605 |
| HKD | 3 | 33 | HKD 2,405 | HKD 0.1281 |
| SGD | – | 2 | SGD 48 | SGD 0.7381 |
| TRY | – | 0 | TRY 1 | TRY 0.1681 |
| DKK | – | 0 | DKK 2 | DKK 0.1490 |
| Interest rate swaps - PHP | 329 | 157 | ₱24,258 | |
| Interest rate swaps – FX | 382 | 2,077 | USD 2,091 | |
| Cross-currency swaps - PHP | 3,559 | 119 | ₱61,247 | |
| Cross-currency swaps - FX | 2,422 | 1,907 | USD 1,728 | |
| Cross-currency swaps - EUR | 25 | 276 | EUR 75 | |
| Cross-currency swaps - JPY | 1 | 39 | JPY 1,500 | |
| Credit default swaps - USD | – | 1 | USD 1 | |
| Over-the-counter FX options | 15 | 17 | USD 436 | |
| | ₱8,488 | ₱5,994 | | |

As of December 31, 2020 and 2019, the Group's derivative assets include currency forwards, FX options and interest rate options entered into by the subsidiaries amounting to ₱17.1 million and ₱1.5 million, respectively. As of December 31, 2020 and 2019, the Group's derivative liabilities include currency forwards, cross-currency swaps and FX options entered into by the subsidiaries amounting to ₱1.7 billion and ₱1.4 billion, respectively.

Investment securities at FVOCI as of December 31, 2020 and 2019 consist of the following:

| | Consolidated | | Parent Company | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Debt securities | | | | |
| Treasury notes and bonds (Note 17) | **₱342,355** | ₱111,791 | **₱339,258** | ₱109,203 |
| Treasury bills | **81,497** | – | **81,497** | – |
| Government (Note 17) | **76,901** | 52,870 | **72,315** | 52,649 |
| Private | **36,943** | 36,199 | **19,037** | 26,324 |
| BSP | **30,049** | – | **30,049** | – |
| | **567,745** | 200,860 | **542,156** | 188,176 |
| Equity securities | **1,700** | 1,660 | **510** | 500 |
| | **₱569,445** | ₱202,520 | **₱542,666** | ₱188,676 |

The equity securities are irrevocably designated at FVOCI as these are held for long term-strategic purpose rather than for trading. These equity securities include golf club shares and non-marketable equity securities. In 2020, as part of its risk management, the Group disposed equity securities at FVOCI with total carrying value of ₱85.0 million and recognized a loss on disposal charged against 'Surplus' of ₱44.2 million. Dividends recognized for the disposed equity securities amounted to ₱0.5 million in 2020.

Outstanding equity securities at FVOCI as of December 31, 2020 and 2019 generated dividends amounting to ₱45.7 million and ₱40.0 million, respectively for the Group and ₱26.4 million and ₱11.3 million, respectively, for the Parent Company.

As of December 31, 2020 and 2019, the ECL on debt securities at FVOCI (included in 'Net unrealized gain on investment securities at FVOCI') amounted to ₱141.0 million and ₱148.3 million respectively, for the Group and ₱141.0 million and ₱144.9 million, respectively, for the Parent Company (Note 15).

As of December 31, 2020 and 2019, investment securities at FVOCI include floating and fixed rate private notes with total carrying value of USD11.2 million and USD11.0 million, respectively (with peso equivalent of ₱536.0 million and ₱558.2 million, respectively) which are pledged by the Parent Company's New York Branch in compliance with the regulatory requirements of the Federal Deposit Insurance Corporation and the Office of the Controller of the Currency in New York.

The movements in net unrealized gains/(losses), including share in net unrealized gains/(losses) of subsidiaries (Note 11), presented under 'Equity' in the statements of financial position are as follows:

| | Consolidated | | Parent Company | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Balance at beginning of the year | **₱2,575** | (₱3,134) | **₱2,629** | (₱2,994) |
| Unrealized gains recognized in OCI* | **14,089** | 10,201 | **13,830** | 9,495 |
| Amounts realized in surplus | **44** | (19) | **44** | (19) |
| Amounts realized in profit or loss | **(8,307)** | (4,403) | **(8,007)** | (3,788) |
| | **8,401** | 2,645 | **8,496** | 2,694 |
| Tax (Note 28) | **(838)** | (70) | **(885)** | (65) |
| Balance at end of the year | **₱7,563****| ₱2,575** | **₱7,611** | ₱2,629 |

* *Includes impact of ECL (Note 15)*
** *Includes share of non-controlling interest in unrealized losses amounting to ₱48.0 million and ₱54.0 million as of December 31, 2020 and 2019, respectively.*

Investment securities at amortized cost as of December 31, 2020 and 2019 consist of the following:

| | Consolidated | | Parent Company | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Government (Notes 17 and 19) | **₱19,153** | ₱20,232 | **₱7,909** | ₱8,130 |
| Private | **3,625** | 3,880 | **–** | – |
| Treasury bills | **294** | 100 | **–** | – |
| Treasury notes and bonds (Note 17) | **243** | 227,442 | **–** | 208,514 |
| | **23,315** | 251,654 | **7,909** | 216,644 |
| Less allowance for credit losses (Note 15) | **22** | 26 | **–** | – |
| | **₱23,293** | ₱251,628 | **₱7,909** | ₱216,644 |

In May 2020, the BOD of the Parent Company approved the change in business model for its debt securities carried at amortized cost in line with its revised balance sheet risk strategy. The Parent Company considered the pandemic a Black Swan scenario as it is unprecedented in all aspects, with the full economic and banking industry impact still unknown. This called for the Parent Company to recalibrate its balance sheet risk strategy given the drastic change in the economic landscape. The revised balance sheet strategy provides a framework for the Parent Company to assess the appropriate mix of assets, liabilities and capital under five economic scenarios, with the objective of ensuring reliable liquidity and steady stream of accruals. Upon assessment of the current economic environment, maturity profile and credit quality of loans, CASA placements and maturity profile of the investment securities portfolio, the Parent Company deemed that the existing business model is no longer appropriate since its objective of supporting a stable growth of deposit liabilities with core holdings of investment securities can no longer be met due to the effect of the global health crisis over the foreseeable future. This resulted to disposal of investment securities at amortized cost in

June 2020 with total carrying value of ₱93.9 billion. Trading gains recognized from the disposal amounted to ₱6.9 billion. On July 1, 2020, the remaining debt securities with total carrying value of ₱100.3 billion and fair value of ₱103.9 billion were reclassified to investment securities at FVOCI. As of December 31, 2020, the carrying value of the debt securities reclassified to investment securities at FVOCI as of December 31, 2020 amounted to ₱56.9 billion with net unrealized gain of ₱1.6 billion.

In 2020, PSBank sold investment securities classified as investment securities at amortized cost with total carrying amount of ₱19.6 billion resulting in gain on disposal of investment securities at amortized cost totaling ₱1.3 billion. The sale was made as there were changes in PSBank's funding requirements given its assessment on the impact of a prolonged pandemic. In aggregate, the sale in 2020 is not inconsistent with PSBank's HTC business model as the sale was considered infrequent even if significant in value. Accordingly, the remaining investment securities in the affected HTC portfolio continue to be measured at amortized cost. Further, PSBank assessed that the sale did not reflect a change in PSBank's objectives for the HTC business model.

In August 2019, the BOD of FMIC approved the disposal of its debt securities portfolio at amortized cost with total face value of ₱15.1 billion and the abandonment of the related HTC business models due to external changes that are significant to its operations. Of the ₱15.1 billion disposal, the Parent Company purchased ₱6.6 billion and subsequently sold securities totaling ₱2.5 billion in 2020 and ₱4.1 billion in 2019. In 2020 and 2019, trading gains/(losses) (included in 'Trading and securities gain - net') recognized from the disposal amounted to ₱77.1 million and ₱172.8 million, respectively for the Group, and ₱77.1 million and ₱32.1 million, respectively for the Parent Company. The outstanding balances of these securities in the Parent Company books amounted to ₱13.5 million (classified as 'Investment Securities at FVTPL') as of December 31, 2020 and ₱124.5 million (classified as 'Investment Securities at FVTPL') and ₱2.4 billion (classified as 'Investment Securities at Amortized Cost') as of December 31, 2019 (Note 31).

Interest income on investment securities at FVOCI and at amortized cost consists of:

| | Consolidated | | | Parent Company | | |
|---|---|---|---|---|---|---|
| | **2020** | 2019 | 2018 | **2020** | 2019 | 2018 |
| Investment securities at amortized cost | **₱4,808** | ₱11,035 | ₱11,147 | **₱3,797** | ₱9,105 | ₱8,916 |
| Investment securities at FVOCI | **12,285** | 5,538 | 3,463 | **11,488** | 4,673 | 2,676 |
| | **₱17,093** | ₱16,573 | ₱14,610 | **₱15,285** | ₱13,778 | ₱11,592 |

In 2020, 2019 and 2018, foreign currency-denominated trading and investment securities bear nominal annual interest rates ranging from 0.10% to 10.63%, 0.10% to 10.63% and from 0.10% to 11.63% for the Group and the Parent Company while peso-denominated trading and investment securities bear nominal annual interest rates ranging from 2.38% to 18.25%, 3.25% to 18.25% and 2.13% to 18.25%, respectively, for the Group and from 2.38% to 18.25%, 3.25% to 18.25% and 3.25% to 18.25%, respectively, for the Parent Company.

Trading and securities gain - net consists of:

| | Consolidated | | | Parent Company | | |
|---|---|---|---|---|---|---|
| | **2020** | 2019 | 2018 | **2020** | 2019 | 2018 |
| Investment securities at FVTPL | **₱1,898** | ₱3,362 | (₱1,668) | **₱1,951** | ₱2,774 | (₱570) |
| Derivative assets/liabilities – net | **(3,761)** | (2,213) | 3,639 | **(3,741)** | (2,210) | 3,635 |
| Debt securities at FVOCI | **8,307** | 4,403 | (115) | **8,007** | 3,788 | (24) |
| | **6,444** | 5,552 | 1,856 | **₱6,217** | ₱4,352 | ₱3,041 |
| Income (loss) attributable to non-equity non-controlling interests (Note 21) | **115** | (230) | 685 | | | |
| | **₱6,559** | ₱5,322 | ₱2,541 | | | |

Trading gains (losses) on debt securities at FVOCI represent realized gains/losses previously reported in OCI.

## 9. Loans and Receivables

This account consists of:

| | Consolidated | | Parent Company | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Receivables from customers (Note 31) | | | | |
| Commercial loans | **₱931,263** | ₱1,063,146 | **₱871,029** | ₱1,012,387 |
| Auto loans | **100,286** | 118,409 | **21,512** | 24,182 |
| Residential mortgage loans | **105,960** | 109,999 | **55,391** | 57,520 |
| Credit card (Note 11) | **92,643** | 86,785 | **92,643** | – |
| Trade loans | **37,068** | 63,360 | **36,175** | 62,655 |
| Others | **30,081** | 43,937 | **11,568** | 14,542 |
| | **1,297,301** | 1,485,636 | **1,088,318** | 1,171,286 |
| Less unearned discounts and capitalized interest | **14,996** | 5,149 | **11,134** | 238 |
| | **1,282,305** | 1,480,487 | **1,077,184** | 1,171,048 |
| Accrued interest receivable (Note 31) | **13,727** | 13,105 | **8,535** | 10,503 |
| Accounts receivable (Note 31) | **11,278** | 12,707 | **7,004** | 8,972 |
| Unquoted debt securities - private | **451** | 1,016 | **386** | 386 |
| Sales contract receivable | **82** | 145 | **56** | 102 |
| Other receivables | **329** | 331 | **11** | 12 |
| | **1,308,172** | 1,507,791 | **1,093,176** | 1,191,023 |
| Less allowance for credit losses (Note 15) | **55,243** | 24,223 | **44,434** | 13,922 |
| | **₱1,252,929** | ₱1,483,568 | **₱1,048,742** | ₱1,177,101 |

Receivables from customers consist of:

| | Consolidated | | Parent Company | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Loans and discounts | **₱1,250,163** | ₱1,409,451 | **₱1,042,054** | ₱1,095,627 |
| Less unearned discounts and capitalized interest | **14,996** | 5,149 | **11,134** | 238 |
| | **1,235,167** | 1,404,302 | **1,030,920** | 1,095,389 |
| Customers' liabilities under letters of credit (LC)/trust receipts | **36,092** | 62,016 | **35,200** | 61,454 |
| Bills purchased (Note 21) | **11,046** | 14,169 | **11,064** | 14,205 |
| | **₱1,282,305** | ₱1,480,487 | **₱1,077,184** | ₱1,171,048 |

Receivables from customers - others of the Group include notes receivables financed and lease contract receivables amounting to ₱14.4 billion and ₱0.9 billion, respectively, as of December 31, 2020 and ₱24.3 billion and ₱1.5 billion, respectively, as of December 31,2019 (Note 13).

Interest income on loans and receivables consists of:

| | Consolidated | | | Parent Company | | |
|---|---|---|---|---|---|---|
| | **2020** | 2019 | 2018 | **2020** | 2019 | 2018 |
| Receivables from customers (Note 31) | **₱63,705** | ₱72,697 | ₱60,071 | **₱46,314** | ₱56,345 | ₱44,980 |
| Receivables from cardholders | **15,972** | 15,161 | 13,527 | **15,972** | – | – |
| Lease contract receivables | **3,897** | 4,680 | 4,162 | – | – | – |
| Customers' liabilities under LC/trust receipts | **1,840** | 3,073 | 1,711 | **1,840** | 3,073 | 1,711 |
| Others | **276** | 236 | 188 | **155** | 185 | 169 |
| | **₱85,690** | ₱95,847 | ₱79,659 | **₱64,281** | ₱59,603 | ₱46,860 |

As of December 31, 2020 and 2019, 81.95% and 82.47%, respectively, of the total receivables from customers of the Group, and 91.41% and 99.92%, respectively, of the total receivables from customers of the Parent Company are subject to periodic interest repricing. In 2020 and 2019, the remaining peso receivables from customers earn annual fixed interest rates ranging from 4.70% to 24.00% and from 4.70% to 45.00%, respectively, while foreign currency-denominated receivables from customers earn annual fixed interest rates ranging from 1.05% to 24.00% in 2020 and from 1.32% to 45.00% in 2019.

## 10. Property and Equipment

The composition and movements in the account follow:

| | Consolidated | | | | | | |
|---|---|---|---|---|---|---|---|
| | Land | Buildings | Furniture, Fixtures and Equipment | Leasehold Improvements | BUC | ROU Assets | Total |
| **2020** | | | | | | | |
| **Cost** | | | | | | | |
| Balance at beginning of year | **₱5,802** | **₱15,395** | **₱18,236** | **₱4,730** | **₱319** | **₱4,816** | **₱49,298** |
| Additions | – | **30** | **1,705** | **73** | **619** | **1,204** | **3,631** |
| Disposals/early termination | – | **(3)** | **(1,180)** | **(78)** | – | **(559)** | **(1,820)** |
| Reclassification/others | – | **687** | **(39)** | **114** | **(863)** | **(62)** | **(163)** |
| **Balance at end of year** | **5,802** | **16,109** | **18,722** | **4,839** | **75** | **5,399** | **50,946** |
| **Accumulated depreciation and amortization** | | | | | | | |
| Balance at beginning of year | **–** | **6,407** | **12,326** | **3,567** | **–** | **1,290** | **23,590** |
| Depreciation and amortization | – | **573** | **2,156** | **349** | – | **1,267** | **4,345** |
| Disposals/early termination | – | – | **(1,052)** | **(78)** | – | **(432)** | **(1,562)** |
| Reclassification/others | – | **10** | **(18)** | **(36)** | – | **(8)** | **(52)** |
| **Balance at end of year** | – | **6,990** | **13,412** | **3,802** | – | **2,117** | **26,321** |
| **Allowance for impairment losses** | – | **8** | – | – | – | – | **8** |
| **Net book value at end of year** | **₱5,802** | **₱9,111** | **₱5,310** | **₱1,037** | **₱75** | **₱3,282** | **₱24,617** |
| 2019 | | | | | | | |
| Cost | | | | | | | |
| Balance at beginning of year | ₱5,824 | ₱14,952 | ₱17,542 | ₱4,588 | ₱261 | ₱4,162 | ₱47,329 |
| Additions | – | 47 | 2,851 | 128 | 696 | 679 | 4,401 |
| Disposals/early termination | – | (4) | (2,132) | (28) | – | (34) | (2,198) |
| Reclassification/others | (22) | 400 | (25) | 42 | (638) | 9 | (234) |
| Balance at end of year | 5,802 | 15,395 | 18,236 | 4,730 | 319 | 4,816 | 49,298 |
| Accumulated depreciation and amortization | | | | | | | |
| Balance at beginning of year | – | 5,820 | 12,039 | 3,346 | – | – | 21,205 |
| Depreciation and amortization | – | 604 | 2,166 | 382 | – | 1,301 | 4,453 |
| Disposals/early termination | – | (4) | (1,864) | (24) | – | (25) | (1,917) |
| Reclassification/others | – | (13) | (15) | (137) | – | 14 | (151) |
| Balance at end of year | – | 6,407 | 12,326 | 3,567 | – | 1,290 | 23,590 |
| Allowance for impairment losses | – | 8 | – | – | – | – | 8 |
| Net book value at end of year | ₱5,802 | ₱8,980 | ₱5,910 | ₱1,163 | ₱319 | ₱3,526 | ₱25,700 |

| | Parent Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | Land | Buildings | Furniture, Fixtures and Equipment | Leasehold Improvements | BUC | ROU Assets | Total |
| **2020** | | | | | | | |
| **Cost** | | | | | | | |
| Balance at beginning of year | **₱4,381** | **₱13,679** | **₱7,775** | **₱2,953** | **₱319** | **₱2,577** | **₱31,684** |
| Impact of merger (Note 11) | **284** | **389** | **602** | **78** | **–** | **80** | **1,433** |
| Additions | **–** | **17** | **1,003** | **2** | **619** | **816** | **2,457** |
| Disposals/early termination | **–** | **–** | **(229)** | **(78)** | **–** | **(429)** | **(736)** |
| Reclassification/others | **–** | **691** | **(6)** | **137** | **(863)** | **(39)** | **(80)** |
| **Balance at end of year** | **4,665** | **14,776** | **9,145** | **3,092** | **75** | **3,005** | **34,758** |
| **Accumulated depreciation and amortization** | | | | | | | |
| Balance at beginning of year | **–** | **5,623** | **5,373** | **2,121** | **–** | **702** | **13,819** |
| Impact of merger (Note 11) | **–** | **206** | **357** | **77** | **–** | **27** | **667** |
| Depreciation and amortization | **–** | **531** | **978** | **208** | **–** | **703** | **2,420** |
| Disposals | **–** | **–** | **(198)** | **(78)** | **–** | **(314)** | **(590)** |
| Reclassification/others | **–** | **11** | **(7)** | **(16)** | **–** | **17** | **5** |
| **Balance at end of year** | **–** | **6,371** | **6,503** | **2,312** | **–** | **1,135** | **16,321** |
| **Allowance for impairment losses** | **–** | **8** | **–** | **–** | **–** | **–** | **8** |
| **Net book value at end of year** | **₱4,665** | **₱8,397** | **₱2,642** | **₱780** | **₱75** | **₱1,870** | **₱18,429** |

| | Parent Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | Land | Buildings | Furniture, Fixtures and Equipment | Leasehold Improvements | BUC | ROU Assets | Total |
| 2019 | | | | | | | |
| Cost | | | | | | | |
| Balance at beginning of year | ₱4,381 | ₱13,238 | ₱7,334 | ₱2,776 | ₱261 | ₱2,225 | ₱30,215 |
| Additions | – | 1 | 1,294 | 8 | 696 | 338 | 2,337 |
| Disposals/early termination | – | – | (852) | (1) | – | – | (853) |
| Reclassification/others | – | 440 | (1) | 170 | (638) | 14 | (15) |
| Balance at end of year | 4,381 | 13,679 | 7,775 | 2,953 | 319 | 2,577 | 31,684 |
| Accumulated depreciation and amortization | | | | | | | |
| Balance at beginning of year | – | 5,072 | 5,367 | 1,911 | – | – | 12,350 |
| Depreciation and amortization | – | 547 | 824 | 220 | – | 687 | 2,278 |
| Disposals | – | – | (821) | (1) | – | – | (822) |
| Reclassification/others | – | 4 | 3 | (9) | – | 15 | 13 |
| Balance at end of year | – | 5,623 | 5,373 | 2,121 | – | 702 | 13,819 |
| Allowance for impairment losses | – | 8 | – | – | – | – | 8 |
| Net book value at end of year | ₱4,381 | ₱8,048 | ₱2,402 | ₱832 | ₱319 | ₱1,875 | ₱17,857 |

As of December 31, 2020 and 2019, the cost of fully depreciated property and equipment still in use amounted to ₱6.5 billion and ₱6.2 billion, respectively, for the Group and ₱3.9 billion and ₱2.4 billion, respectively, for the Parent Company.

## 11. Investments in Subsidiaries, Associates and a Joint Venture

Investments in subsidiaries consist of:

| | **2020** | 2019 |
|---|---|---|
| Acquisition cost | | |
| PSBank | **₱13,076** | ₱13,076 |
| FMIC | **11,751** | 11,751 |
| MBCL | **10,079** | 10,079 |
| Circa | **837** | 837 |
| MR USA | **365** | 365 |
| ORIX Metro | **265** | 265 |
| MR Japan | **102** | 102 |
| MR UK | **31** | 31 |
| MRHL | **26** | 26 |
| MRSPL | **17** | 17 |
| MCC | **–** | 15,149 |
| Others | **291** | 291 |
| | **36,840** | 51,989 |
| Accumulated equity in net income | | |
| Balance at beginning of year | **44,276** | 36,457 |
| Share in net income | **1,652** | 8,892 |
| Dividends | **(1,103)** | (1,073) |
| Impact of merger of MCC with Parent Company | **(14,411)** | – |
| Balance at end of year | **30,414** | 44,276 |
| Equity in net unrealized loss on investment securities at FVOCI | **(258)** | (537) |
| Equity in net unrealized gain on remeasurement of retirement plan and translation adjustment and others | **252** | 98 |
| Excess of share in net losses of subsidiaries over cost included in 'Miscellaneous liabilities' (Note 21) | **99** | 35 |
| Equity in realized loss on sale of equity securities at FVOCI | **(166)** | (122) |

(Forward)

| | 2020 | 2019 |
|---|---|---|
| Carrying value | | |
| FMIC | **₱19,787** | ₱19,647 |
| MBCL | **12,425** | 12,051 |
| PSBank | **30,377** | 30,294 |
| Circa | **254** | 250 |
| ORIX Metro | **3,557** | 3,529 |
| MR USA | **130** | 49 |
| MR Japan | **79** | 74 |
| MR UK | **39** | 49 |
| MRHL | **129** | 142 |
| MRSPL | **150** | 154 |
| MCC | **–** | 29,233 |
| Others | **254** | 267 |
| | **₱67,181** | ₱95,739 |

The following subsidiaries have material non-controlling interests as of December 31, 2020 and 2019:

| | Country of Incorporation and Principal Place of Business | Principal Activities | Effective Ownership of Non-Controlling Interest 2020 | 2019 |
|---|---|---|---|---|
| ORIX Metro | Philippines | Leasing, Financing | **40.15%** | 40.15% |
| PSBank | Philippines | Banking | **11.62%** | 11.62% |

The following table presents financial information of subsidiaries with material non-controlling interests as of December 31, 2020 and 2019.

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | **PSBank** | **ORIX Metro** | PSBank | ORIX Metro |
| **Statement of Financial Position** | | | | |
| Total assets | **₱219,479** | **₱44,623** | ₱224,907 | ₱52,821 |
| Total liabilities | **184,933** | **35,733** | 190,450 | 43,998 |
| Non-controlling interest | **5,197** | **3,586** | 5,187 | 3,562 |
| **Statement of Income** | | | | |
| Gross income | **20,134** | **6,708** | 20,656 | 7,745 |
| Operating income | **16,570** | **4,605** | 14,602 | 5,248 |
| Net income | **1,106** | **32** | 3,028 | 1,147 |
| Net income attributable to non-controlling interest | **129** | **13** | 352 | 460 |
| Total comprehensive income | **1,343** | **68** | 3,401 | 710 |
| **Statement of Cash Flows** | | | | |
| Net cash provided by (used in) operating activities | **12,585** | **8,110** | (35,641) | 771 |
| Net cash provided by (used in) investing activities | **21,756** | **(211)** | 12,614 | (791) |
| Net cash provided by (used in) financing activities | **(3,023)** | **(3,625)** | 10,752 | (2,662) |
| Net increase (decrease) in cash and cash equivalents | **31,318** | **4,274** | (12,275) | (2,682) |
| Cash and cash equivalents at beginning of year | **10,235** | **7,573** | 22,510 | 10,255 |
| Cash and cash equivalents at end of year | **41,553** | **11,847** | 10,235 | 7,573 |

*Investment in PSBank*

On January 11, 2019, PSBank concluded its ₱8.0 billion SRO, involving 142,856,925 common shares priced at ₱56.0 per share and listed at the PSE on January 18, 2019. This was approved by the BOD of PSBank on October 15, 2018 and noted by the BSP on October 19, 2018. The Parent Company exercised its rights to purchase thus increasing its ownership in PSBank to 88.38% (Note 2).

*Investment in FMIC*

In line with its transformation initiative, the BOD of FMIC approved the proposal to return its quasi banking license with the BSP on November 24, 2020.

*Investment in MCC*
On October 18, 2017, with the approval of the Parent Company's BOD, the Parent Company has entered into an agreement with its JV partner ANZ Funds Pty. Ltd. (ANZ) to:

a. Purchase 20% of MCC for a consideration of ₱7.4 billion upon the approval of the BSP of the transaction, and;
b. Grant ANZ the option to sell the remaining 20% of MCC to the Parent Company at the same consideration of ₱7.4 billion ("Put Option") which can be exercised at any time within the period beginning July 10, 2018 until September 2018 ("Option Exercise Period"). If in the ordinary course of business, MCC pays dividend to the stockholders during the Option Exercise Period, ANZ will exercise the Put Option by serving an exercise notice ("Exercise Notice") to the Parent Company within ten (10) banking days of receiving that dividend ("Dividend Exercise Period"). If ANZ fails to serve an Exercise Notice by the end of the Dividend Exercise Period, the Put Option is deemed exercised by ANZ on the end of the Dividend Exercise Period.

On December 28, 2017, the BSP approved the acquisition of 40% of MCC. With this BSP approval, the purchase of the 20% stake in MCC was deemed completed for accounting purposes in the financial statements as of December 31, 2017 and the acquisition was completed on January 8, 2018 ("first tranche") while the remaining 20% was completed on September 4, 2018 ("second tranche"). In the consolidated financial statements, the Group recognized equity reserves (included in 'Translation adjustment and others') for the difference between the acquisition price and the acquired non-controlling interest amounting to ₱4.7 billion (for the first tranche) and ₱5.1 billion (for the second tranche).

On March 13, 2019, the respective BODs of the Parent Company and MCC approved the proposal to merge MCC into the Parent Company which will unlock the value of MCC and help realize the following objectives: (1) improve synergy and cross-sell; (2) increase the profitability and improve capital efficiency; and (3) enable the Parent Company to be more competitive in the credit card business. This was ratified by the stockholders of the Parent Company on April 24, 2019, and was approved by the BSP on October 23, 2019. The SEC approved the merger of MCC into the Parent Company effective January 3, 2020.

As of January 3, 2020, the following are the assets and liabilities of MCC:

| | |
|---|---|
| Assets | |
| Due from BSP | ₱5,994 |
| Due from Other Banks | 744 |
| Interbank Loans and SPURA | 175 |
| Investment Securities at FVOCI | 28 |
| Loans and Receivables | 83,422 |
| Property and Equipment | 766 |
| Investment Properties | 1 |
| Deferred Tax Assets | 2,088 |
| Other Assets | 1,030 |
| Total Assets | ₱94,248 |
| Liabilities | |
| Bills Payable and SSURA | ₱65,389 |
| Derivative Liabilities | 307 |
| Income Taxes Payable | 608 |
| Accrued Interest and Other Expenses | 1,478 |
| Subordinated Debts | 1,166 |
| Other Liabilities | 5,819 |
| Total Liabilities | ₱74,767 |

The difference between the carrying value of the investment in MCC and the net assets of MCC amounting to ₱9.8 billion was recognized under ‘Translation adjustments and others’ in the statement of financial position by the Parent Company.

*Investment in MR USA*
On August 17, 2017, the New York State Department of Financial Services has approved the merger of MR USA and Metro Remittance Center, Inc. (MRCI) with MR USA being the surviving entity. The merger, as agreed upon by both parties, took effect on December 31, 2017, MRCI’s two wholly-owned subsidiaries, Metro Remittance (Canada), Inc. and MB Remittance Center Hawaii, Ltd. became subsidiaries of MR USA. On August 1, 2019, the BOD of MR USA approved the reclassification of the business type of MR USA from a Money Transmission Business to a Holding Company.

*Investment in Metrobank Bahamas*
On April 17, 2018, Metrobank Bahamas has advised The Central Bank of The Bahamas (CBTB) of its intention to discontinue its operations effective June 30, 2018. On October 11 and October 12, 2018, it has surrendered its securities and banking licenses, respectively, to CBTB and has been placed into a voluntary liquidation. On June 30, 2019, the Register General’s Department advised that the Metrobank Bahamas has been removed from the Register of Companies as of April 8, 2019.

As of December 31, 2020 and 2019, the carrying amount of goodwill of the Group amounted to ₱5.2 billion, of which ₱5.0 billion pertains to the goodwill arising from the acquisition of the then Solidbank Corporation which was merged with FMIC.

Investments in associates and a JV consist of:

| | **Consolidated** | | **Parent Company** | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Acquisition cost: | | | | |
| Lepanto Consolidated Mining Company (LCMC) | | | | |
| (13.35% effectively owned) | **₱2,527** | ₱2,527 | | |
| SMFC (26.52% effectively owned)* | **610** | 610 | | |
| Northpine Land, Inc. (NLI) (20.00% owned) | **232** | 232 | **₱232** | ₱232 |
| Taal Land Inc. (TLI) (35.00% owned) | **178** | 178 | **178** | 178 |
| Cathay International Resources Corporation (CIRC) | | | | |
| (34.49% effectively owned) | **175** | 175 | | |
| Philippine AXA Life Insurance Corporation (PALIC) | | | | |
| (27.97% owned) | **172** | 172 | | |
| SMBC Metro Investment Corporation (SMBC Metro) | | | | |
| (30.00% owned) | **180** | 180 | **180** | 180 |
| Others | **42** | 42 | | |
| | **4,116** | 4,116 | **590** | 590 |
| Accumulated equity in net income: | | | | |
| Balance at beginning of year | **2,821** | 2,122 | **205** | 159 |
| Share in net income | **664** | 868 | **22** | 46 |
| Dividends | **(637)** | (169) | **–** | – |
| Balance at end of year | **2,848** | 2,821 | **227** | 205 |
| Equity in other comprehensive income (losses) | **(22)** | 348 | **3** | 2 |
| Return of investment - SMBC Metro | **(180)** | (180) | **(180)** | (180) |
| Allowance for impairment losses (Note 15) | **(514)** | (514) | **(75)** | (75) |
| Carrying value | | | | |
| LCMC | **1,421** | 1,546 | | |
| SMFC | **741** | 756 | | |
| NLI | **496** | 474 | **496** | 474 |
| TLI | **21** | 21 | **21** | 21 |
| CIRC | **129** | 177 | | |
| PALIC | **3,357** | 3,535 | | |
| SMBC Metro | **48** | 47 | **48** | 47 |
| Others | **35** | 35 | | |
| | **₱6,248** | ₱6,591 | **₱565** | ₱542 |

* *Represents investment in a JV of the Group and effective ownership interest of the Parent Company through PSBank.*

*Investment of FMIC in LCMC*
FMIC has the ability to exercise significant influence through a 5-year agreement with Philex Mining Corporation to jointly vote their 16.7% ownership. As of December 31, 2020 and 2019, LCMC-A shares are trading at ₱0.160 per share and ₱0.091 per share, respectively and LCMC-B shares are trading at ₱0.156 per share and ₱0.101 per share, respectively. As of December 31, 2020 and 2019, there has been a significant decline in the fair value of the shares compared to the acquisition cost. In 2019, the Group recognized impairment loss on the investment in LCMC amounting to ₱439.2 million (Note 3).

*Investment in NLI*
On November 27, 2019, the stockholders of NLI approved the shortening of its corporate term to end on December 31, 2021. Following this, the Company is no longer expected to continue its operations for the foreseeable future. Consequently, the management of NLI plans to reduce its workforce and scale-down its business operations with the objective of ceasing business operations by December 31, 2021.

*Investment in SMBC Metro*
On March 2, 2018, the Board of Liquidating Trustees of SMBC Metro declared the liquidation of its entire paid-up capital to its stockholders on record as of December 31, 2017 due to the expiration of its corporate term on the same date. On March 28, 2018, the Parent Company received a total amount of ₱180.0 million representing partial liquidation.

The following tables present financial information of significant associates and a JV:

| | **Statements of Financial Position** | | **Statements of Income and Other Comprehensive Income** | | | | |
|---|---|---|---|---|---|---|---|
| | **Total Assets** | **Total Liabilities** | **Gross Income** | **Operating Income (Loss)** | **Net Income (Loss)** | **OCI** | **Total Comprehensive Income** |
| **December 31, 2020** | | | | | | | |
| PALIC | **₱154,063** | **₱142,153** | **₱18,355** | **₱4,099** | **₱2,898** | **(₱670)** | **₱2,228** |
| LCMC | **16,546** | **10,257** | **1,104** | **(548)** | **(546)** | – | **(546)** |
| NLI | **3,748** | **1,369** | **392** | **95** | **112** | – | **112** |
| SMFC | **7,644** | **5,278** | **1,595** | **269** | **128** | **-** | **128** |
| CIRC | **2,240** | **1,585** | **117** | **(176)** | **(123)** | – | **(123)** |
| December 31, 2019 | | | | | | | |
| PALIC | ₱141,938 | ₱129,320 | ₱17,813 | ₱4,017 | ₱2,669 | ₱– | ₱2,669 |
| LCMC | 16,664 | 9,426 | 1,566 | (639) | (642) | – | (642) |
| NLI | 3,825 | 1,556 | 516 | 245 | 222 | – | 222 |
| SMFC | 7,125 | 4,606 | 1,465 | 510 | 353 | (7) | 346 |
| CIRC | 2,131 | 608 | 233 | 59 | (71) | – | (71) |

Major assets of significant associates and a JV include the following:

| | **2020** | 2019 |
|---|---|---|
| PALIC | | |
| Cash and cash equivalents | **₱4,711** | ₱4,734 |
| Loans and receivables - net | **2,113** | 940 |
| Investment securities at FVTPL | **1,924** | 1,960 |
| Investment securities at FVOCI | **18,163** | 16,282 |
| Investment in unit-linked funds | **58** | 58 |
| Property and equipment | **735** | 614 |
| LCMC | | |
| Inventories | **523** | 538 |
| Investments and advances | **568** | 579 |
| Mine exploration cost | **6,808** | 6,720 |
| Property, plant and equipment - net | **6,682** | 6,956 |

| | **2020** | 2019 |
|---|---|---|
| NLI | | |
| Cash and cash equivalents | **₱411** | ₱406 |
| Real estate properties | **1770** | 1,956 |
| Receivables - net | **1,422** | 1,214 |
| SMFC | | |
| Cash and cash equivalents | **813** | 209 |
| Receivables - net | **6,509** | 6,637 |
| CIRC | | |
| Cash and cash equivalents | **95** | 140 |
| Receivables - net | **548** | 520 |
| Property, plant and equipment - net | **1,188** | 1,275 |
| Condominium units for sale/inventories | **280** | 109 |

Dividends declared by investee companies of the Parent Company follow:

| Subsidiary/Associate | Date of Declaration | Per Share | Total Amount | Record Date | Payment Date |
|---|---|---|---|---|---|
| **2020** | | | | | |
| **Subsidiaries** | | | | | |
| **Cash Dividend** | | | | | |
| PSBank | January 16, 2020 | **₱0.75** | **₱287** | January 31, 2020 | February 17, 2020 |
| PSBank | April 21, 2020 | **0.75** | **320** | May 7, 2020 | May 21, 2020 |
| PSBank | July 23, 2020 | **0.75** | **320** | August 7, 2020 | August 24, 2020 |
| PSBank | October 22, 2020 | **0.75** | **320** | November 9, 2020 | November 23, 2020 |
| 2019 | | | | | |
| Subsidiaries | | | | | |
| Cash Dividend | | | | | |
| PSBank | January 17, 2019 | ₱0.75 | ₱287 | February 1, 2019 | February 18, 2019 |
| PSBank | April 15, 2019 | 0.75 | 287 | May 3, 2019 | May 15, 2019 |
| PSBank | July 19, 2019 | 0.75 | 287 | August 5, 2019 | August 19, 2019 |
| PSBank | October 14, 2019 | 0.75 | 287 | October 29, 2019 | November 13, 2019 |
| Stock Dividend | | | | | |
| ORIX Metro | November 27, 2019 | ₱100.00 | ₱932 | November 27, 2019 | January 31, 2020 |

Dividends declared by significant investee companies of PSBank and FMIC follow:

| Subsidiary/Associate | Date of Declaration | Per Share | Total Amount | Record Date | Payment Date |
|---|---|---|---|---|---|
| **2020** | | | | | |
| **Associates** | | | | | |
| **Cash Dividend** | | | | | |
| PALIC | November 16, 2020 | **₱207.00** | **₱2,070** | November 16, 2020 | December 23, 2020 |
| SMFC | June 26,2020 | **8.88** | **178** | June 26,2020 | July 17, 2020 |
| 2019 | | | | | |
| Associates | | | | | |
| Cash Dividend | | | | | |
| PALIC | November 6, 2019 | ₱40.90 | ₱409 | October 24, 2019 | December 17, 2019 |
| Travel Services, Inc. (TSI) | March 20, 2019 | 34.00 | 47 | December 31, 2018 | December 13, 2019 |
| SMFC | June 21, 2019 | 6.56 | 131 | June 21, 2019 | July 19, 2019 |
| Stock Dividend | | | | | |
| ORIX Metro | November 27, 2019 | ₱100.00 | ₱932 | November 27, 2019 | January 31, 2020 |

## 12. **Investment Properties**

This account consists of foreclosed real estate properties and investments in real estate:

| | Consolidated | | | | | |
|---|---|---|---|---|---|---|
| | 2020 | | | 2019 | | |
| | **Land** | **Buildings and Improvements** | **Total** | Land | Buildings and Improvements | Total |
| **Cost** | | | | | | |
| Balance at beginning of year | **₱5,718** | **₱4,651** | **₱10,369** | ₱5,360 | ₱4,857 | ₱10,217 |
| Additions | **251** | **451** | **702** | 1,009 | 644 | 1,653 |
| Disposals | **(343)** | **(522)** | **(865)** | (673) | (877) | (1,550) |
| Reclassification/others | **12** | **3** | **15** | 22 | 27 | 49 |
| **Balance at end of year** | **5,638** | **4,583** | **10,221** | 5,718 | 4,651 | 10,369 |
| **Accumulated depreciation and amortization** | | | | | | |
| Balance at beginning of year | – | **1,117** | **1,117** | – | 1,148 | 1,148 |
| Depreciation and amortization | – | **131** | **131** | – | 140 | 140 |
| Disposals | – | **(108)** | **(108)** | – | (188) | (188) |
| Reclassification/others | – | – | – | – | 17 | 17 |
| **Balance at end of year** | – | **1,140** | **1,140** | – | 1,117 | 1,117 |
| **Allowance for impairment losses** (Note 15) | | | | | | |
| Balance at beginning of year | **1,298** | **192** | **1,490** | 1,313 | 256 | 1,569 |
| Provision for (reversal of) impairment loss | **(3)** | – | **(3)** | (8) | 8 | – |
| Disposals | **(9)** | **(24)** | **(33)** | (6) | (65) | (71) |
| Reclassification/others | **(40)** | – | **(40)** | (1) | (7) | (8) |
| **Balance at end of year** | **1,246** | **168** | **1,414** | 1,298 | 192 | 1,490 |
| **Net book value at end of year** | **₱4,392** | **₱3,275** | **₱7,667** | ₱4,420 | ₱3,342 | ₱7,762 |

| | Parent Company | | | | | |
|---|---|---|---|---|---|---|
| | 2020 | | | 2019 | | |
| | **Land** | **Buildings and Improvements** | **Total** | Land | Buildings and Improvements | Total |
| **Cost** | | | | | | |
| Balance at beginning of year | **₱3,571** | **₱1,418** | **₱4,989** | ₱3,099 | ₱1,453 | ₱4,552 |
| Impact of merger (Note 11) | **1** | – | **1** | – | – | – |
| Additions | **83** | **140** | **223** | 758 | 111 | 869 |
| Disposals | **(109)** | **(103)** | **(212)** | (286) | (148) | (434) |
| Reclassification/others | **14** | – | **14** | – | 2 | 2 |
| **Balance at end of year** | **3,560** | **1,455** | **5,015** | 3,571 | 1,418 | 4,989 |
| **Accumulated depreciation and amortization** | | | | | | |
| Balance at beginning of year | – | **642** | **642** | – | 665 | 665 |
| Depreciation and amortization | – | **39** | **39** | – | 39 | 39 |
| Disposals | – | **(46)** | **(46)** | – | (64) | (64) |
| Reclassification/others | – | – | – | – | 2 | 2 |
| **Balance at end of year** | – | **635** | **635** | – | 642 | 642 |
| **Allowance for impairment losses** (Note 15) | | | | | | |
| Balance at beginning of year | **1,016** | **40** | **1,056** | 1,022 | 40 | 1,062 |
| Disposals | **(5)** | **(1)** | **(6)** | (5) | (2) | (7) |
| Reclassification/others | **(39)** | – | **(39)** | (1) | 2 | 1 |
| **Balance at end of year** | **972** | **39** | **1,011** | 1,016 | 40 | 1,056 |
| **Net book value at end of year** | **₱2,588** | **₱781** | **₱3,369** | ₱2,555 | ₱736 | ₱3,291 |

As of December 31, 2020 and 2019, foreclosed investment properties still subject to redemption period by the borrowers amounted to ₱661.4 million and ₱1.0 billion, respectively, for the Group and ₱57.6 million and ₱150.8 million, respectively, for the Parent Company.

As of December 31, 2020 and 2019, aggregate market value of investment properties amounted to ₱14.5 billion and ₱14.3 billion, respectively, for the Group and ₱7.4 billion and ₱7.2 billion, respectively, for the Parent Company, of which ₱8.4 billion and ₱8.1 billion, respectively for the Group and ₱7.3 billion and ₱7.1 billion, respectively for the Parent Company were determined by independent external appraisers. Information about the fair value measurement of investment properties are also presented in Note 5.

Rental income on investment properties (included in 'Leasing income' in the statements of income) in 2020, 2019 and 2018 amounted to ₱88.1 million, ₱85.1 million and ₱67.3 million, respectively, for the Group. In 2018, rental income on investment properties amounted to ₱1.0 million for the Parent Company (Note 13).

Direct operating expenses on investment properties that generated rental income (included under 'Litigation expenses') in 2020, 2019 and 2018 amounted to ₱0.1 million, ₱0.1 million and ₱0.4 million, respectively, for the Group. In 2018, direct operating expenses on investment properties that generated rental income amounted to ₱0.3 million for the Parent Company. Direct operating expenses on investment properties that did not generate rental income (included under 'Litigation expenses') in 2020, 2019 and 2018 amounted to ₱156.0 million, ₱286.4 million and ₱257.9 million, respectively, for the Group and ₱63.3 million, ₱90.6 million and ₱102.5 million, respectively, for the Parent Company (Note 25).

Net gains from sale of investment properties (included in 'Profit from assets sold' in the statements of income) in 2020, 2019 and 2018 amounted to ₱229.4 million, ₱605.4 million and ₱883.3 million, respectively, for the Group and ₱81.7 million, ₱189.5 million and ₱322.4 million, respectively, for the Parent Company (Note 31).

## 13. **Leases**

Group as a Lessee
As of December 31, 2020 and 2019, 59.77% and 59.69% of the Parent Company's branch sites are under lease arrangements. Also, some of its subsidiaries lease the premises occupied by their Head Offices and most of their branches. The lease contracts are for periods ranging from 1 to 29 years and some are renewable at the Group's option under certain terms and conditions. Various lease contracts include escalation clauses, which bear an annual rent increase of 2% to 20%. As of December 31, 2020 and 2019, the Group has no contingent rent payable.

The carrying amounts of lease liabilities (included in 'Other Liabilities' in Note 21) are as follows:

| | **Consolidated** | | **Parent Company** | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Balance at beginning of year | **₱4,038** | ₱4,530 | **₱2,160** | ₱2,407 |
| Impact of merger (Note 11) | **–** | – | **55** | – |
| Additions | **1,204** | 657 | **816** | 338 |
| Expiry/termination | **(126)** | (31) | **(100)** | – |
| Accretion of interest | **252** | 319 | **127** | 170 |
| Payments | **(1,409)** | (1,436) | **(773)** | (754) |
| Others | **(37)** | (1) | **(37)** | (1) |
| | **₱3,922** | ₱4,038 | **₱2,248** | ₱2,160 |

With the adoption of PFRS 16, the Group and the Parent Company recognized the following:

| | **Consolidated** | | **Parent Company** | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Interest expense on lease liabilities | **₱252** | ₱319 | **₱127** | ₱170 |
| Rent expense from short-term leases and leases of low-value assets | **872** | 736 | **708** | 414 |

Prior to PFRS 16 adoption, rent expense (included in 'Occupancy and equipment-related costs' in the statements of income) in 2018 amounted to ₱2.4 billion for the Group and ₱1.3 billion for the Parent Company.

Future minimum rentals payable under non-cancelable leases follows:

| | Consolidated | | Parent Company | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Within one year | **₱1,213** | ₱1,553 | **₱705** | ₱824 |
| After one year but not more than five years | **2,593** | 3,075 | **1,606** | 1,659 |
| More than five years | **666** | 903 | **457** | 595 |
| | **₱4,472** | ₱5,531 | **₱2,768** | ₱3,078 |

As of December 31, 2020 and 2019, the Group and the Parent Company have undiscounted potential future rental payments arising from extension options expected not to be exercised and thus, not included in the calculation of lease liability amounting to ₱95.0 million and ₱89.3 million, respectively, for the Group, and ₱89.1 million for the Parent Company. In addition, as of December 31, 2020 and 2019, the Group has undiscounted potential future rental payments amounting to nil and ₱6.6 million, respectively, which were not included in the calculation of lease liability due to expected exercise of pre-termination options.

Group as a Lessor
The Group has entered into commercial property leases on its investment property portfolio, consisting of the Group's available office spaces and investment properties and lease agreements over various items of machinery and equipment which are non-cancelable and have remaining non-cancelable lease terms of between one to six years. In 2020, 2019 and 2018, leasing income amounted to ₱2.0 billion, ₱2.1 billion and ₱2.3 billion, respectively, for the Group and ₱200.3 million, ₱210.5 million and ₱223.6 million, respectively, for the Parent Company.

Future minimum rentals receivable under non-cancelable operating leases follows:

| | Consolidated | | Parent Company | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Within one year | **₱928** | ₱875 | **₱86** | ₱86 |
| After one year but not more than five years | **3,263** | 776 | **84** | 121 |
| More than five years | **172** | – | **–** | – |
| | **₱4,363** | ₱1,651 | **₱170** | ₱207 |

Finance Leases
Lease contract receivables under finance leases, which are accounts of ORIX Metro, are due in monthly installments with terms ranging from one to six years. These are broken down as follows (Note 9):

| | **2020** | 2019 |
|---|---|---|
| Within one year | **₱826** | ₱820 |
| After one year but not more than five years | **3,153** | 4,881 |
| Greater than five years | **172** | 171 |
| | **₱4,151** | ₱5,872 |

## 14. **Other Assets**

This account consists of:

| | Consolidated | | Parent Company | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Investment in SPVs | **₱8,857** | ₱8,857 | **₱8,857** | ₱8,857 |
| Customized system development cost | **2,914** | 1,616 | **2,914** | 1,616 |
| Software costs - net | **1,877** | 2,080 | **1,343** | 1,011 |
| Chattel properties acquired in foreclosure - net | **1,527** | 1,093 | **21** | 32 |
| Residual value of leased assets | **930** | 1,135 | **–** | – |
| Creditable withholding tax | **889** | 1,692 | **276** | 1,150 |
| Prepaid expenses | **738** | 730 | **373** | 193 |
| Documentary and postage stamps on hand | **389** | 486 | **321** | 339 |
| Returned checks and other cash items | **250** | 407 | **238** | 378 |
| Assets held under joint operations (Note 31) | **219** | 219 | **219** | 219 |
| Interoffice float items | **13** | 1,643 | **4** | 1,654 |
| Miscellaneous (Note 27) | **4,872** | 5,927 | **3,763** | 4,671 |
| | **23,475** | 25,885 | **18,329** | 20,120 |
| Less allowance for impairment losses | **10,291** | 10,311 | **10,282** | 10,282 |
| | **₱13,184** | ₱15,574 | **₱8,047** | ₱9,838 |

Investment in SPVs represents subordinated notes issued by Cameron Granville 3 Asset Management, Inc. and LNC 3 Asset Management, Inc. with face amount of ₱9.4 billion and ₱2.6 billion, respectively. These notes are non-interest bearing and payable over five (5) years starting April 1, 2006, with rollover of two (2) years at the option of the note issuers. These were received by the Parent Company on April 1, 2006 in exchange for the subordinated note issued by Asia Recovery Corporation (ARC) in 2003 with face amount of ₱11.9 billion. The subordinated note issued by ARC represents payment on the non-performing assets (NPAs) sold by the Parent Company to ARC in 2003. The related deed of absolute sale was formalized on September 17, 2003 and approved by the BSP on November 28, 2003, having qualified as a true sale. The subordinated notes have gross carrying amount of ₱8.9 billion and are fully provided with allowance for impairment losses.

Movements in software costs account follow:

| | Consolidated | | Parent Company | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| **Cost** | | | | |
| Balance at beginning of year | **₱6,063** | ₱5,164 | **₱2,710** | ₱2,165 |
| Impact of merger (Note 11) | **–** | – | **1,336** | – |
| Additions | **532** | 1,050 | **369** | 606 |
| Others | **(50)** | (151) | **–** | (61) |
| **Balance at end of year** | **6,545** | 6,063 | **4,415** | 2,710 |
| **Accumulated amortization** | | | | |
| Balance at beginning of year | **3,983** | 3,364 | **1,699** | 1,500 |
| Impact of merger (Note 11) | **–** | – | **865** | – |
| Amortization | **680** | 632 | **498** | 241 |
| Others | **5** | (13) | **10** | (42) |
| **Balance at end of year** | **4,668** | 3,983 | **3,072** | 1,699 |
| **Net book value at end of year** | **₱1,877** | ₱2,080 | **₱1,343** | ₱1,011 |

Movements in chattel properties acquired in foreclosure follow:

| | Consolidated | | Parent Company | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| **Cost** | | | | |
| Balance at beginning of year | **₱1,310** | ₱1,036 | **₱57** | ₱49 |
| Additions | **4,243** | 3,750 | **10** | 29 |
| Disposals/others | **(3,767)** | (3,476) | **(27)** | (21) |
| **Balance at end of year** | **1,786** | 1,310 | **40** | 57 |
| **Accumulated depreciation and amortization** | | | | |
| Balance at beginning of year | **208** | 192 | **23** | 22 |
| Depreciation and amortization | **389** | 313 | **8** | 10 |
| Disposals/others | **(346)** | (297) | **(14)** | (9) |
| **Balance at end of year** | **251** | 208 | **17** | 23 |
| **Allowance for impairment losses** | **8** | 9 | **2** | 2 |
| **Net book value at end of year** | **₱1,527** | ₱1,093 | **₱21** | ₱32 |

Assets held under joint operations are parcels of land and former branch sites of the Parent Company which were contributed to separate joint operations with FLI and Federal Land Orix Corporation (Note 31). These are carried at costs which are lower than the net realizable values.

## 15. Allowance for Credit and Impairment Losses

An analysis of changes in the ECL allowances in 2020 and 2019 is as follows:

| | Consolidated | | | | | |
|---|---|---|---|---|---|---|
| | | Interbank | Investment Securities at FVOCI | | | Investment |
| | Due from Other Banks | Loans Receivable | Stage 1 | Stage 3 | Total | Securities at Amortized Cost |
| **2020** | | | | | | |
| ECL allowance, January 1, 2020 | **₱5** | **₱1** | **₱118** | **₱30** | **₱148** | **₱26** |
| New assets originated | **124** | **14** | **14** | – | **14** | – |
| Assets derecognized or repaid | **(5)** | **(1)** | **(23)** | **(30)** | **(53)** | – |
| Transfers to/(from) Stage 1 | – | – | – | – | – | – |
| Transfers to/(from) Stage 3 | – | – | – | – | – | – |
| Changes in assumptions | – | – | **32** | **–** | **32** | **(4)** |
| ECL allowance, December 31, 2020 | **₱124** | **₱14** | **₱141** | **₱–** | **₱141** | **₱22** |
| 2019 | | | | | | |
| ECL allowance, January 1, 2019 | ₱6 | ₱12 | ₱248 | ₱– | ₱248 | ₱48 |
| New assets originated | 5 | 1 | 176 | – | 176 | 1 |
| Assets derecognized or repaid | (6) | (12) | (87) | – | (87) | – |
| Transfers to/(from) Stage 1 | – | – | (2) | – | (2) | – |
| Transfers to/(from) Stage 3 | – | – | – | 30 | 30 | – |
| Changes in assumptions | – | – | (217) | – | (217) | (23) |
| ECL allowance, December 31, 2019 | ₱5 | ₱1 | ₱118 | ₱30 | ₱148 | ₱26 |

| | Consolidated | | | |
|---|---|---|---|---|
| | Receivables from Customers | | | |
| | Stage 1 | Stage 2 | Stage 3 | Total |
| **2020** | | | | |
| Commercial loans | | | | |
| ECL allowance, January 1, 2020 | **₱2,972** | **₱820** | **₱7,285** | **₱11,077** |
| New assets originated | **7,225** | **–** | – | **7,225** |
| Assets derecognized or repaid | **(234)** | **(319)** | **(694)** | **(1,247)** |
| Amounts written off | – | **–** | **(73)** | **(73)** |
| Transfers to/(from) Stage 1 | **(2,661)** | **–** | – | **(2,661)** |
| Transfers to/(from) Stage 2 | – | **7,747** | – | **7,747** |
| Transfers to/(from) Stage 3 | – | **–** | **2,060** | **2,060** |
| Changes in assumptions | **3,751** | **1,180** | **1,776** | **6,707** |
| ECL allowance, December 31, 2020 | **11,053** | **9,428** | **10,354** | **30,835** |

| | Consolidated | | | |
|---|---|---|---|---|
| | Receivables from Customers | | | |
| | Stage 1 | Stage 2 | Stage 3 | Total |
| Auto loans | | | | |
| ECL allowance, January 1, 2020 | **₱733** | **₱539** | **₱702** | **₱1,974** |
| New assets originated | **325** | **–** | **–** | **325** |
| Assets derecognized or repaid | **(4)** | **(1)** | **(8)** | **(13)** |
| Amounts written off | **–** | **–** | **(746)** | **(746)** |
| Transfers to/(from) Stage 1 | **1,266** | **–** | **–** | **1,266** |
| Transfers to/(from) Stage 2 | **–** | **(218)** | **–** | **(218)** |
| Transfers to/(from) Stage 3 | **–** | **–** | **(823)** | **(823)** |
| Changes in assumptions | **(879)** | **984** | **2,407** | **2,512** |
| ECL allowance, December 31, 2020 | **1,441** | **1,304** | **1,532** | **4,277** |
| Residential mortgage loans | | | | |
| ECL allowance, January 1, 2020 | **124** | **186** | **397** | **707** |
| New assets originated | **96** | **–** | – | **96** |
| Assets derecognized or repaid | **(8)** | **(11)** | **(29)** | **(48)** |
| Amounts written off | **–** | **–** | **(84)** | **(84)** |
| Transfers to/(from) Stage 1 | **311** | **–** | – | **311** |
| Transfers to/(from) Stage 2 | **–** | **635** | – | **635** |
| Transfers to/(from) Stage 3 | **–** | **–** | **(361)** | **(361)** |
| Changes in assumptions | **17** | **471** | **846** | **1,334** |
| ECL allowance, December 31, 2020 | **540** | **1,281** | **769** | **2,590** |
| Trade loans | | | | |
| ECL allowance, January 1, 2020 | **149** | **11** | **107** | **267** |
| New assets originated | **745** | **–** | – | **745** |
| Assets derecognized or repaid | **(83)** | **(7)** | – | **(90)** |
| Transfers to/(from) Stage 1 | **(436)** | **–** | – | **(436)** |
| Transfers to/(from) Stage 2 | **–** | **221** | **–** | **221** |
| Transfers to/(from) Stage 3 | **–** | **–** | **269** | **269** |
| Changes in assumptions | **(65)** | **(4)** | **(5)** | **(74)** |
| ECL allowance, December 31, 2020 | **310** | **221** | **371** | **902** |
| Credit card | | | | |
| ECL allowance, January 1, 2020 | **1,392** | **1,683** | **1,506** | **4,581** |
| New assets originated | **198** | **–** | – | **198** |
| Assets derecognized or repaid | **(17)** | **(58)** | **(55)** | **(130)** |
| Amounts written off | **–** | **–** | **(5,996)** | **(5,996)** |
| Transfers to/(from) Stage 1 | **90** | **–** | – | **90** |
| Transfers to/(from) Stage 2 | **–** | **(525)** | – | **(525)** |
| Transfers to/(from) Stage 3 | **–** | **–** | **435** | **435** |
| Changes in assumptions | **847** | **1,580** | **8,652** | **11,079** |
| ECL allowance, December 31, 2020 | **2,510** | **2,680** | **4,542** | **9,732** |
| Other loans | | | | |
| ECL allowance, January 1, 2020 | **257** | **258** | **742** | **1,257** |
| New assets originated | **1,272** | **–** | **–** | **1,272** |
| Assets derecognized or repaid | **(29)** | **(184)** | **(269)** | **(482)** |
| Amounts written off | **–** | **–** | **(315)** | **(315)** |
| Transfers to/(from) Stage 1 | **(920)** | **–** | **–** | **(920)** |
| Transfers to/(from) Stage 2 | **–** | **519** | **–** | **519** |
| Transfers to/(from) Stage 3 | **–** | **–** | **401** | **401** |
| Changes in assumptions | **(15)** | **(265)** | **612** | **332** |
| ECL allowance, December 31, 2020 | **565** | **328** | **1,171** | **2,064** |
| Total receivables from customers | | | | |
| ECL allowance, January 1, 2020 | **5,627** | **3,497** | **10,739** | **19,863** |
| New assets originated | **9,861** | **–** | – | **9,861** |
| Assets derecognized or repaid | **(375)** | **(580)** | **(1,055)** | **(2,010)** |
| Amounts written off | **–** | **–** | **(7,214)** | **(7,214)** |
| Transfers to/(from) Stage 1 | **(2,350)** | **–** | – | **(2,350)** |
| Transfers to/(from) Stage 2 | **–** | **8,379** | – | **8,379** |
| Transfers to/(from) Stage 3 | **–** | **–** | **1,981** | **1,981** |
| Changes in assumptions | **3,656** | **3,946** | **14,288** | **21,890** |
| ECL allowance, December 31, 2020 | **₱16,419** | **₱15,242** | **₱18,739** | **₱50,400** |
| 2019 | | | | |
| Commercial loans | | | | |
| ECL allowance, January 1, 2019 | ₱2,093 | ₱781 | ₱5,639 | ₱8,513 |
| New assets originated | 3,408 | – | – | 3,408 |
| Assets derecognized or repaid | (762) | (497) | (631) | (1,890) |
| Amounts written off | – | – | (293) | (293) |
| Transfers to/(from) Stage 1 | (1,730) | – | – | (1,730) |
| Transfers to/(from) Stage 2 | – | 724 | – | 724 |
| Transfers to/(from) Stage 3 | – | – | 1,878 | 1,878 |
| Changes in assumptions | (37) | (188) | 692 | 467 |
| ECL allowance, December 31, 2019 | 2,972 | 820 | 7,285 | 11,077 |

| | Consolidated | | | |
|---|---|---|---|---|
| | Receivables from Customers | | | |
| | Stage 1 | Stage 2 | Stage 3 | Total |
| Auto loans | | | | |
| ECL allowance, January 1, 2019 | ₱538 | ₱1,077 | ₱1,048 | ₱2,663 |
| New assets originated | 1,466 | – | – | 1,466 |
| Assets derecognized or repaid | (1,147) | (134) | (708) | (1,989) |
| Amounts written off | (1) | (45) | (111) | (157) |
| Transfers to/(from) Stage 1 | (122) | – | – | (122) |
| Transfers to/(from) Stage 2 | – | (358) | – | (358) |
| Transfers to/(from) Stage 3 | – | – | 424 | 424 |
| Changes in assumptions | (1) | (1) | 49 | 47 |
| ECL allowance, December 31, 2019 | 733 | 539 | 702 | 1,974 |
| Residential mortgage loans | | | | |
| ECL allowance, January 1, 2019 | 122 | 280 | 466 | 868 |
| New assets originated | 51 | – | – | 51 |
| Assets derecognized or repaid | (21) | (31) | (56) | (108) |
| Transfers to/(from) Stage 1 | (17) | – | – | (17) |
| Transfers to/(from) Stage 2 | – | (61) | – | (61) |
| Transfers to/(from) Stage 3 | – | – | 2 | 2 |
| Changes in assumptions | (11) | (2) | (15) | (28) |
| ECL allowance, December 31, 2019 | 124 | 186 | 397 | 707 |
| Trade loans | | | | |
| ECL allowance, January 1, 2019 | 224 | 21 | 95 | 340 |
| New assets originated | 96 | – | – | 96 |
| Assets derecognized or repaid | (52) | (16) | – | (68) |
| Transfers to/(from) Stage 1 | (12) | – | – | (12) |
| Transfers to/(from) Stage 2 | – | 7 | – | 7 |
| Transfers to/(from) Stage 3 | – | – | 5 | 5 |
| Changes in assumptions | (107) | (1) | 7 | (101) |
| ECL allowance, December 31, 2019 | 149 | 11 | 107 | 267 |
| Credit card | | | | |
| ECL allowance, January 1, 2019 | 917 | 1,841 | 1,328 | 4,086 |
| New assets originated | 58 | – | – | 58 |
| Amounts written off | – | – | (4,758) | (4,758) |
| Transfers to/(from) Stage 1 | 427 | – | – | 427 |
| Transfers to/(from) Stage 2 | – | (65) | – | (65) |
| Transfers to/(from) Stage 3 | – | – | 5,043 | 5,043 |
| Changes in assumptions | (10) | (93) | (107) | (210) |
| ECL allowance, December 31, 2019 | 1,392 | 1,683 | 1,506 | 4,581 |
| Other loans | | | | |
| ECL allowance, January 1, 2019 | 148 | 289 | 722 | 1,159 |
| New assets originated | 609 | – | – | 609 |
| Assets derecognized or repaid | (349) | (27) | (223) | (599) |
| Amounts written off | (1) | (96) | (866) | (963) |
| Transfers to/(from) Stage 1 | (306) | – | – | (306) |
| Transfers to/(from) Stage 2 | – | 171 | – | 171 |
| Transfers to/(from) Stage 3 | – | – | 444 | 444 |
| Changes in assumptions | 156 | (79) | 665 | 742 |
| ECL allowance, December 31, 2019 | 257 | 258 | 742 | 1,257 |
| Total receivables from customers | | | | |
| ECL allowance, January 1, 2019 | 4,042 | 4,289 | 9,298 | 17,629 |
| New assets originated | 5,688 | – | – | 5,688 |
| Assets derecognized or repaid | (2,331) | (705) | (1,618) | (4,654) |
| Amounts written off | (2) | (141) | (6,028) | (6,171) |
| Transfers to/(from) Stage 1 | (1,760) | – | – | (1,760) |
| Transfers to/(from) Stage 2 | – | 418 | – | 418 |
| Transfers to/(from) Stage 3 | – | – | 7,796 | 7,796 |
| Changes in assumptions | (10) | (364) | 1,291 | 917 |
| ECL allowance, December 31, 2019 | ₱5,627 | ₱3,497 | ₱10,739 | ₱19,863 |

| | Consolidated | | | |
|---|---|---|---|---|
| | Other Receivables | | | |
| | Stage1 | Stage 2 | Stage 3 | Total |
| **2020** | | | | |
| ECL allowance, January 1, 2020 | **₱5** | **₱12** | **₱1,198** | **₱1,215** |
| New assets originated | **902** | **–** | **–** | **902** |
| Assets derecognized or repaid | **(241)** | **(8)** | **(175)** | **(424)** |
| Amounts written off | **–** | **–** | **–** | **–** |
| Transfers to/(from) Stage 1 | **(194)** | **–** | **–** | **(194)** |
| Transfers to/(from) Stage 2 | **–** | **29** | **–** | **29** |
| Transfers to/(from) Stage 3 | **–** | **–** | **180** | **180** |
| Changes in assumptions | **2** | **–** | **(44)** | **(42)** |
| ECL allowance, December 31, 2020 | **₱474** | **₱33** | **₱1,159** | **₱1,666** |
| 2019 | | | | |
| ECL allowance, January 1, 2019 | ₱194 | ₱80 | ₱1,039 | ₱1,313 |
| New assets originated | 262 | – | – | 262 |
| Assets derecognized or repaid | (29) | (40) | (178) | (247) |
| Amounts written off | – | – | (1) | (1) |
| Transfers to/(from) Stage 1 | (386) | – | – | (386) |
| Transfers to/(from) Stage 2 | – | (20) | – | (20) |
| Transfers to/(from) Stage 3 | – | – | 273 | 273 |
| Changes in assumptions | (36) | (8) | 65 | 21 |
| ECL allowance, December 31, 2019 | ₱5 | ₱12 | ₱1,198 | ₱1,215 |

| | Consolidated | | | |
|---|---|---|---|---|
| | Loan Commitments and Financial Guarantees | | | |
| | Stage1 | Stage 2 | Stage 3 | Total |
| **2020** | | | | |
| ECL allowance, January 1, 2020 | **₱825** | **₱7** | **₱–** | **₱832** |
| New assets originated or purchased | **270** | **–** | **–** | **270** |
| Assets derecognized or repaid | **(38)** | **(30)** | **–** | **(68)** |
| Transfers to/(from) Stage 1 | **(145)** | **–** | **–** | **(145)** |
| Transfers to/(from) Stage 2 | **–** | **146** | **–** | **146** |
| Changes in assumptions | **263** | **183** | **–** | **446** |
| ECL allowance, December 31, 2020 | **₱1,175** | **₱306** | **₱–** | **₱1,481** |
| 2019 | | | | |
| ECL allowance, January 1, 2019 | ₱943 | ₱3 | ₱– | ₱946 |
| New assets originated or purchased | 41 | – | – | 41 |
| Assets derecognized or repaid | (14) | – | – | (14) |
| Transfers to/(from) Stage 1 | (3) | – | – | (3) |
| Transfers to/(from) Stage 2 | – | 4 | – | 4 |
| Changes in assumptions | (142) | – | – | (142) |
| ECL allowance, December 31, 2019 | ₱825 | ₱7 | ₱– | ₱832 |

| | Parent Company | | | | | |
|---|---|---|---|---|---|---|
| | | | Investment Securities at FVOCI | | | Investment Securities at Amortized Cost |
| | Due from Other Banks | Interbank Loans Receivable | Stage 1 | Stage 3 | Total | |
| **2020** | | | | | | |
| ECL allowance, January 1, 2020 | **₱–** | **₱1** | **₱115** | **₱30** | **₱145** | **₱–** |
| New assets originated | **–** | **5** | **14** | **–** | **14** | **–** |
| Assets derecognized or repaid | **–** | **(1)** | **(23)** | **(30)** | **(53)** | **–** |
| Transfers to/(from) Stage 1 | **–** | **–** | **–** | **–** | **–** | **–** |
| Transfers to/(from) Stage 3 | **–** | **–** | **–** | **–** | **–** | **–** |
| Changes in assumptions | **–** | **–** | **35** | **–** | **35** | **–** |
| ECL allowance, December 31, 2020 | **₱–** | **₱5** | **₱141** | **₱–** | **₱141** | **₱–** |
| 2019 | | | | | | |
| ECL allowance, January 1, 2019 | ₱– | ₱12 | ₱244 | ₱– | ₱244 | ₱48 |
| New assets originated | – | 1 | 177 | – | 177 | – |
| Assets derecognized or repaid | – | (12) | (87) | – | (87) | – |
| Transfers to/(from) Stage 1 | – | – | (2) | – | (2) | – |
| Transfers to/(from) Stage 3 | – | – | – | 30 | 30 | – |
| Changes in assumptions | – | – | (217) | – | (217) | (48) |
| ECL allowance, December 31, 2019 | ₱– | ₱1 | ₱115 | ₱30 | ₱145 | ₱– |

| | Parent Company | | | | |
|---|---|---|---|---|---|
| | Receivables from Customers | | | | |
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| **2020** | | | | | |
| Commercial loans | | | | | |
| ECL allowance, January 1, 2020 | **₱2,086** | **₱718** | **₱3,942** | **₱2,991** | **₱9,737** |
| New assets originated | **5,887** | **–** | **–** | **–** | **5,887** |
| Assets derecognized or repaid | **(230)** | **(190)** | **(613)** | **–** | **(1,033)** |
| Amounts written off | **–** | **–** | **(1)** | **–** | **(1)** |
| Transfers to/(from) Stage 1 | **(2,182)** | **–** | **–** | **–** | **(2,182)** |
| Transfers to/(from) Stage 2 | **–** | **7,613** | **–** | **–** | **7,613** |
| Transfers to/(from) Stage 3 | **–** | **–** | **1,714** | **–** | **1,714** |
| Changes in assumptions | **3,963** | **1,024** | **1,425** | **22** | **6,434** |
| ECL allowance, December 31, 2020 | **9,524** | **9,165** | **6,467** | **3,013** | **28,169** |
| Auto loans | | | | | |
| ECL allowance, January 1, 2020 | **19** | **6** | **119** | **–** | **144** |
| New assets originated | **83** | **–** | **–** | **–** | **83** |
| Assets derecognized or repaid | **(4)** | **(1)** | **(8)** | **–** | **(13)** |
| Amounts written off | **–** | **–** | **–** | **–** | **–** |
| Transfers to/(from) Stage 1 | **(4)** | **–** | **–** | **–** | **(4)** |
| Transfers to/(from) Stage 2 | **–** | **170** | **–** | **–** | **170** |
| Transfers to/(from) Stage 3 | **–** | **–** | **59** | **–** | **59** |
| Changes in assumptions | **128** | **–** | **13** | **–** | **141** |
| ECL allowance, December 31, 2020 | **222** | **175** | **183** | **–** | **580** |
| Residential mortgage loans | | | | | |
| ECL allowance, January 1, 2020 | **70** | **21** | **253** | **–** | **344** |
| New assets originated | **82** | **–** | **–** | **–** | **82** |
| Assets derecognized or repaid | **(8)** | **(11)** | **(29)** | **–** | **(48)** |
| Transfers to/(from) Stage 1 | **(37)** | **–** | **–** | **–** | **(37)** |
| Transfers to/(from) Stage 2 | **–** | **804** | **–** | **–** | **804** |
| Transfers to/(from) Stage 3 | **–** | **–** | **82** | **–** | **82** |
| Changes in assumptions | **327** | **14** | **11** | **–** | **352** |
| ECL allowance, December 31, 2020 | **434** | **828** | **317** | **–** | **1,579** |
| Trade loans | | | | | |
| ECL allowance, January 1, 2020 | **149** | **11** | **107** | **–** | **267** |
| New assets originated | **745** | **–** | **–** | **–** | **745** |
| Assets derecognized or repaid | **(84)** | **(7)** | **–** | **–** | **(91)** |
| Transfers to/(from) Stage 1 | **(437)** | **–** | **–** | **–** | **(437)** |
| Transfers to/(from) Stage 2 | **–** | **221** | **–** | **–** | **221** |
| Transfers to/(from) Stage 3 | **–** | **–** | **269** | **–** | **269** |
| Changes in assumptions | **(63)** | **(4)** | **(5)** | **–** | **(72)** |
| ECL allowance, December 31, 2020 | **310** | **221** | **371** | **–** | **902** |
| Credit card | | | | | |
| ECL allowance, January 1, 2020 | **–** | **–** | **–** | **–** | **–** |
| Impact of merger (Note 11) | **1,392** | **1,683** | **1,506** | **–** | **4,581** |
| New assets originated | **198** | **–** | **–** | **–** | **198** |
| Assets derecognized or repaid | **(17)** | **(58)** | **(55)** | **–** | **(130)** |
| Amounts written off | **–** | **–** | **(5,996)** | **–** | **(5,996)** |
| Transfers to/(from) Stage 1 | **91** | **–** | **–** | **–** | **91** |
| Transfers to/(from) Stage 2 | **–** | **(525)** | **–** | **–** | **(525)** |
| Transfers to/(from) Stage 3 | **–** | **–** | **434** | **–** | **434** |
| Changes in assumptions | **846** | **1,579** | **8,654** | **–** | **11,079** |
| ECL allowance, December 31, 2020 | **2,510** | **2,679** | **4,543** | **–** | **9,732** |
| Other loans | | | | | |
| ECL allowance, January 1, 2020 | **1** | **–** | **36** | **–** | **37** |
| New assets originated | **5** | **–** | **–** | **–** | **5** |
| Assets derecognized or repaid | **–** | **–** | **–** | **–** | **–** |
| Transfers to/(from) Stage 3 | **–** | **–** | **1** | **–** | **1** |
| Changes in assumptions | **3** | **–** | **1** | **–** | **4** |
| ECL allowance, December 31, 2020 | **9** | **–** | **38** | **–** | **47** |
| Total receivables from customers | | | | | |
| ECL allowance, January 1, 2020 | **2,325** | **756** | **4,457** | **2,991** | **10,529** |
| Impact of merger | **1,392** | **1,683** | **1,506** | **–** | **4,581** |
| New assets originated | **7,000** | **–** | **–** | **–** | **7,000** |
| Assets derecognized or repaid | **(343)** | **(267)** | **(705)** | **–** | **(1,315)** |
| Amounts written off | **–** | **–** | **(5,997)** | **–** | **(5,997)** |
| Transfers to/(from) Stage 1 | **(2,569)** | **–** | **–** | **–** | **(2,569)** |
| Transfers to/(from) Stage 2 | **–** | **8,283** | **–** | **–** | **8,283** |
| Transfers to/(from) Stage 3 | **–** | **–** | **2,559** | **–** | **2,559** |
| Changes in assumptions | **5,204** | **2,613** | **10,099** | **22** | **17,938** |
| ECL allowance, December 31, 2020 | **₱13,009** | **₱13,068** | **₱11,919** | **₱3,013** | **₱41,009** |

| | Parent Company | | | | |
|---|---|---|---|---|---|
| | Receivables from Customers | | | | |
| | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| 2019 | | | | | |
| Commercial loans | | | | | |
| ECL allowance, January 1, 2019 | ₱1,563 | ₱700 | ₱2,604 | ₱2,656 | ₱7,523 |
| New assets originated | 2,889 | – | – | – | 2,889 |
| Assets derecognized or repaid | (678) | (488) | (381) | (95) | (1,642) |
| Amounts written off | – | – | (233) | – | (233) |
| Transfers to/(from) Stage 1 | (1,489) | – | – | – | (1,489) |
| Transfers to/(from) Stage 2 | – | 629 | – | – | 629 |
| Transfers to/(from) Stage 3 | – | – | 1,651 | – | 1,651 |
| Changes in assumptions | (199) | (123) | 301 | 430 | 409 |
| ECL allowance, December 31, 2019 | 2,086 | 718 | 3,942 | 2,991 | 9,737 |
| Auto loans | | | | | |
| ECL allowance, January 1, 2019 | 66 | 86 | 85 | – | 237 |
| New assets originated | 7 | – | – | – | 7 |
| Assets derecognized or repaid | (53) | (18) | (15) | – | (86) |
| Amounts written off | – | – | (5) | – | (5) |
| Transfers to/(from) Stage 1 | (1) | – | – | – | (1) |
| Transfers to/(from) Stage 2 | – | (62) | – | – | (62) |
| Transfers to/(from) Stage 3 | – | – | 6 | – | 6 |
| Changes in assumptions | – | – | 48 | – | 48 |
| ECL allowance, December 31, 2019 | 19 | 6 | 119 | – | 144 |
| Residential mortgage loans | | | | | |
| ECL allowance, January 1, 2019 | 68 | 106 | 300 | – | 474 |
| New assets originated | 10 | – | – | – | 10 |
| Assets derecognized or repaid | (1) | (13) | (22) | – | (36) |
| Transfers to/(from) Stage 1 | 4 | – | – | – | 4 |
| Transfers to/(from) Stage 2 | – | (70) | – | – | (70) |
| Transfers to/(from) Stage 3 | – | – | (11) | – | (11) |
| Changes in assumptions | (11) | (2) | (14) | – | (27) |
| ECL allowance, December 31, 2019 | 70 | 21 | 253 | – | 344 |
| Trade loans | | | | | |
| ECL allowance, January 1, 2019 | 223 | 22 | 95 | – | 340 |
| New assets originated | 96 | – | – | – | 96 |
| Assets derecognized or repaid | (51) | (17) | – | – | (68) |
| Transfers to/(from) Stage 1 | (12) | – | – | – | (12) |
| Transfers to/(from) Stage 2 | – | 7 | – | – | 7 |
| Transfers to/(from) Stage 3 | – | – | 5 | – | 5 |
| Changes in assumptions | (107) | (1) | 7 | – | (101) |
| ECL allowance, December 31, 2019 | 149 | 11 | 107 | – | 267 |
| Other loans | | | | | |
| ECL allowance, January 1, 2019 | 1 | – | 40 | – | 41 |
| New assets originated | 14 | – | – | – | 14 |
| Assets derecognized or repaid | (1) | – | (18) | – | (19) |
| Transfers to/(from) Stage 1 | (14) | – | – | – | (14) |
| Transfers to/(from) Stage 3 | – | – | 13 | – | 13 |
| Changes in assumptions | 1 | – | 1 | – | 2 |
| ECL allowance, December 31, 2019 | 1 | – | 36 | – | 37 |
| Total receivables from customers | | | | | |
| ECL allowance, January 1, 2019 | 1,921 | 914 | 3,124 | 2,656 | 8,615 |
| New assets originated | 3,016 | – | – | – | 3,016 |
| Assets derecognized or repaid | (784) | (536) | (436) | (95) | (1,851) |
| Amounts written off | – | – | (238) | – | (238) |
| Transfers to/(from) Stage 1 | (1,512) | – | – | – | (1,512) |
| Transfers to/(from) Stage 2 | – | 504 | – | – | 504 |
| Transfers to/(from) Stage 3 | – | – | 1,664 | – | 1,664 |
| Changes in assumptions | (316) | (126) | 343 | 430 | 331 |
| ECL allowance, December 31, 2019 | ₱2,325 | ₱756 | ₱4,457 | ₱2,991 | ₱10,529 |

| | **Parent Company** | | | |
|---|---|---|---|---|
| | **Other Receivables** | | | |
| | **Stage1** | **Stage 2** | **Stage 3** | **Total** |
| **2020** | | | | |
| ECL allowance, January 1, 2020 | **₱5** | **₱5** | **₱804** | **₱814** |
| New assets originated | **109** | **–** | **–** | **109** |
| Assets derecognized or repaid | **(4)** | **(1)** | **(17)** | **(22)** |
| Transfers to/(from) Stage 1 | **(106)** | **–** | **–** | **(106)** |
| Transfers to/(from) Stage 2 | **–** | **17** | **–** | **17** |
| Transfers to/(from) Stage 3 | **–** | **–** | **104** | **104** |
| Changes in assumptions | **2** | **1** | **(45)** | **(42)** |
| ECL allowance, December 31, 2020 | **₱6** | **₱22** | **₱846** | **₱874** |

| | Parent Company | | | |
|---|---|---|---|---|
| | Other Receivables | | | |
| | Stage1 | Stage 2 | Stage 3 | Total |
| 2019 | | | | |
| ECL allowance, January 1, 2019 | ₱188 | ₱54 | ₱672 | ₱914 |
| New assets originated | 218 | – | – | 218 |
| Assets derecognized or repaid | (12) | (44) | (150) | (206) |
| Amounts written off | – | – | (1) | (1) |
| Transfers to/(from) Stage 1 | (353) | – | – | (353) |
| Transfers to/(from) Stage 2 | – | 3 | – | 3 |
| Transfers to/(from) Stage 3 | – | – | 218 | 218 |
| Changes in assumptions | (36) | (8) | 65 | 21 |
| ECL allowance, December 31, 2019 | ₱5 | ₱5 | ₱804 | ₱814 |

| | **Parent Company** | | | |
|---|---|---|---|---|
| | **Loan Commitments and Financial Guarantees** | | | |
| | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| **2020** | | | | |
| ECL allowance, January 1, 2020 | **₱49** | **₱7** | **₱–** | **₱56** |
| Impact of merger | **776** | **–** | **–** | **776** |
| New assets originated | **270** | **–** | **–** | **270** |
| Assets derecognized or repaid | **(38)** | **(30)** | **–** | **(68)** |
| Transfers to/(from) Stage 1 | **(145)** | **–** | **–** | **(145)** |
| Transfers to/(from) Stage 2 | **–** | **146** | **–** | **146** |
| Changes in assumptions | **263** | **183** | **–** | **446** |
| ECL allowance, December 31, 2020 | **₱1,175** | **₱306** | **₱–** | **₱1,481** |
| 2019 | | | | |
| ECL allowance, January 1, 2019 | ₱28 | ₱2 | ₱– | ₱30 |
| New assets originated | 41 | – | – | 41 |
| Assets derecognized or repaid | (14) | – | – | (14) |
| Transfers to/(from) Stage 1 | (4) | – | – | (4) |
| Transfers to/(from) Stage 2 | – | 5 | – | 5 |
| Changes in assumptions | (2) | – | – | (2) |
| ECL allowance, December 31, 2019 | ₱49 | ₱7 | ₱– | ₱56 |

The amounts of "transfers to/(from)" include the changes in the ECL on the exposures transferred from one stage to another during the year.

As of December 31, 2020 and 2019, the ECL allowances on loan commitments and financial guarantees are included in 'Miscellaneous liabilities' under 'Other liabilities' (Note 21).

The increase in the ECL allowances was driven by the adoption of supplemental SICR rules to account for the effect of the COVID-19 pandemic on the credit risk exposures, anticipatory credit downgrades, adjustments to projected recovery rates resulting to increasing LGDs and significantly depressed macroeconomic indicators.

The ECL allowance on accounts receivables of the Group and the Parent Company based on their aging as of December 31, 2020 and 2019 follows:

| | **Consolidated** | | **Parent Company** | |
|---|---|---|---|---|
| Age of accounts receivables | **2020** | 2019 | **2020** | 2019 |
| Up to 1 month | **₱218** | ₱563 | **₱99** | ₱62 |
| > 1 to 2 months | **12** | 15 | **12** | 15 |
| > 2 to 3 months | **4** | 9 | **4** | 7 |
| More than 3 months | **2,943** | 2,558 | **2,436** | 2,495 |
| Total ECL | **₱3,177** | ₱3,145 | **₱2,551** | ₱2,579 |

Below is the breakdown of provision for (reversal of) credit and impairment losses:

| | Consolidated | | | Parent Company | | |
|---|---|---|---|---|---|---|
| | **2020** | 2019 | 2018 | **2020** | 2019 | 2018 |
| Financial assets and other credit-related exposures: | | | | | | |
| Loans and receivables | **₱40,751** | ₱9,627 | ₱7,676 | **₱32,741** | ₱1,645 | ₱748 |
| Investment securities at FVOCI | **(13)** | 11 | 94 | **–** | – | 92 |
| Interbank loans receivable | **13** | (1) | (17) | **4** | (1) | (17) |
| Due from other banks | **7** | – | 4 | **–** | – | – |
| Investment securities at amortized cost | **–** | – | 49 | **–** | – | 49 |
| Loan commitments and financial guarantees | **–** | 1 | (65) | **–** | – | (65) |
| | **40,758** | 9,638 | 7,741 | **32,745** | 1,644 | 807 |
| Non-financial assets: | | | | | | |
| Investment properties | **(3)** | – | 27 | **–** | – | – |
| Investments in associates and a joint venture | **–** | 439 | – | **–** | – | – |
| Other assets | **5** | 1 | 2 | **–** | – | – |
| | **2** | 440 | 29 | **–** | – | – |
| | **₱40,760** | ₱10,078 | ₱7,770 | **₱32,745** | ₱1,644 | ₱807 |

With the foregoing level of allowance for credit and impairment losses, management believes that the Group has sufficient allowance to take care of any losses that the Group may incur from the non-collection or non-realization of its receivables and other risk assets.

## 16. **Deposit Liabilities**

The LTNCDs of the Group and the Parent Company consist of the following:

| BSP Approval | Interest Rate | Issue Date | Maturity Date | **2020** | 2019 |
|---|---|---|---|---|---|
| Parent Company | | | | | |
| September 18, 2014 | 4.00% | October 24,2014 | April 24, 2020 | **₱–** | ₱8,000 |
| September 18, 2014 | 4.25% | November 21, 2014 | November 21, 2021 | **6,250** | 6,250 |
| August 12, 2016 | 3.50% | September 19, 2016 | September 19, 2023 | **8,650** | 8,650 |
| August 12, 2016 | 3.88% | July 20, 2017 | July 20, 2024 | **3,750** | 3,750 |
| July 19, 2018 | 5.38% | October 4, 2018 | April 4, 2024 | **8,680** | 8,680 |
| | | | | **27,330** | 35,330 |
| PSBank | | | | | |
| December 8, 2016 | 3.50% | January 30, 2017 | April 30, 2022 | **3,369** | 3,363 |
| July 13, 2018 | 5.00% | August 9, 2018 | February 9, 2024 | **5,056** | 5,047 |
| | | | | **8,425** | 8,410 |
| | | | | **₱35,755** | ₱43,740 |

On September 18, 2019, the BOD of the Parent Company approved the issuance of PHP LTNCDs of up to ₱25.0 billion in one or more tranches of at least ₱2.0 billion per tranche, and tenors of 5.5 years up to 10 years, subject to market conditions. On January 10, 2020, the BSP approved the Parent Company's application to issue up to ₱25.0 billion LTNCD over a period of one year from BSP approval.

As of December 31, 2020 and 2019, 18.59% and 34.25%, respectively, of the total interest-bearing deposit liabilities of the Group and 14.47% and 31.94%, respectively, of the total interest-bearing deposit liabilities of the Parent Company are subject to periodic interest repricing. In 2020, 2019 and 2018 the remaining peso deposit liabilities (excluding LTNCDs above) earn annual fixed interest rates ranging from 0.00% to 6.59%, while the remaining foreign currency-denominated deposit liabilities of the Parent Company earn annual fixed interest rates ranging from 0.00% to 2.50%, from 0.00% to 3.00%, and from 0.00% to 2.50%, respectively.

Interest expense on deposit liabilities consists of:

| | Consolidated | | | Parent Company | | |
|---|---|---|---|---|---|---|
| | **2020** | 2019 | 2018 | **2020** | 2019 | 2018 |
| CASA | **₱2,193** | ₱2,388 | ₱2,351 | **₱1,861** | ₱1,987 | ₱1,948 |
| Time | **7,457** | 19,126 | 15,240 | **4,581** | 13,806 | 10,353 |
| LTNCD | **1,676** | 1,893 | 1,377 | **1,282** | 1,500 | 1,146 |
| | **₱11,326** | ₱23,407 | ₱18,968 | **₱7,724** | ₱17,293 | ₱13,447 |

Reserve Requirement
In 2020, BSP Circular Nos. 1082 and 1092 were issued reducing the reserve requirements against deposit and deposit substitute liabilities. As of December 31, 2020, non-FCDU deposit liabilities of the Parent Company and deposit substitutes of FMIC and ORIX Metro are subject to required reserves of 12% from 14% effective reserve week April 3, 2020 while non-FCDU deposit liabilities of PSBank are subject to required reserves of 3% from 4% effective reserve week July 31, 2020. Reserves requirement for peso-denominated LTNCDs are still at 4%. The required reserves can be kept in the form of deposits maintained in the demand deposit accounts with the BSP and any government securities used as compliance until they mature. Also in 2020, BSP Circular No. 1100 was issued allowing banks to use peso denominated loans that are granted after March 15, 2020 to (1) micro-small-and-medium-enterprises (MSMEs) and (2) large enterprises (excluding banks and non-bank financial institutions with quasi-banking functions that met the conditions enumerated in the said circular) as alternative compliance with the reserve requirements. The Parent Company, PSBank, FMIC and ORIX Metro were in compliance with the reserve requirements as of December 31, 2020 and 2019.

The total statutory and liquidity reserves (included in 'Due from BSP' account) as reported to the BSP are as follows:

| | **2020** | 2019 |
|---|---|---|
| Parent Company | **₱141,288** | ₱166,770 |
| PSBank | **5,492** | 6,815 |
| ORIX Metro | **542** | 1,235 |
| FMIC | **433** | 1,255 |
| MCC | – | 5,994 |
| | **₱147,755** | ₱182,069 |

## 17. Bills Payable and Securities Sold Under Repurchase Agreements

This account consists of borrowings from:

| | Consolidated | | Parent Company | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| SSURA | **₱93,059** | ₱91,492 | **₱93,059** | ₱90,780 |
| Local banks | **21,981** | 29,793 | **4,209** | 2,080 |
| Foreign banks | **17,364** | 55,799 | **11,383** | 46,212 |
| Deposit substitutes | **7,210** | 61,197 | – | – |
| | **₱139,614** | ₱238,281 | **₱108,651** | ₱139,072 |

Interbank borrowings with foreign and local banks are mainly short-term borrowings. Deposit substitutes pertain to borrowings from the public.

The following are the carrying values of government debt securities (Note 8) pledged and transferred under SSURA transactions of the Group and the Parent Company:

| | Consolidated | | | | Parent Company | | | |
|---|---|---|---|---|---|---|---|---|
| | **2020** | | 2019 | | **2020** | | 2019 | |
| | **Transferred Securities** | **SSURA** | Transferred Securities | SSURA | **Transferred Securities** | **SSURA** | Transferred Securities | SSURA |
| Investment securities at FVTPL | **₱4,804** | **₱4,708** | ₱– | ₱– | **₱4,804** | **₱4,708** | ₱– | ₱– |
| Investment securities at amortized cost | **4,535** | **4,680** | 71,073 | 53,635 | **4,535** | **4,680** | 71,073 | 53,635 |
| Investment securities at FVOCI | **108,065** | **83,671** | 46,678 | 37,857 | **108,065** | **83,671** | 45,965 | 37,145 |
| | **₱117,404** | **₱93,059** | ₱117,751 | ₱91,492 | **₱117,404** | **₱93,059** | ₱117,038 | ₱90,780 |

The Group's peso borrowings are subject to annual fixed interest rates ranging from 0.25% to 6.50%, from 0.88% to 7.25% and from 0.88% to 7.45% in 2020, 2019 and 2018, respectively, while the Group's foreign currency-denominated borrowings are subject to annual fixed interest rates ranging from 0.21% to 7.00%, from 1.30% to 4.28% and from 1.38% to 8.00% in 2020, 2019 and 2018, respectively.

Interest expense on bills payable (included in the 'Interest expense on bills payable and SSURA, bonds payable, subordinated debts and others' in the statements of income) in 2020, 2019 and 2018 amounted to ₱4.0 billion, ₱10.4 billion and ₱7.2 billion, respectively, for the Group and ₱2.1 billion, ₱4.2 billion and ₱2.8 billion, respectively, for the Parent Company.

## 18. Accrued Interest and Other Expenses

This account consists of:

| | Consolidated | | Parent Company | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Accrued interest (Note 31) | **₱1,734** | ₱3,916 | **₱1,071** | ₱2,481 |
| Accrued other expenses | **7,415** | 6,583 | **5,361** | 4,173 |
| | **₱9,149** | ₱10,499 | **₱6,432** | ₱6,654 |

Accrued other expenses include accruals for compensation and fringe benefits, rentals, percentage and other taxes, professional fees, advertising and information technology expenses and other expenses.

## 19. Bonds Payable

This account consists of the following scripless fixed rate bonds:

| | | | | Carrying Value | |
|---|---|---|---|---|---|
| Issue Date | Maturity Date | Interest Rate | Face Value | **2020** | 2019 |
| Parent Company | | | | | |
| Fixed Rated Bonds | | | | | |
| November 9, 2018 | November 9, 2020 | 7.15% | ₱10,000 | **₱–** | ₱9,962 |
| December 17, 2018 | November 9, 2020 | 7.15% | 18,000 | – | 17,952 |
| April 11, 2019 | April 11, 2022 | 6.30% | 17,500 | **17,433** | 17,384 |
| July 3, 2019 | July 3, 2021 | 5.50% | 11,250 | **11,227** | 11,178 |
| October 24, 2019 | April 24, 2023 | 4.50% | 13,750 | **13,671** | 13,634 |
| June 24, 2020 | September 24, 2021 | 3.00% | 10,500 | **10,444** | – |
| USD Senior Unsecured Notes | | | | | |
| July 15, 2020 | January 15, 2026 | 2.125% | US$500 | **23,580** | – |
| | | | | **76,355** | 70,110 |

(Forward)

| Issue Date | Maturity Date | Interest Rate | Face Value | Carrying Value 2020 | 2019 |
|---|---|---|---|---|---|
| Fixed Rated Bonds | | | | | |
| PSBank | | | | | |
| July 24, 2019 | July 24, 2021 | 5.60% | ₱6,300 | **₱6,283** | ₱6,255 |
| February 4, 2020 | February 4, 2023 | 4.50% | 4,650 | **4,619** | – |
| ORIX Metro | | | | | |
| November 15, 2019 | November 15, 2021 | 4.55% | 4,160 | **4,140** | 4,121 |
| | | | | **₱91,397** | ₱80,486 |

Specific terms of these bonds follow:

*Parent Company*

- ₱10.0 billion fixed rate bonds issued on November 9, 2018 with issue price at 100% face value, which bear an interest rate of 7.15% per annum, payable quarterly in arrears on February 9, May 9, August 9 and November 9 of each year, commencing on February 9, 2019. These bonds matured on November 9, 2020.
- ₱18.0 billion fixed rate bonds (Additional Bonds) issued on December 17, 2018 with issue price at 100.26% plus an amount corresponding to accrued interest from, and including, November 9, 2018, but excluding the new issue date. The interest of the bonds for the entire term are payable quarterly in arrears on February 9, May 9, August 9 and November 9 of each year, commencing on February 9, 2019. These bonds matured on November 9, 2020.
- ₱17.5 billion fixed rate bonds issued on April 11, 2019 with issue price at 100% face value, which bear an interest rate of 6.30% per annum, payable quarterly in arrears on January 11, April 11, July 11 and October 11 of each year, commencing on July 11, 2019. The bonds will mature on April 11, 2022. Total bond issuance costs amounted to ₱148.47 million.
- ₱11.25 billion fixed rate bonds issued on July 3, 2019 with issue price at 100% face value, which bear an interest rate of 5.50% per annum, payable quarterly in arrears on January 3, April 3, July 3 and October 3 of each year, commencing on July 3, 2019. The bonds will mature on July 3, 2021. Total bond issuance costs amounted to ₱94.55 million.
- ₱13.75 billion fixed rate bonds issued on October 24, 2019 with issue price at 100% face value, which bear an interest rate of 4.50% per annum, payable quarterly in arrears on January 24, April 24, July 24 and October 24 of each year, commencing on October 24, 2019. The bonds will mature on April 24, 2023. Total bond issuance costs amounted to ₱122.1 million.
- ₱10.5 billion fixed rate bonds issued on June 24, 2020 with issue price at 100% face value, which bear an interest rate of 3.00% per annum, payable quarterly in arrears on March 24, June 24, September 24 and December 24, of each year, commencing on September 24, 2020. The bonds will mature on September 24, 2021. Total bond issuance costs amounted to ₱91.5 million.
- US$500 million senior unsecured notes issued on July 15, 2020 with issue price at 99.096% face value, which bear an interest rate of 2.125% per annum, payable semi-annually in arrears on January 15 and July 15 of each year, commencing on January 15, 2021. The bonds will mature on January 15, 2026. Total bond issuance costs amounted to ₱484.9 million.

*PSBank*

- ₱6.30 billion fixed rate bonds issued on July 24, 2019 with issue price at 100% face value, which bear an interest rate of 5.60% per annum, payable quarterly in arrears on January 24, April 24, July 24 and October 24 of each year, commencing on July 24, 2019. The bonds will mature on July 24, 2021. Total bond issuance costs amounted to ₱56.9 million.
- ₱4.65 billion fixed rate bonds issued on February 4, 2020 with issue price at 100% face value, which bear an interest rate of 4.50% per annum, payable quarterly in arrears on February 4, May 4, August 4 and November 4 of each year, commencing on May 4, 2020. The bonds will mature on February 4, 2023. Total bond issuance costs amounted to ₱42.7 million.

*ORIX Metro*

- ₱4.16 billion fixed rate bonds issued on November 15, 2019 with issue price at 100% face value, which bear an interest rate of 4.55% per annum, payable quarterly in arrears on February 15, May 15, August 15 and November 15 of each year, commencing on November 15, 2019. The bonds will mature on November 15, 2021. Total bond issuance costs amounted to ₱44.2 million.

Interest expense on bonds payable (included in 'Interest expense on bills payable and SSURA, bonds payable, subordinated debts and others') in 2020, 2019 and 2018 amounted to ₱5.5 billion, 3.6 billion and ₱336.7 million, respectively for the Group and ₱4.8 billion, ₱3.4 billion and ₱163.9 million for the Parent Company. As of December 31, 2020 and 2019, unamortized bond issue costs amounted to ₱724.9 million and ₱474.2 million for the Group, and ₱657.0 million and ₱389.9 million for the Parent Company.

*Reserve Requirement*

Peso-denominated bonds are subject to reserves equivalent to 3% in 2020 and 2019. The Parent Company, PSBank and ORIX Metro were in compliance with such requirements as of December 31, 2020 and 2019.

## 20. Subordinated Debts

This account consists of the following Peso Notes:

| | | | Carrying Value | | Market Value | |
|---|---|---|---|---|---|---|
| | **Maturity Date** | **Face Value** | **2020** | 2019 | **2020** | 2019 |
| Parent Company | | | | | | |
| 2025 | August 8, 2025 | ₱6,500 | **₱–** | ₱6,494 | **₱–** | ₱6,502 |
| 2023* | December 20, 2023 | 1,170 | **1,167** | – | **1,232** | – |
| | | 7,670 | **1,167** | 6,494 | **1,232** | 6,502 |
| MCC - 2023 | December 20, 2023 | 1,170 | – | 1,166 | – | 1,195 |
| | | ₱8,840 | **₱1,167** | ₱7,660 | **₱1,232** | ₱7,697 |

**Impact of merger of MCC into the Parent Company (Note 11)*

On April 15, 2013, of the BOD of the Parent Company approved the issuance of Basel III-compliant Tier 2 capital notes of up to USD500 million in one or more tranches, issued as part of its regulatory capital compliance and to proactively manage its capital base for growth and refinancing of maturing capital securities which was also approved by the BSP on July 26, 2013 and the amendment to the terms and conditions on January 30, 2014. Specifically, the BSP approved the issuance of up to USD500 million equivalent in either USD or PHP or combination in one or more tranches over the course of one (1) year. The Peso Notes issued by the Parent Company are unsecured and subordinated obligations and will rank *pari passu* and without any preference among themselves and at least equally with all its other present and future unsecured and subordinated obligations. These Peso Notes have a term of 10.25 and 11 years and are redeemable at the option of the Parent Company (but not the holders) on the call option date in whole but not in part at redemption price equal to 100.00% of the principal amount together with accrued and unpaid interest on the call option date, upon prior approval of the BSP and at least 30-banking day prior written notice to the Noteholders of record, subject to the following conditions: (1) the capital adequacy of the Issuer is at least equal to the required minimum ratio; (2) the note is simultaneously replaced with the issues of new capital which are neither smaller in size nor lower in quality than the original issue. Furthermore, upon the occurrence of a Tax Redemption Event or a Regulatory Redemption Event, the Parent Company may, upon prior approval of the BSP and at least a 30-banking day prior written notice to the Noteholders on record, redeem all and not less than all of the outstanding Notes prior to the stated maturity by paying the Noteholder the Redemption Option Amount which, (a) in the case of a Tax Redemption Event is an amount equal to 100.00% of the face value of the Note plus accrued Interest at the Interest Rate relating to the then current Interest Period up to but excluding the date of such redemption, and (b) in the case of a Regulatory Redemption Event is an amount equal to 101.00% of the face value of the Note plus accrued Interest at the Interest Rate relating to the then current Interest Period up to but excluding the date of such redemption. The Notes have a loss absorption feature which are subject to a Non-Viability Write-Down in case of the occurrence of a Non-Viability Trigger Event, subject to certain conditions as set out in "Terms and Conditions of the Notes - Loss Absorption Measure", when the Issuer is considered non-viable as determined by the BSP. Non-Viability is a deviation from a certain level of CET1 Ratio or the inability of the Issuer to continue business (closure) or any other event as determined by the BSP, whichever comes earlier. A Non-Viability Trigger Event shall be deemed to have occurred if the BSP notifies the Issuer in writing that it has determined that a: (i) a Write-Down (as defined in "Terms and Conditions of the Notes") of the Notes and other capital instruments of the Issuer is necessary because, without such Write-Down, the Issuer would become non-viable, (ii) public sector injection of capital, or equivalent support, is necessary because, without such injection or support, the Issuer would become non-viable, or (iii) Write-Down of the Notes and other capital instruments of the Issuer is necessary because, as a result of the closure of the Issuer, the Issuer has become non-viable.

Each Noteholder may not exercise or claim any right of set-off in respect of any amount owed to it by the Parent Company arising under or in connection with the Peso Notes and to the fullest extent permitted by applicable law, waive and be deemed to have waived all such rights of set-off. These Notes are not deposits and are not insured by the Philippine Deposit Insurance Corporation.

Specific terms of these Basel III-compliant Peso Notes follow:

*Parent Company*
2025 Peso Notes - issued on August 8, 2014 at 100.00% of the principal amount of ₱6.5 billion

- Bear interest at 5.25% per annum from August 8, 2014 to but excluding August 8, 2020. Interest will be payable quarterly in arrears on February 8, May 8, August 8 and November 8 of each year, commencing on November 8, 2014. Unless the Notes are previously redeemed, the initial interest rate will be reset at equivalent of the five-year PDST-R2 as of reset date plus a spread of 1.67% per annum and such interest will be payable commencing on August 8, 2020 (call option date) up to and including August 8, 2025. As approved by the BSP on May 7, 2020, on August 8, 2020, the Parent Company redeemed the Notes ahead of its maturity.

2023 Peso Notes - issued by MCC on December 20, 2013 at 100.00% of the principal amount of ₱1.2 billion (absorbed by the Parent Company on January 3, 2020 relative to the merger as discussed in Note 11)

- Bear interest at 6.21% per annum payable quarterly in arrears every 20th of March, June, September and December each year, commencing on March 20, 2014.
- Basel III - compliant unsecured subordinated notes qualified as Tier 2 capital as approved by the BSP on February 17, 2013.
- In case of insolvency or liquidation of MCC, the notes will be subordinated in the right of payment of principal and interest to all depositors and other creditors of MCC, except those creditors expressed to rank equally with, or behind holders of the notes.
- If a non-viability trigger event occurs, MCC shall immediately write down some or all of the notes in accordance with the BSP's determination.
- Subject to the written approval of the BSP, MCC may redeem all and not less than the entire outstanding 2023 Notes, at a redemption price equal to the face value together with the accrued and unpaid interest based on the interest rate.

As of December 31, 2020 and 2019, the Group are in compliance with the terms and conditions upon which these subordinated notes have been issued.

In 2020, 2019 and 2018, interest expense on subordinated debts included in 'Interest expense on bills payable and SSURA, bonds payable, subordinated debts and others' amounted to ₱285.6 million, ₱983.0 million and ₱1.5 billion (including amortization of debt issue cost and premium of ₱7.1 million, ₱41.9 million and ₱38.2 million), respectively, for the Group, and ₱285.6 million, ₱784.2 million and ₱1.2 billion, respectively (including amortization of debt issue cost and premium of ₱7.1 million, ₱22.5 million and ₱34.4 million, respectively) for the Parent Company.

## 21. Non-equity Non-controlling Interest and Other Liabilities

Non-equity Non-controlling Interest

This account arises when mutual funds are consolidated and where the Group holds less than 100.00% of the investment in these funds. When this occurs, the Group acquires a liability in respect of non-controlling interests in the funds of which the Group has control. Such non-controlling interests are distinguished from equity non-controlling interests in that the Group does not hold an equity stake in such funds. Further, income (loss) attributable to non-equity non-controlling interests amounting to ₱115.0 million, (₱229.8 million), and ₱684.8 million in 2020, 2019 and 2018, respectively, is included under 'Trading and securities gain - net' in the statements of income (Note 8).

Other Liabilities

This account consists of:

| | **Consolidated** | | **Parent Company** | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Accounts payable | **₱20,027** | ₱17,436 | **₱10,991** | ₱8,269 |
| Bills purchased - contra (Note 9) | **10,994** | 14,089 | **10,990** | 14,080 |
| Marginal deposits | **5,600** | 6,374 | **398** | 236 |
| Lease liability (Note 13) | **3,922** | 4,038 | **2,248** | 2,160 |
| Other credits | **1,512** | 1,800 | **1,333** | 853 |
| Deposits on lease contracts | **1,458** | 1,725 | – | – |
| Outstanding acceptances | **1,328** | 1,611 | **1,328** | 1,611 |
| Deferred revenues (Note 25) | **1,304** | 1,486 | **1,304** | 63 |
| Withholding taxes payable | **390** | 742 | **327** | 448 |
| Retirement liability (Note 27) | **214** | 938 | – | – |
| Notes payable | – | 2,592 | – | – |
| Deferred tax liabilities (Note 28) | – | 108 | – | – |
| Miscellaneous (Notes 11 and 15) | **6,182** | 3,339 | **5,377** | 2,340 |
| | **₱52,931** | ₱56,278 | **₱34,296** | ₱30,060 |

Notes payable represent unsecured notes issued by ORIX Metro on October 29, 2018 and matured on April 29, 2020 and October 29, 2020 with annual interest rates of 7.02% and 7.45%, respectively.

In 2020 and 2019, interest expense on notes payable included in 'Interest expense on bills payable and SSURA, bonds payable, subordinated debts and others' amounted to ₱104.3 million and ₱188.8 million, respectively.

Deferred revenues include deferral and release of loyalty points program transactions and membership fees and dues for credit card business.

As of December 31, 2020 and 2019, miscellaneous liabilities of the Group include dividends payable amounting to ₱89.6 million and ₱90.0 million, respectively.

## 22. **Maturity Profile of Assets and Liabilities**

The following tables present the assets and liabilities by contractual maturity and settlement dates:

| | Consolidated | | | | | |
|---|---|---|---|---|---|---|
| | **2020** | | | 2019 | | |
| | **Due Within One Year** | **Due Beyond One Year** | **Total** | Due Within One Year | Due Beyond One Year | Total |
| **Financial Assets - at gross** | | | | | | |
| Cash and other cash items | **₱38,469** | **₱–** | **₱38,469** | ₱32,956 | ₱– | ₱32,956 |
| Due from BSP | **304,906** | **–** | **304,906** | 219,994 | – | 219,994 |
| Due from other banks | **38,357** | **–** | **38,357** | 54,772 | – | 54,772 |
| Interbank loans receivable and SPURA (Note 7) | **79,408** | **–** | **79,408** | 72,175 | – | 72,175 |
| Investment securities at FVTPL (Note 8) | **77,508** | **43** | **77,551** | 61,867 | – | 61,867 |
| Investment securities at FVOCI (Note 8) | **171,275** | **398,170** | **569,445** | 16,418 | 186,102 | 202,520 |
| Investment securities at amortized cost (Note 8) | **4,537** | **18,778** | **23,315** | 24,075 | 227,579 | 251,654 |
| Loans and receivables (Note 9) | | | | | | |
| Receivables from customers | **616,486** | **680,815** | **1,297,301** | 697,171 | 788,465 | 1,485,636 |
| Unquoted debt securities | **65** | **386** | **451** | 150 | 866 | 1,016 |
| Accrued interest receivable | **13,726** | **1** | **13,727** | 13,102 | 3 | 13,105 |
| Accounts receivable | **11,173** | **105** | **11,278** | 9,382 | 84 | 9,466 |
| Sales contract receivable | **48** | **34** | **82** | 62 | 83 | 145 |
| Other receivables | **211** | **118** | **329** | 313 | 18 | 331 |
| Other assets (Note 14) | | | | | | |
| Investments in SPVs | **8,857** | **–** | **8,857** | 8,857 | – | 8,857 |
| Interoffice float items | **4** | **9** | **13** | 1,643 | – | 1,643 |
| Returned checks and other cash items | **250** | **–** | **250** | 407 | – | 407 |
| Other investments | **–** | **26** | **26** | – | 31 | 31 |
| | **1,365,280** | **1,098,485** | **2,463,765** | 1,213,344 | 1,203,231 | 2,416,575 |
| **Non-Financial Assets - at gross** | | | | | | |
| Investments in associates and a JV (Note 11) | **–** | **6,762** | **6,762** | – | 7,105 | 7,105 |
| Property and equipment (Note 10) | **–** | **50,946** | **50,946** | – | 49,298 | 49,298 |
| Investment properties (Note 12) | **–** | **10,221** | **10,221** | – | 10,369 | 10,369 |
| Deferred tax assets (Note 28) | **–** | **14,028** | **14,028** | – | 10,512 | 10,512 |
| Goodwill (Note 11) | **–** | **5,199** | **5,199** | – | 5,200 | 5,200 |
| Assets held under joint operations (Note 14) | **–** | **219** | **219** | – | 219 | 219 |
| Accounts receivable (Note 9) | **–** | **–** | **–** | – | 3,241 | 3,241 |
| Residual value of leased asset | **402** | **528** | **930** | 390 | 745 | 1,135 |
| Other assets (Note 14) | **2,016** | **16,091** | **18,107** | 2,908 | 14,885 | 17,793 |
| | **2,418** | **103,994** | **106,412** | 3,298 | 101,574 | 104,872 |
| | **₱1,367,698** | **₱1,202,479** | **2,570,177** | ₱1,216,642 | ₱1,304,805 | 2,521,447 |
| Less: | | | | | | |
| Unearned discounts and capitalized interest (Note 9) | | | **14,996** | | | 5,149 |
| Accumulated depreciation and amortization (Notes 10, 12 and 14) | | | **32,380** | | | 28,898 |
| Allowance for credit and impairment losses (Notes 10, 11, 12, 14, and 15) | | | **67,638** | | | 36,587 |
| | | | **₱2,455,163** | | | ₱2,450,813 |
| **Financial Liabilities** | | | | | | |
| Deposit liabilities | | | | | | |
| Demand | **₱515,378** | **₱–** | **₱515,378** | ₱411,873 | ₱– | ₱411,873 |
| Savings | **795,979** | **–** | **795,979** | 665,634 | – | 665,634 |
| Time | **426,752** | **23,351** | **450,103** | 565,982 | 26,915 | 592,897 |
| LTNCD (Note 16) | **6,250** | **29,505** | **35,755** | 8,000 | 35,740 | 43,740 |
| | **1,744,359** | **52,856** | **1,797,215** | 1,651,489 | 62,655 | 1,714,144 |

| | Consolidated | | | | | |
|---|---|---|---|---|---|---|
| | **2020** | | | 2019 | | |
| | **Due Within One Year** | **Due Beyond One Year** | **Total** | Due Within One Year | Due Beyond One Year | Total |
| Bills payable and SSURA (Note 17) | **₱126,471** | **₱13,143** | **₱139,614** | ₱195,762 | ₱42,519 | ₱238,281 |
| Derivative liabilities (Note 8) | **11,839** | **1,626** | **13,465** | 6,322 | 1,105 | 7,427 |
| Manager's checks and demand drafts outstanding | **6,024** | **–** | **6,024** | 6,806 | – | 6,806 |
| Accrued interest and other expenses | **7,621** | **–** | **7,621** | 8,412 | 43 | 8,455 |
| Bonds payable (Note 19) | **32,094** | **59,303** | **91,397** | 27,914 | 52,572 | 80,486 |
| Subordinated debts (Note 20) | **–** | **1,167** | **1,167** | 6,494 | 1,166 | 7,660 |
| Non-equity non-controlling interest (Note 21) | **8,315** | **–** | **8,315** | 6,553 | – | 6,553 |
| Other liabilities (Note 21) | | | | | | |
| Bills purchased – contra | **10,994** | **–** | **10,994** | 14,089 | – | 14,089 |
| Accounts payable | **19,737** | **290** | **20,027** | 17,226 | 210 | 17,436 |
| Marginal deposits | **5,600** | **–** | **5,600** | 6,374 | – | 6,374 |
| Lease liability | **1,051** | **2,871** | **3,922** | 779 | 3,259 | 4,038 |
| Notes payable | **–** | **–** | **–** | – | 2,592 | 2,592 |
| Outstanding acceptances | **1,328** | **–** | **1,328** | 1,588 | 23 | 1,611 |
| Deposits on lease contracts | **684** | **774** | **1,458** | 627 | 1,098 | 1,725 |
| Dividends payable | **90** | **–** | **90** | 90 | – | 90 |
| | **1,976,207** | **132,030** | **2,108,237** | 1,950,525 | 167,242 | 2,117,767 |
| **Non-Financial Liabilities** | | | | | | |
| Retirement liability (Note 21 and 27) | **–** | **214** | **214** | – | 938 | 938 |
| Income taxes payable | **2,711** | **–** | **2,711** | 4,188 | – | 4,188 |
| Accrued other expenses | **1,528** | **–** | **1,528** | 2,044 | – | 2,044 |
| Withholding taxes payable (Note 21) | **390** | **–** | **390** | 742 | – | 742 |
| Deferred tax and other liabilities (Notes 21 and 28) | **7,396** | **1,512** | **8,908** | 4,735 | 1,908 | 6,643 |
| | **12,025** | **1,726** | **13,751** | 11,709 | 2,846 | 14,555 |
| | **₱1,988,232** | **₱133,756** | **₱2,121,988** | ₱1,962,234 | ₱170,088 | ₱2,132,322 |

| | Parent Company | | | | | |
|---|---|---|---|---|---|---|
| | **2020** | | | 2019 | | |
| | **Due Within One Year** | **Due Beyond One Year** | **Total** | Due Within One Year | Due Beyond One Year | Total |
| **Financial Assets - at gross** | | | | | | |
| Cash and other cash items | **₱35,606** | **₱–** | **₱35,606** | ₱30,659 | ₱– | ₱30,659 |
| Due from BSP | **262,188** | **–** | **262,188** | 195,770 | – | 195,770 |
| Due from other banks | **22,742** | **–** | **22,742** | 38,698 | – | 38,698 |
| Interbank loans receivable and SPURA (Note 7) | **57,210** | **–** | **57,210** | 56,153 | – | 56,153 |
| Investment securities at FVTPL (Note 8) | **67,913** | **43** | **67,956** | 7,551 | 41,999 | 49,550 |
| Investment securities at FVOCI (Note 8) | **147,766** | **394,900** | **542,666** | 8,262 | 180,414 | 188,676 |
| Investment securities at amortized cost (Note 8) | **2,950** | **4,959** | **7,909** | 22,420 | 194,224 | 216,644 |
| Loans and receivables (Note 9) | | | | | | |
| Receivables from customers | **569,996** | **518,322** | **1,088,318** | 596,047 | 575,239 | 1,171,286 |
| Unquoted debt securities | **–** | **386** | **386** | – | 386 | 386 |
| Accrued interest receivable | **8,534** | **1** | **8,535** | 10,500 | 3 | 10,503 |
| Accounts receivable | **7,004** | **–** | **7,004** | 5,731 | – | 5,731 |
| Sales contract receivable | **42** | **14** | **56** | 55 | 47 | 102 |
| Other receivables | **11** | **–** | **11** | 12 | – | 12 |
| Other assets (Note 14) | | | | | | |
| Investments in SPVs | **8,857** | **–** | **8,857** | 8,857 | – | 8,857 |
| Interoffice float items | **4** | **–** | **4** | 1,654 | – | 1,654 |
| Returned checks and other cash items | **238** | **–** | **238** | 378 | – | 378 |
| | **1,191,061** | **918,625** | **2,109,686** | 982,747 | 992,312 | 1,975,059 |
| **Non-Financial Assets - at gross** | | | | | | |
| Investments in subsidiaries (Note 11) | **–** | **67,181** | **67,181** | – | 95,739 | 95,739 |
| Investments in associates (Note 11) | **–** | **640** | **640** | – | 617 | 617 |
| Property and equipment (Note 10) | **–** | **34,758** | **34,758** | – | 31,684 | 31,684 |
| Investment properties (Note 12) | **–** | **5,015** | **5,015** | – | 4,989 | 4,989 |
| Deferred tax assets (Note 28) | **–** | **11,394** | **11,394** | – | 6,918 | 6,918 |
| Assets held under joint operations (Note 14) | **–** | **219** | **219** | – | 219 | 219 |
| Accounts receivable (Note 9) | **–** | **–** | **–** | – | 3,241 | 3,241 |
| Other assets (Note 14) | **970** | **11,132** | **12,102** | 1,682 | 9,054 | 10,736 |
| | **970** | **130,339** | **131,309** | 1,682 | 152,461 | 154,143 |
| | **₱1,192,031** | **₱1,048,964** | **2,240,995** | ₱984,429 | ₱1,144,773 | 2,129,202 |
| Less: | | | | | | |
| Unearned discounts and capitalized interest (Note 9) | | | **11,134** | | | 238 |
| Accumulated depreciation and amortization (Notes 10, 12 and 14) | | | **20,045** | | | 16,183 |
| Allowance for credit and impairment losses (Notes 10, 11, 12, 14, and 15) | | | **55,817** | | | 25,346 |
| | | | **₱2,153,999** | | | ₱2,087,435 |

| | Parent Company | | | | | |
|---|---|---|---|---|---|---|
| | 2020 | | | 2019 | | |
| | Due Within One Year | Due Beyond One Year | Total | Due Within One Year | Due Beyond One Year | Total |
| **Financial Liabilities** | | | | | | |
| Deposit liabilities | | | | | | |
| Demand | **₱467,545** | **₱–** | **₱467,545** | ₱372,303 | ₱– | ₱372,303 |
| Savings | **755,713** | – | **755,713** | 630,946 | – | 630,946 |
| Time | **331,788** | **535** | **332,323** | 460,529 | 1,184 | 461,713 |
| LTNCD (Note 16) | **6,250** | **21,080** | **27,330** | 8,000 | 27,330 | 35,330 |
| | **1,561,296** | **21,615** | **1,582,911** | 1,471,778 | 28,514 | 1,500,292 |
| Bills payable and SSURA (Note 17) | **104,256** | **4,395** | **108,651** | 117,755 | 21,317 | 139,072 |
| Derivative liabilities (Note 8) | **11,813** | – | **11,813** | 5,994 | – | 5,994 |
| Manager's and demand drafts outstanding | **5,493** | – | **5,493** | 5,508 | – | 5,508 |
| Accrued interest and other expenses | **4,904** | – | **4,904** | 4,567 | 43 | 4,610 |
| Bonds payable (Note 19) | **21,671** | **54,684** | **76,355** | 27,914 | 42,196 | 70,110 |
| Subordinated debts (Note 20) | – | **1,167** | **1,167** | 6,494 | – | 6,494 |
| Other liabilities (Note 21) | | | | | | |
| Bills purchased – contra | **10,990** | – | **10,990** | 14,080 | – | 14,080 |
| Accounts payable | **10,991** | – | **10,991** | 8,269 | – | 8,269 |
| Marginal deposits | **398** | – | **398** | 236 | – | 236 |
| Lease liability | **578** | **1,670** | **2,248** | 615 | 1,545 | 2,160 |
| Outstanding acceptances | **1,328** | – | **1,328** | 1,588 | 23 | 1,611 |
| | **1,733,718** | **83,531** | **1,817,249** | 1,664,798 | 93,638 | 1,758,436 |
| **Non-Financial Liabilities** | | | | | | |
| Income taxes payable | **1,992** | – | **1,992** | 3,259 | – | 3,259 |
| Accrued other expenses | **1,528** | – | **1,528** | 2,044 | – | 2,044 |
| Withholding taxes payable (Note 21) | **327** | – | **327** | 448 | – | 448 |
| Other liabilities (Note 21) | **6,681** | **1,333** | **8,014** | 2,403 | 853 | 3,256 |
| | **10,528** | **1,333** | **11,861** | 8,154 | 853 | 9,007 |
| | **₱1,744,246** | **₱84,864** | **₱1,829,110** | ₱1,672,952 | ₱94,491 | ₱1,767,443 |

## 23. Capital Stock

As of December 31, 2020 and 2019, this account consists of (amounts in millions, except par value and number of shares):

| | Shares | | Amount | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Authorized | | | | |
| Common stock – ₱20.00 par value | **6,000,000,000** | 6,000,000,000 | | |
| Preferred stock – ₱20.00 par value | **1,000,000,000** | 1,000,000,000 | | |
| Common stock issued and outstanding | | | | |
| Balance at beginning of year | **4,497,415,555** | 3,980,015,036 | **₱89,948** | ₱79,600 |
| Issuance of stock dividend | **–** | 517,400,519 | **–** | 10,348 |
| Balance at the end of year | **4,497,415,555** | 4,497,415,555 | **₱89,948** | ₱89,948 |

As of December 31, 2020 and 2019, treasury shares totaling 1,134,147 and 959,257, respectively, represent shares of the Parent Company held by FMIC's mutual fund subsidiary (Note 31).

Preferred shares are non-voting except as provided by law; have preference over Common Shares in the distribution of dividends; subject to such terms and conditions as may be determined by the BOD and to the extent permitted by applicable law, may or may not be redeemable; and shall have such other features as may be determined by the BOD at the time of issuance.

On March 15, 2013, the BOD of the Parent Company approved (a) the amendment of the Articles of Incorporation (AOI) to increase the authorized capital stock and (b) the declaration of 30.00% stock dividend, which were ratified by the stockholders representing at least 2/3 of the outstanding capital stock on April 15, 2013. These were subsequently approved by the BSP on May 15, 2013 and by the SEC on August 13, 2013. Following this, the authorized capital stock of the Parent Company increased from ₱50.0 billion to ₱100.0 billion consisting of 4.0 billion Common Shares and 1.0 billion Preferred Shares, both with par value of ₱20.00 per share. The 30.00% stock dividend equivalent to 633,415,049 common shares amounting to ₱12.7 billion represents at least the minimum 25.00% subscribed and paid-up capital for the increase in the authorized capital stock referred to above which was issued/paid on September 16, 2013 with record date on September 3, 2013. On September 10, 2013, the PSE approved the listing of such additional common shares.

On January 21, 2015, the Parent Company's BOD approved the Stock Rights Offer (SRO) by way of issuance from the unissued portion of the authorized capital stock which was noted by BSP with the issuance of a letter of no objection to the Rights Issue on February 17, 2015. On February 24, 2015, the SEC confirmed the exemption of this issuance of ₱32.0 billion worth of common shares from the registration requirements under Section 8 of the SRC. On February 25, 2015, the PSE approved the listing of up to 500.0 million common shares to cover the SRO to all stockholders of record as of March 18, 2015. On April 7, 2015, following regulatory approvals, the Parent Company concluded the ₱32.0 billion SRO, involving 435,371,720 common shares with par value of ₱20.00 priced at ₱73.50 per share and listed with the PSE on the same date. The difference between the issued price and the par value is recognized as 'Capital paid in excess of par value'.

On January 17, 2018, the Parent Company's BOD approved the SRO by way of issuance of up to a maximum of 819,827,214 common shares to raise additional capital of up to ₱60.0 billion. This was noted by the BSP with the issuance of a letter of no objection to the rights issue on January 29, 2018. On April 4, 2018, following the regulatory approvals, the Parent Company concluded the ₱60.0 billion SRO, involving 799,842,250 common shares with par value of ₱20.00 priced at ₱75.00 per share and listed on the PSE on April 12, 2018. Transaction costs on the SRO amounting to ₱878.2 million were charged against 'Capital paid in excess of par value'.

On February 13, 2019, the BOD of the Parent Company approved (a) the amendment of the AOI to increase the authorized capital stock from ₱100.0 billion to ₱140.0 billion and (b) the declaration of a 13% stock dividend equivalent to 517,401,955 shares amounting to ₱10.3 billion representing the minimum 25% subscription and paid-up capital for the increase in the authorized capital stock which were ratified by the stockholders representing at least 2/3 of the outstanding capital stock on April 24, 2019. These were approved by the BSP on August 8, 2019 and by the SEC on October 4, 2019. Following this, the authorized capital stock of the Parent Company increased from ₱100.0 billion to ₱140.0 billion consisting of 6.0 billion common shares and 1.0 billion preferred shares, both with par value of ₱20.0 per share. On October 16, 2019, the Parent Company received the SEC Order fixing the Record Date of the 13% stock dividend on October 31, 2019. The 13% stock dividend was issued on November 26, 2019 with record date on October 31, 2019. On November 19, 2019, the PSE approved the listing of such stock dividend.

All issued and outstanding shares of the Parent Company are listed with the PSE (Note 1). As of December 31, 2020 and 2019, there are 2,999 and 2,986 holders, respectively, of the listed shares of the Parent Company, with share price closed at ₱49.05 and ₱66.30 a share, respectively.

The history of share issuances during the last ten years follows:

| Year | Issuance | Listing Date | Number of Shares Issued |
|---|---|---|---|
| 2019 | Stock dividend | November 26, 2019 | 517,400,519 |
| 2018 | Stock rights | April 12, 2018 | 799,842,250 |
| 2015 | Stock rights | April 7, 2015 | 435,371,720 |
| 2013 | Stock dividend | September 16, 2013 | 633,415,049 |
| 2011 | Stock rights | January 24, 2011 | 200,000,000 |

Details of the Parent Company's cash dividend distributions from 2018 to 2020 follow:

| Date of Declaration | Per Share | Total Amount | Record Date | Payment Date |
|---|---|---|---|---|
| February 19, 2020 | ₱1.00 | ₱4,497 | March 6, 2020 | March 20, 2020 |
| 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 |

The computation of surplus available for dividend declaration in accordance with SEC Memorandum Circular No. 11 issued in December 2008 differs to a certain extent from the computation following BSP guidelines.

## 24. Surplus Reserves

This account consists of:

| | **2020** | 2019 |
|---|---|---|
| Reserve for trust business (Note 29) | **₱1,736** | ₱1,596 |
| Reserve for self-insurance | **524** | 502 |
| | **₱2,260** | ₱2,098 |

In compliance with existing BSP regulations, 10.0% of the Parent Company's income from trust business is appropriated to surplus reserves. This yearly appropriation is required until the surplus reserve for trust business equals 20.0% of the Parent Company's regulatory net worth.

Reserve for self-insurance represents the amount set aside to cover losses due to fire, defalcation by and other unlawful acts of the Parent Company's personnel or third parties.

## 25. Other Operating Income and Expenses

Service Charges, Fees and Commissions

The table below presents the disaggregation of service charges, fees and commission by business segment:

| | **Consolidated** | | | **Parent Company** | | |
|---|---|---|---|---|---|---|
| | **2020** | 2019 | 2018 | **2020** | 2019 | 2018 |
| Consumer banking | **₱5,072** | ₱5,724 | ₱5,694 | **₱4,618** | ₱110 | ₱125 |
| Branch banking | **3,040** | 3,679 | 3,418 | **2,306** | 2,589 | 2,482 |
| Corporate banking | **850** | 1,639 | 791 | **737** | 936 | 812 |
| Investment banking/treasury | **618** | 855 | 680 | **434** | 357 | 297 |
| Others | **2,123** | 2,369 | 2,112 | **896** | 1,153 | 1,238 |
| | **₱11,703** | ₱14,266 | ₱12,695 | **₱8,991** | ₱5,145 | ₱4,954 |

Others include the remittance business of the Group and the Parent Company.

The remaining performance obligations on revenue contracts with customers of the Group under PFRS 15, which are expected to be recognized beyond one year amounting to ₱727.2 million and ₱832.0 million (included in 'Deferred revenues' under 'Other liabilities') as of December 31, 2020 and 2019, respectively, refer to the customer loyalty program of the Parent Company (MCC until 2019 - see Note 11). The customer loyalty points have no expiration and redemptions can go beyond one year.

Miscellaneous Income and Expenses
In 2020, 2019 and 2018, miscellaneous income includes gain on initial recognition of investment properties and other non-financial assets amounting to ₱127.1 million, ₱486.5 million and ₱638.5 million, respectively, for the Group and ₱14.6 million, ₱33.2 million and ₱22.8 million, respectively, for the Parent Company; recovery on charged-off assets amounting to ₱691.6 million, ₱866.8 million and ₱874.9 million, respectively, for the Group and ₱449.3 million, ₱12.0 million and ₱8.8 million, respectively, for the Parent Company; and information technology and other fees amounting to ₱360.5 million, ₱44.9 million and ₱895.9 million, respectively, for the Group and ₱269.6 million, ₱38.1 million and ₱365.9 million, respectively, for the Parent Company (Note 31).

Miscellaneous expenses consist of:

| | **Consolidated** | | | **Parent Company** | | |
|---|---|---|---|---|---|---|
| | **2020** | 2019 | 2018 | **2020** | 2019 | 2018 |
| Insurance | **₱3,592** | ₱3,420 | ₱3,422 | **₱2,985** | ₱2,764 | ₱2,684 |
| Security, messengerial and janitorial | **3,500** | 2,581 | 2,433 | **2,986** | 2,054 | 1,837 |
| Management, professional and supervision fees | **1,771** | 1,569 | 1,530 | **1,539** | 1,308 | 1,151 |
| Information technology (Note 31) | **1,574** | 1,385 | 1,066 | **1,379** | 911 | 684 |
| Advertising | **512** | 1,161 | 986 | **439** | 340 | 221 |
| Litigation (Note 12) | **911** | 904 | 781 | **512** | 390 | 276 |
| Communications | **602** | 634 | 647 | **372** | 115 | 115 |
| Repairs and maintenance | **695** | 569 | 538 | **416** | 222 | 190 |
| Transportation and travel | **658** | 569 | 527 | **517** | 428 | 382 |
| Stationery and supplies used | **465** | 520 | 446 | **333** | 337 | 261 |
| Entertainment, amusement and representation (EAR) (Note 28) | **300** | 488 | 340 | **251** | 440 | 295 |
| Others (Note 31) | **3,100** | 2,776 | 2,519 | **2,327** | 1,777 | 1,477 |
| | **₱17,680** | ₱16,576 | ₱15,235 | **₱14,056** | ₱11,086 | ₱9,573 |

26. **Notes to Statements of Cash Flows**

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

| | **Consolidated** | | | **Parent Company** | | |
|---|---|---|---|---|---|---|
| | **2020** | 2019 | 2018 | **2020** | 2019 | 2018 |
| Interbank loans receivable and SPURA | **₱79,408** | ₱72,175 | ₱50,731 | **₱57,210** | ₱56,153 | ₱24,724 |
| Interbank loans receivable and SPURA not considered as cash and cash equivalents | **(32,739)** | (4,862) | (11,351) | **(27,369)** | (1,575) | (1,982) |
| | **₱46,669** | ₱67,313 | ₱39,380 | **₱29,841** | ₱54,578 | ₱22,742 |

Significant non-cash transactions of the Group and the Parent Company (other than the impact of PFRS 16 adoption in 2019) include; additions to ROU assets as disclosed in Note 10; foreclosures of properties or additions to investment and chattel properties as disclosed in Notes 12 and 14, respectively; reclassifications of BUC (Note 10); impact of merger (Note 11); and issuance of stock dividends (Note 23).

The table below provides for the changes in liabilities arising from financing activities in 2020 and 2019:

| | Consolidated | | | |
|---|---|---|---|---|
| | Beginning | Net cash flows | Others | Ending |
| **2020** | | | | |
| Bills payable and SSURA (Note 17) | **₱238,281** | **(₱44,680)** | **(₱53,987)** | **₱139,614** |
| Bonds payable (Note 19) | **80,486** | **10,869** | **42** | **91,397** |
| Subordinated debts (Note 20) | **7,660** | **(6,500)** | **7** | **1,167** |
| Notes payable (Note 21) | **2,592** | **(2,592)** | – | – |
| Dividends payable (Note 21) | **90** | – | – | **90** |
| Total liabilities from financing activities | **₱329,109** | **(₱42,903)** | **(₱53,938)** | **₱232,268** |
| 2019 | | | | |
| Bills payable and SSURA (Note 17) | ₱259,607 | (₱29,298) | ₱7,972 | ₱238,281 |
| Bonds payable (Note 19) | 30,743 | 49,499 | 244 | 80,486 |
| Subordinated debts (Note 20) | 26,618 | (19,000) | 42 | 7,660 |
| Notes payable (Note 21) | 2,600 | – | (8) | 2,592 |
| Dividends payable (Note 21) | 90 | – | – | 90 |
| Total liabilities from financing activities | ₱319,658 | ₱1,201 | ₱8,250 | ₱329,109 |

| | Parent Company | | | | |
|---|---|---|---|---|---|
| | Beginning | Net cash flows | Impact of merger (see Note 11) | Others | Ending |
| **2020** | | | | | |
| Bills payable and SSURA (Note 17) | **₱139,072** | **(₱87,421)** | **₱65,389** | **(₱8,389)** | **₱108,651** |
| Bonds payable (Note 19) | **70,110** | **6,219** | – | **26** | **76,355** |
| Subordinated debts (Note 20) | **6,494** | **(6,500)** | **1,166** | **7** | **1,167** |
| Total liabilities from financing activities | **₱215,676** | **(₱87,702)** | **₱66,555** | **(₱8,356)** | **₱186,173** |
| 2019 | | | | | |
| Bills payable and SSURA (Note 17) | ₱151,079 | (₱12,007) | ₱– | ₱– | ₱139,072 |
| Bonds payable (Note 19) | 27,826 | 42,135 | – | 149 | 70,110 |
| Subordinated debts (Note 20) | 22,471 | (16,000) | – | 23 | 6,494 |
| Total liabilities from financing activities | ₱201,376 | ₱14,128 | ₱– | ₱172 | ₱215,676 |

Others include the effect of cash flows of liabilities arising from operating activities, declaration of dividends, and effect of amortization of transaction costs.

## 27. Retirement Plan and Other Employee Benefits

The Parent Company and most of its subsidiaries have funded non-contributory defined benefit retirement plan covering all their respective permanent and full-time employees. Benefits are based on the employee's years of service and final plan salary.

For employees of the Parent Company, retirement from service is compulsory upon the attainment of the 55th birthday or 30th year of service, whichever comes first.

The existing regulatory framework, Republic Act (RA) 7641 (Retirement Pay Law) requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided, however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan. The Parent Company and most of its subsidiaries meet the minimum retirement benefit specified under RA 7641.

The principal actuarial assumptions used in determining retirement liability of the Parent Company and significant subsidiaries are shown below:

| | Parent Company | FMIC | PSBank | ORIX Metro | MCC (Note 11) |
|---|---|---|---|---|---|
| **As of January 1, 2020** | | | | | |
| **Average remaining working life** | **9 years** | **7 years** | **10 years** | **13 to 26 years** | **-** |
| **Discount rate** | **4.74%** | **4.82% to 4.84%** | **4.86%** | **5.1% to 5.2%** | **-** |
| **Future salary increases** | **7.00%** | **6.29%** | **5.80%** | **7.00%** | **-** |
| As of January 1, 2019 | | | | | |
| Average remaining working life | 9.6 years | 7 years | 12 years | 14 to 27 years | 10 years |
| Discount rate | 7.29% | 7.16% to 7.32% | 7.33% | 6.80% to 7.80% | 7.28% |
| Future salary increases | 7.00% | 5.00% | 6.00% | 7.00% to 8.00% | 8.00% |

Discount rates used in computing for the present value of the DBO of the Parent Company and significant subsidiaries as of December 31, 2020 and 2019 follow:

| | Parent Company | FMIC | PSBank | ORIX Metro | MCC (Note 11) |
|---|---|---|---|---|---|
| **2020** | **3.58%** | **3.38% to 3.68%** | **3.56%** | **3.50% to 3.90%** | **-** |
| 2019 | 4.74% | 4.61% to 4.84% | 4.86% | 5.10% to 5.20% | 4.88% |

The net retirement liability (asset) of the Group and the Parent Company is presented in the following accounts in the statements of financial position:

| | Consolidated | | Parent Company | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Other assets (Note 14) | **(₱2,441)** | (₱3,930) | **(₱2,441)** | (₱3,930) |
| Other liabilities (Note 21) | **214** | 938 | **–** | – |
| | **(₱2,227)** | (₱2,992) | **(₱2,441)** | (₱3,930) |

The defined benefit plan exposes the Group and the Parent Company to actuarial risk, such as longevity risk, interest rate risk and market (investment risk).

The fair value of plan assets by each class as at the end of the reporting year are as follows:

| | Consolidated | | Parent Company | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Cash and cash equivalents | **₱156** | ₱974 | **₱18** | ₱4 |
| Investment securities | | | | |
| Debt securities (Note 31) | **22,413** | 21,415 | **18,692** | 17,997 |
| Equity securities (Note 31) | **5,328** | 4,855 | **5,111** | 4,640 |
| Unit investment trust fund and others (Note 31) | **734** | 573 | **683** | 415 |
| Total investment securities | **28,475** | 26,843 | **24,486** | 23,052 |
| Other assets | **238** | 266 | **214** | 245 |
| Total assets | **28,869** | 28,083 | **24,718** | 23,301 |
| Total liabilities | **(22)** | (6) | **(19)** | – |
| Fair value of net plan assets | **₱28,847** | ₱28,077 | **₱24,699** | ₱23,301 |

Changes in net defined benefit liability (asset) are as follows:

| **Consolidated** | **Present Value of DBO** | **Fair Value of Plan Assets** | **Net retirement liability/(asset)** |
|---|---|---|---|
| January 1, 2020 | **₱25,085** | **(₱28,077)** | **(₱2,992)** |
| Net benefit cost | | | |
| Current service cost | **1,873** | – | **1,873** |
| Past service cost | **285** | – | **285** |
| Net interest | **1,071** | **(1,241)** | **(170)** |
| Sub-total | **3,229** | **(1,241)** | **1,988** |
| Benefits paid | **(1,723)** | **1,723** | – |
| Remeasurement in OCI | | | |
| Return on plan assets (excluding amount included in net interest) | – | **(744)** | **(744)** |
| Actuarial changes arising from experience adjustments | **(252)** | – | **(252)** |
| Actuarial changes arising from changes in financial/demographic assumptions | **281** | **(3)** | **278** |
| Sub-total | **29** | **(747)** | **(718)** |
| Net acquired/(released) obligation due to employee transfers | – | **15** | **15** |
| Contributions paid | – | **(520)** | **(520)** |
| December 31, 2020 | **₱26,620** | **(₱28,847)** | **(₱2,227)** |

| **Parent Company** | **Present Value of DBO** | **Fair Value of Plan Assets** | **Net retirement liability/(asset)** |
|---|---|---|---|
| January 1, 2020 | **₱19,371** | **(₱23,301)** | **(₱3,930)** |
| Net benefit cost | | | |
| Current service cost | **1,467** | – | **1,467** |
| Net interest | **867** | **(1,053)** | **(186)** |
| Sub-total | **2,334** | **(1,053)** | **1,281** |
| Past service cost | **285** | – | **285** |
| Benefits paid | **(1,424)** | **1,424** | – |
| Remeasurement in OCI | | | |
| Return on plan assets (excluding amount included in net interest) | – | **(717)** | **(717)** |
| Actuarial changes arising from experience adjustments | **(173)** | – | **(173)** |
| Actuarial changes arising from changes in financial/demographic assumptions | **424** | – | **424** |
| Sub-total | **1,446** | **(346)** | **1,100** |
| Net acquired/(released) obligation due to employee transfers | **1,441** | **(1,052)** | **389** |
| December 31, 2020 | **₱22,258** | **(₱24,699)** | **(₱2,441)** |

| Consolidated | Present Value of DBO | Fair Value of Plan Assets | Net retirement liability/(asset) |
|---|---|---|---|
| January 1, 2019 | ₱19,254 | (₱22,631) | (₱3,377) |
| Net benefit cost | | | |
| Current service cost | 1,558 | – | 1,558 |
| Past service cost | 4 | – | 4 |
| Net interest | 1,326 | (1,658) | (332) |
| Sub-total | 2,888 | (1,658) | 1,230 |
| Benefits paid | (1,474) | 1,474 | – |
| Remeasurement in OCI | | | |
| Return on plan assets (excluding amount included in net interest) | – | (1,509) | (1,509) |
| Actuarial changes arising from experience adjustments | 734 | – | 734 |
| Actuarial changes arising from changes in financial/demographic assumptions | 3,683 | – | 3,683 |
| Sub-total | 4,417 | (1,509) | 2,908 |
| Benefits paid from previous year separation | – | 8 | 8 |
| Settlement | 1 | – | 1 |
| Effect of curtailment | (1) | – | (1) |
| Contributions paid | – | (3,761) | (3,761) |
| December 31, 2019 | ₱25,085 | (₱28,077) | (₱2,992) |

| Parent Company | Present Value of DBO | Fair Value of Plan Assets | Net retirement liability/(asset) |
|---|---|---|---|
| January 1, 2019 | ₱15,195 | (₱18,801) | (₱3,606) |
| Net benefit cost | | | |
| Current service cost | 1,169 | – | 1,169 |
| Net interest | 1,039 | (1,369) | (330) |
| Sub-total | 2,208 | (1,369) | 839 |
| Benefits paid | (1,291) | 1,291 | – |
| Remeasurement in OCI | | | |
| Return on plan assets (excluding amount included in net interest) | – | (1,507) | (1,507) |
| Actuarial changes arising from experience adjustments | 647 | – | 647 |
| Actuarial changes arising from changes in financial/demographic assumptions | 2,612 | – | 2,612 |
| Sub-total | 3,259 | (1,507) | 1,752 |
| Contributions paid | – | (2,915) | (2,915) |
| December 31, 2019 | ₱19,371 | (₱23,301) | (₱3,930) |

In 2020, 2019 and 2018, deferred tax on remeasurements on retirement plans credited (charged) to OCI amounted to (₱215.6 million), ₱872.4 million, and (₱214.2 million), respectively, for the Group, and (₱139.9 million), ₱525.7 million and (₱135.6 million), respectively, for the Parent Company (Note 28).

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the balance of defined benefit obligation as of December 31, 2020 and 2019, assuming all other assumptions were held constant:

| | **Parent Company** | **FMIC** | **PSBank** | **ORIX Metro** | **MCC** (Note 11) |
|---|---|---|---|---|---|
| **As of December 31, 2020** | | | | | |
| Discount rate | | | | | |
| +100 basis points (bps) | **(₱1,403)** | **(₱24)** | **(₱262)** | **(₱88)** | **₱–** |
| - 100 bps | **1,595** | **27** | **300** | **105** | – |
| Salary increase rate | | | | | |
| +100 bps | **1,402** | **28** | **312** | **101** | – |
| - 100 bps | **(1,273)** | **(25)** | **(277)** | **(86)** | – |
| Turnover rate | | | | | |
| +20% of actual rate | **(433)** | **(12)** | **(54)** | – | – |
| -20% of actual rate | **480** | **14** | **62** | – | – |
| | | | | | |
| As of December 31, 2019 | | | | | |
| Discount rate | | | | | |
| +100 basis points (bps) | (₱1,180) | (₱22) | (₱307) | (₱68) | (₱132) |
| - 100 bps | 1,332 | 24 | 357 | 81 | 152 |
| Salary increase rate | | | | | |
| +100 bps | 1,222 | 26 | 366 | 78 | 121 |
| - 100 bps | (1,113) | (23) | (321) | (67) | (114) |
| Turnover rate | | | | | |
| +3% | (547) | – | – | – | – |
| + 20% of actual rate | – | (10) | (60) | – | (40) |
| - 3% | 697 | – | – | – | – |
| - 20% of actual rate | – | 11 | 67 | – | 43 |

The Group and the Parent Company expect to contribute to the defined benefit retirement plans the required funding for normal cost in 2021 amounting to ₱447.2 million and nil, respectively.

The average duration of the DBO of the Group as of December 31, 2020 and 2019 are as follows:

| | Parent Company | FMIC | PSBank | ORIX Metro | MCC (Note 11) |
|---|---|---|---|---|---|
| **2020** | **12.04 years** | **10.49 to 14.52 years** | **12.50 years** | **10.9 to 13.1 years** | – |
| 2019 | 12.15 years | 10.57 to 14.94 years | 15.43 years | 11.40 to 12.60 years | 14.26 years |

Shown below is the maturity analysis of the undiscounted benefit payments:

| | Parent Company | FMIC | PSBank | ORIX Metro | MCC (Note 11) |
|---|---|---|---|---|---|
| **As of December 31, 2020** | | | | | |
| Less than 1 year | **₱3,144** | **₱27** | **₱260** | **₱26** | **₱–** |
| More than 1 year to 5 years | **10,113** | **139** | **1,079** | **148** | – |
| More than 5 years to 10 years | **10,794** | **273** | **1,820** | **342** | – |
| More than 10 years to 15 years | **9,652** | **224** | **1,956** | – | – |
| More than 15 years to 20 years | **11,278** | **194** | **2,025** | – | – |
| More than 20 years | **11,514** | **165** | **1,443** | – | – |
| As of December 31, 2019 | | | | | |
| Less than 1 year | ₱2,165 | ₱28 | ₱184 | ₱– | ₱58 |
| More than 1 year to 5 years | 9,782 | 156 | 968 | 157 | 353 |
| More than 5 years to 10 years | 11,066 | 316 | 1,984 | 344 | 1,025 |
| More than 10 years to 15 years | 8,517 | 217 | 2,385 | – | 1,432 |
| More than 15 years to 20 years | 10,755 | 189 | 3,515 | – | 1,934 |
| More than 20 years | 11,762 | 199 | 3,999 | – | 1,123 |

In addition, the Parent Company has a Provident Plan which is a supplementary contributory retirement plan to and forms part of the main plan, the Retirement Plan, for the exclusive benefit of eligible employees of the Parent Company in the Philippines. Based on the provisions of the plan, upon retirement or resignation, a member shall be entitled to receive as retirement or resignation benefits 100.00% of the accumulated value of the personal contribution plus a percentage of the accumulated value arising from the Parent Company's contributions in accordance with the completed number of years serviced. The Parent Company's contribution to the Provident Fund in 2020 and 2019 amounted to ₱321.3 million and ₱265.3 million, respectively.

As of December 31, 2020 and 2019, the retirement funds of the Group's employees amounting to ₱28.8 billion and ₱28.1 billion, respectively, are being managed by its trust banking unit. The Parent Company has a Trust Committee that is mandated to approve the plan, trust agreement, investment plan, including any amendments or modifications thereto, and other activities of the retirement plan. Certain members of the BOD of the Parent Company are represented in the Trust Committee.

## 28. Income and Other Taxes

Under Philippine tax laws, the RBU of the Parent Company and its domestic subsidiaries are subject to percentage and other taxes (presented as 'Taxes and licenses' in the statement of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax (GRT) and documentary stamp tax (DST). Income taxes include 30.00% regular corporate income tax (RCIT) and 20.00% final taxes paid, which is a final withholding tax on gross interest income from government securities and other deposit substitutes. Interest allowed as a deductible expense is reduced by an amount equivalent to 33.00% of interest income subjected to final tax.

Current tax regulations also provide for the ceiling on the amount of EAR expense (Note 25) that can be claimed as a deduction against taxable income. Under the regulation, EAR expense allowed as a deductible expense for a service company like the Parent Company and some of its subsidiaries is limited to the actual EAR paid or incurred but not to exceed 1.00% of net revenue. The regulations also provide for MCIT of 2.00% on modified gross income and allow a NOLCO. The MCIT and NOLCO may be applied against the Group's income tax liability and taxable income, respectively, over a three-year period from the year of inception. For the taxable years 2020 and 2021, the NOLCO incurred can be carried over as a deduction for the next five (5) consecutive taxable years, pursuant to Revenue Regulation No. 25-2020.

FCDU offshore income (income from non-residents) is tax-exempt while gross onshore income (income from residents) is subject to 10.00% income tax. In addition, interest income on deposit placements with other FCDUs and offshore banking units (OBUs) is taxed at 15.00%. Income derived by the FCDU from foreign currency-denominated transactions with non-residents, OBUs, local commercial banks including branches of foreign banks is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10.00% income tax.

Following are the applicable taxes and tax rates for the foreign branches of the Parent Company:

| **Foreign Branches** | **Tax Rates** |
|---|---|
| USA - New York Branch | 21.00% federal income tax; 8.85% state tax; 6.50% city tax |
| Japan - Tokyo and Osaka Branches | 2020 - 23.20% income tax; 2019 - 23.40% income tax;<br>Various rates for business taxes - income tax, local business, sheet value and sheet capital allocations |
| Korea - Seoul and Pusan Branches | Various rates; 0.50% education tax |
| Taiwan - Taipei Branch | 20.00% income tax; 5.00% gross business receipts tax; 5.0% value-added tax |

The provision for income tax consists of:

| | **Consolidated** | | | **Parent Company** | | |
|---|---|---|---|---|---|---|
| | **2020** | 2019 | 2018 | **2020** | 2019 | 2018 |
| Current: | | | | | | |
| RCIT* | **₱7,729** | ₱6,625 | ₱5,002 | **₱6,696** | ₱3,772 | ₱2,090 |
| Final tax | **3,991** | 3,442 | 2,928 | **3,627** | 2,915 | 2,389 |
| MCIT | **5** | 6 | 8 | **-** | - | – |
| | **11,725** | 10,073 | 7,938 | **10,323** | 6,687 | 4,479 |
| Deferred* | **(4,679)** | (12) | (193) | **(3,413)** | (78) | 5 |
| | **₱7,046** | ₱10,061 | ₱7,745 | **₱6,910** | ₱6,609 | ₱4,484 |

** Includes income taxes of foreign subsidiaries.*

Components of net deferred tax assets of the Group and the Parent Company follow:

| | **Consolidated** | | **Parent Company** | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Deferred tax asset on: | | | | |
| Allowance for credit and impairment losses | **₱11,167** | ₱7,692 | **₱8,546** | ₱4,785 |
| Unamortized past service cost | **2,380** | 2,744 | **2,134** | 2,437 |
| Retirement asset | **523** | 1,238 | **1,017** | 996 |
| Unrealized foreign exchange losses | **403** | 7 | **403** | – |
| Accumulated depreciation of investment properties | **308** | 272 | **156** | 160 |
| Deferred membership/awards | **305** | 334 | **305** | – |
| NOLCO | **34** | – | **–** | – |
| MCIT | **9** | – | **–** | – |
| Others | **807** | 189 | **24** | 47 |
| | **15,936** | 12,476 | **12,585** | 8,425 |
| Deferred tax liability on: | | | | |
| Unrealized mark-to-market gains | **1,420** | 1,456 | **1,040** | 1,449 |
| Unrealized gain on initial measurement of investment properties | **154** | 433 | **151** | 58 |
| Others | **334** | 75 | **–** | – |
| | **1,908** | 1,964 | **1,191** | 1,507 |
| Net deferred tax assets | **₱14,028** | ₱10,512 | **₱11,394** | ₱6,918 |

Components of net deferred tax liabilities of the Group as of December 31, 2019 (nil as of December 31, 2020) follow:

| | |
|---|---|
| Deferred tax asset on: | |
| Allowance for credit and impairment losses | ₱287 |
| Unamortized past service cost | 4 |
| Others | 256 |
| | 547 |
| Deferred tax liability on: | |
| Leasing income differential on lease accounting methods | 581 |
| Fair value gain on securities | 4 |
| Others | 70 |
| | 655 |
| Net deferred tax liabilities | ₱108 |

In 2020 and 2019, deferred tax credited (charged) to OCI amounted to (₱1.05 billion) and ₱468.4 million respectively, for the Group and (₱1.03 billion) and ₱60.0 million, respectively, for the Parent Company.

The Parent Company and certain subsidiaries did not recognize deferred tax assets on the following temporary differences:

| | **Consolidated** | | **Parent Company** | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Allowance for credit and impairment losses | **₱18,835** | ₱17 | **₱17,532** | ₱– |
| NOLCO | **675** | 814 | **–** | – |
| MCIT | **9** | 20 | **–** | – |

The Group believes that it is not reasonably probable that the tax benefits of these temporary differences will be realized in the future.

There are no income tax consequences attaching to the payment of dividends by the Group to its shareholders. There are no temporary differences arising from undistributed profits of subsidiaries, branches, associates and a JV.

Details of the excess MCIT credits of the Group follow:

| | Amount | Used/Expired | Balance | Expiry Year |
|---|---|---|---|---|
| 2018 | ₱8 | ₱– | ₱8 | 2021 |
| 2019 | 6 | – | 6 | 2022 |
| 2020 | 5 | – | 5 | 2023 |
| | ₱19 | ₱– | ₱19 | |

On September 30, 2020, the Bureau of Internal Revenue (BIR) issued Revenue Regulations No. 25-2020 implementing Section 4(bbbb) of Bayanihan to Recover as One Act which states that the NOLCO incurred for taxable years 2020 and 2021 can be carried over and claimed as a deduction from gross income for the next five (5) consecutive taxable years immediately following the year of such loss.

As of December 31, 2020, the Group has incurred NOLCO before taxable year 2020 which can be claimed as deduction from the regular taxable income for the next three (3) consecutive taxable years immediately following the year of such loss, as follows:

| Inception Year | Amount | Used/Expired | Balance | Expiry Year |
|---|---|---|---|---|
| 2017 | ₱263 | ₱263 | ₱– | 2020 |
| 2018 | 281 | – | 281 | 2021 |
| 2019 | 236 | – | 236 | 2022 |
| | ₱780 | ₱263 | ₱517 | |

As of December 31, 2020, the Group has incurred NOLCO in taxable year 2020 which can be claimed as deduction from the regular taxable income for the next five (5) consecutive taxable years pursuant to Bayanihan 2, as follows:

| Inception Year | Amount | Used/Expired | Balance | Expiry Year |
|---|---|---|---|---|
| 2020 | ₱236 | ₱– | ₱236 | 2025 |

A reconciliation of the statutory income tax rates and the effective income tax rates follows:

| | **Consolidated** | | | **Parent Company** | | |
|---|---|---|---|---|---|---|
| | **2020** | 2019 | 2018 | **2020** | 2019 | 2018 |
| Statutory income tax rate | **30.00%** | 30.00% | 30.00% | **30.00%** | 30.00% | 30.00% |
| Tax effect of: | | | | | | |
| Tax-paid, tax-exempt and other non-taxable income | **(34.94)** | (10.41) | (12.13) | **(31.02)** | (8.16) | (12.02) |
| Non-deductible interest expense | **8.16** | 4.14 | 4.94 | **7.99** | 3.82 | 4.08 |
| FCDU income | **(3.24)** | (1.51) | (1.89) | **(2.90)** | (1.43) | (1.94) |
| Change in unrecognized deferred tax assets | **14.45** | – | – | **12.29** | – | – |
| Others - net | **19.09** | 3.62 | 3.92 | **16.96** | (5.16) | (3.19) |
| Effective income tax rate | **33.52%** | 25.84% | 24.84% | **33.32%** | 19.07% | 16.93% |

## 29. Trust Operations

Properties held by the Parent Company and PSBank in fiduciary or agency capacity for their customers are not included in the accompanying statements of financial position since these are not their resources (Note 30).

In compliance with current banking regulations relative to the Parent Company and PSBank's trust functions, the following are government securities deposited with the BSP.

| | **Consolidated** | | **Parent Company** | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Investment securities at FVOCI | **₱6,364** | ₱143 | **₱6,250** | ₱– |
| Investment securities at amortized cost | – | 5,000 | – | 5,000 |
| | **₱6,364** | ₱5,143 | **₱6,250** | ₱5,000 |

## 30. Commitments and Contingent Liabilities

In the normal course of the Group's operations, there are various outstanding commitments and contingent liabilities which are not reflected in the accompanying financial statements. No material losses are anticipated as a result of these transactions. The summary of contingencies and commitments at their peso-equivalent contractual amounts arising from off-balance sheet items follows:

| | Consolidated | | Parent Company | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Trust Banking Group accounts (Note 29) | **₱567,841** | ₱491,659 | **₱558,273** | ₱484,586 |
| Credit card lines | **205,815** | 209,766 | **205,815** | – |
| Unused commercial letters of credit (Note 31) | **42,283** | 44,036 | **40,930** | 41,342 |
| Undrawn commitments - facilities to lend | **17,413** | 21,980 | **17,393** | 21,980 |
| Bank guaranty with indemnity agreement (Note 31) | **8,591** | 9,904 | **8,591** | 9,904 |
| Credit line certificate with bank commission | **4,262** | 5,984 | **4,262** | 5,984 |
| Outstanding guarantees | **3,826** | 139 | **3,826** | 139 |
| Outstanding shipside bonds/airway bills | **2,594** | 1,931 | **2,594** | 1,931 |
| Late deposits/payments received | **1,756** | 1,539 | **1,746** | 1,530 |
| Inward bills for collection | **1,909** | 991 | **1,908** | 991 |
| Confirmed export letters of credits | **964** | 935 | **39** | 44 |
| Outward bills for collection | **821** | 850 | **819** | 849 |
| Others | **11,488** | 12,933 | **862** | 835 |
| | **₱869,563** | ₱802,647 | **₱847,058** | ₱570,115 |

Several suits and claims relating to the Group's lending operations and labor-related cases remain unsettled. In the opinion of management, these suits and claims, if decided adversely, will not involve sums having a material effect on the Group's financial statements.

## 31. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions or if they are subjected to common control or common significant influence such as subsidiaries and associates of subsidiaries or other related parties. Related parties may be individuals or corporate entities and are classified as entities with significant influence, subsidiaries, associates, other related parties and key personnel (Notes 2 and 11).

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

The Parent Company has a Related Party Transactions Committee (RPTC) and a Related Party Transactions Management Committee (RPTMC), both of which are created to assist the BOD in ensuring that transactions with related parties are reviewed to assess risks and are subjected to appropriate restrictions to ensure that these are conducted at arm's-length terms and that corporate or business resources of the Parent Company are not misappropriated or misapplied. After appropriate review, RPTMC (through RPTC) and RPTC disclose all information and endorses to the BOD with recommendations, the proposed related party transactions. The members of the RPTC are appointed annually by the BOD, composed of at least three (3) Board non-executive members, two (2) of whom should be independent directors, including the Chairman. Currently, RPTC is composed of three (3) independent directors (including the Committee's Chairman); the head of Internal Audit Group (as

Resource Person); and the Compliance Officer (as the Committee Secretary) and meets bi-monthly or as the need arises. On the other hand, RPTMC members are appointed annually by the President, composed of at least four (4) members. RPTC's and RPTMC's review of the proposed related party transactions considers the following: (a) identity and relationship of the parties involved in the transaction; (b) terms of the transaction and whether these are no less favorable than terms generally available to an unrelated third party under the same circumstances; (c) business purpose, timing, rationale and benefits of the transaction; (d) approximate monetary value of the transaction and the approximate monetary value of the related party's interest in the transaction; (e) valuation methodology used and alternative approaches to valuation of the transaction; (f) information concerning potential counterparties in the transaction; (g) description of provisions or limitations imposed as a result of entering into the transaction; (h) whether the proposed transaction includes any potential reputational risk issues that may arise as a result of or in connection with the transaction; (i) impact to a director's independence; (j) extent that such transaction or relationship would present an improper conflict of interest; and (k) the availability of other sources of comparable products or services. Further, no director or officer participates in any discussion of a related party transaction for which he, she, or any member of his or her immediate family is a related party, including transactions of subordinates except in order to provide material information on the related party transaction to RPTC.

Major subsidiaries, which include FMIC, PSBank, MCC (until 2019 - see Note 11) 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.

Details on significant related party transactions of the Group and the Parent Company follow (transactions with subsidiaries have been eliminated in the consolidated financial statements):

| | Consolidated | |
|---|---|---|
| **Category** | **Amount** | **Terms and Conditions/Nature** |
| **2020** | | |
| **Entity with Significant Influence Over the Group** | | |
| Outstanding Balance: | | |
| Deposit liabilities* | **₱1,986** | With annual fixed interest rates ranging from 0.00% to 0.30% including time deposits with maturity terms from 30 to 39 days (Note 16) |
| Bills payable* | **107** | Peso borrowings subject to annual fixed interest rates of 0.88% with maturity term of 70 days (Note 17) |
| Amount/Volume: | | |
| Deposit liabilities | **(385)** | Generally similar to terms and conditions above |
| Bills payable | **(105)** | Generally similar to terms and conditions above |
| Interest expense | **2** | Interest expense on deposit liabilities and bills payable (Notes 16 and 17) |
| **Subsidiaries** | | |
| Outstanding Balance: | | |
| Interbank loans receivable* | **6,412** | Foreign currency-denominated lending which earn annual fixed interest rates ranging from 0.00% to 3.45% with maturity terms from 17 to 212 days (Note 7) |
| Investment securities at | | |
| FVTPL | **83** | Treasury notes and private bonds purchased from FMIC and PSBank |
| FVOCI | **1,218** | Treasury note purchased from PSBank |
| Receivables from customers* | **4,971** | Unsecured, with ECL of ₱35.0 million; With annual fixed interest rates ranging from 1.13% to 1.37% and maturity terms from 1 day to 3 years (Note 9) |
| Accounts receivable | **144** | Non-interest bearing receivables on service fees, underwriting fees, remittance, rental fees and common use service area fees (Note 9) |
| Other receivables | **3** | Accrued rent receivable from PSBank and ORIX |

(Forward)

| | Consolidated | |
|---|---|---|
| **Category** | **Amount** | **Terms and Conditions/Nature** |
| Derivative assets | **₱751** | Swaps bought with various terms (Note 8) |
| Deposit liabilities* | **3,373** | With annual fixed interest rates ranging from 0.00% to 0.30% including time deposits with maturity terms of 40 days (Note 16) |
| Bills payable* | **37** | Peso borrowings subject to annual fixed interest rates ranging from 0.75% to 1.00% with maturity terms from 90 to 97 days (Note 17) |
| Treasury stock | **65** | Parent Company's shares held by FMIC's mutual fund subsidiary (Note 23) |
| Dividends declared | **1,103** | Dividend declared by PSBank (Note 11) |
| Amount/Volume: | | |
| Interbank loans receivable | **(466)** | Generally similar to terms and conditions above |
| Receivables from customers | **(11,108)** | Generally similar to terms and conditions above |
| Accounts receivable | **(50)** | Generally similar to terms and conditions above |
| Deposit liabilities | **(856)** | Generally similar to terms and conditions above |
| Bills payable | **(102)** | Generally similar to terms and conditions above |
| Interest income | **172** | Interest income on receivables from customers and interbank loan receivables (Notes 7 and 9) |
| Service charges, fees and commissions | **29** | Income on transactional fees, including underwriting fees |
| Trading and securities gain – net | **38** | Net gain from securities transactions (Note 8) |
| Foreign exchange loss – net | **(31)** | Net loss from foreign exchange transactions |
| Leasing income | **27** | Income from leasing agreements with various lease terms |
| Miscellaneous income | **231** | Information technology and other fees |
| Interest expense | **34** | Interest expense on deposit liabilities, bills payable and bonds payable (Notes 16, 17 and 19) |
| Contingent – derivatives | **5,450** | Swaps bought with various terms |
| Securities transactions | | |
| Purchases | **69,454** | Outright purchases of investment securities at FVTPL and FVOCI |
| Sales | **10,880** | Outright sale of investment securities at FVTPL and FVOCI |
| Foreign currency | | |
| Buy | **10,644** | Outright purchases of foreign currency |
| Sell | **3,833** | Outright sale of foreign currency |
| **Associates** | | |
| Outstanding Balance: | | |
| Deposit liabilities* | **₱2,923** | With annual fixed interest rates ranging from 0.00% to 0.25% including time deposits with maturity terms from 31 to 35 days (Note 16) |
| Amount/Volume: | | |
| Receivables from customers | **(1,301)** | Generally similar to terms and conditions above |
| Accounts receivable | **(1)** | Generally similar to terms and conditions above |
| Deposit liabilities | **1,508** | Generally similar to terms and conditions above |
| Interest Income | **31** | Interest income on receivables from customers (Note 9) |
| Trading and securities gain - net | **43** | Net gain from securities transactions (Note 8) |
| Foreign exchange loss - net | **(2)** | Net loss from foreign exchange transactions |
| Leasing income | **24** | Income from leasing agreements with various lease terms |
| Interest expense | **2** | Interest expense on deposit liabilities (Note 16) |
| Securities transactions | | |
| Outright purchases | **1,124** | Outright purchases of FVTPL securities and FVOCI investments |
| Outright sales | **5,258** | Outright sale of investment securities at FVTPL and FVOCI |
| Foreign currency | | |
| Buy | **178** | Outright purchases of foreign currency |
| Sell | **1,929** | Outright sale of foreign currency |
| **Other Related Parties** | | |
| Outstanding Balance: | | |
| Receivables from customers* | **₱34,005** | Secured - ₱5.4 million, unsecured - ₱28.6 million, with ECL of ₱220.0 million.<br>With annual fixed interest rates ranging from 2.50% to 5.00% and maturity terms from 30 days to 5 years (Note 9) |
| Assets held under joint operations | **219** | Parcels of land and former branch sites of the Parent Company contributed to joint operations (Note 14) |
| Deposit liabilities* | **18,356** | With annual fixed interest rates ranging from 0.00% to 1.00% including time deposits with maturity terms from 6 days to 359 days (Note 16) |
| Bills payable* | **77** | Peso-denominated borrowings with annual fixed interest rates ranging from 0.63% to 1.13% and maturity terms from 66 to 182 days |

(Forward)

| Category | Consolidated Amount | Terms and Conditions/Nature |
|---|---|---|
| Amount/Volume: | | |
| Receivables from customers | **₱1,778** | Generally similar to terms and conditions above |
| Accounts receivable | **(2)** | Generally similar to terms and conditions above |
| Deposit liabilities | **4,466** | Generally similar to terms and conditions above |
| Bills payable | **77** | Generally similar to terms and conditions above |
| Interest income | **1,484** | Interest income on receivables from customers (Note 9) |
| Foreign exchange gain - net | **–** | Net gain from foreign exchange transactions |
| Leasing income | **15** | Income from leasing agreements with various lease terms |
| Interest expense | **12** | Interest expense on deposit liabilities and bills payable (Notes 16 and 17) |
| Contingent | | |
| Unused commercial LCs | **35** | LC transactions with various terms |
| Foreign currency | | |
| Buy | **273** | Outright purchases of foreign currency |
| Sell | **95** | Outright sale of foreign currency |
| **Key Personnel** | | |
| Outstanding Balance: | | |
| Receivables from customers | **₱83** | Secured - ₱57 million, unsecured - ₱25.8 million, no impairment. With annual fixed interest rates ranging from 0.00% to 10.00% and maturity terms from 1 year to 15 years (Note 9) |
| Deposit liabilities | **314** | With various terms and minimum annual interest rate of 0.00% (Note 16) |
| Amount/Volume: | | |
| Receivables from customers | **(2)** | Generally similar to terms and conditions above |
| Deposit liabilities | **147** | Generally similar to terms and conditions above |
| Interest income | **3** | Interest income on receivables from customers (Note 9) |
| 2019 | | |
| Entity with Significant Influence Over the Group | | |
| Outstanding Balance: | | |
| Deposit liabilities* | ₱2,371 | With annual fixed interest rates ranging from 0.00% to 3.00% including time deposits with maturity terms from 10 to 30 days (Note 16) |
| Bills payable* | 212 | Peso borrowings subject to annual fixed interest rates ranging from 3.63% to 4.00% with maturity term of 60 days (Note 17) |
| Amount/Volume: | | |
| Deposit liabilities | 1,891 | Generally similar to terms and conditions above |
| Bills payable | 8 | Generally similar to terms and conditions above |
| Service charges, fees and commissions | 129 | Financial advisory fees |
| Interest expense | 16 | Interest expense on deposit liabilities and bills payable (Notes 16 and 17) |
| Subsidiaries | | |
| Outstanding Balance: | | |
| Interbank loans receivable* | 6,878 | Foreign currency-denominated lending which earn annual fixed interest rates ranging from 0.00% to 4.00% with maturity terms from 7 to 366 days (Note 7) |
| Investment securities at | | |
| FVTPL | 125 | Treasury notes and private bonds purchased from FMIC (Note 8) |
| Amortized cost | 2,368 | Treasury note purchased from FMIC (Note 8) |
| Receivables from customers* | 16,079 | Secured - ₱14.1 million and unsecured - ₱16.0 billion, with ECL of ₱1.7 million; with annual fixed interest rates ranging from 2.94% to 4.25% and maturity terms from 6 days to 3 years (Note 9) |
| Accounts receivable | 194 | Non-interest bearing receivables on service fees, underwriting fees, remittance, rental fees and common use service area fees (Note 9) |
| Derivative assets | 726 | Cross-currency swaps with various terms (Note 8) |
| Deposit liabilities* | 4,229 | With annual fixed interest rates ranging from 0.00% to 3.00% including time deposits with maturity terms from 6 to 126 days (Note 16) |
| Bills payable* | 139 | Peso borrowings subject to annual fixed interest rates ranging from 3.00% to 5.88% with maturity terms from 90 to 365 days (Note 17) |

(Forward)

| Category | Consolidated Amount | Consolidated Terms and Conditions/Nature |
|---|---|---|
| Treasury stock | ₱72 | Parent Company's shares held by FMIC's mutual fund subsidiary (Note 23) |
| Dividends declared | 1,073 | Dividend declared by PSBank and MB Bahamas (Note 11) |
| Amount/Volume: | | |
| Interbank loans receivable | 2,244 | Generally similar to terms and conditions above |
| Receivables from customers | 2,394 | Generally similar to terms and conditions above |
| Accounts receivable | (139) | Generally similar to terms and conditions above |
| Deposit liabilities | 954 | Generally similar to terms and conditions above |
| Bills payable | 12 | Generally similar to terms and conditions above |
| Bonds payable | (81) | Generally similar to terms and conditions above |
| Interest income | 826 | Interest income on receivables from customers and interbank loan receivables (Notes 7 and 9) |
| Service charges, fees and commissions | 102 | Income on transactional fees, including underwriting fees |
| Trading and securities gain - net | 300 | Net gain from securities transactions (Note 8) |
| Foreign exchange loss - net | (123) | Net loss from foreign exchange transactions |
| Leasing income | 58 | Income from leasing agreements with various lease terms |
| Miscellaneous income | 344 | Information technology and other fees |
| Interest expense | 73 | Interest expense on deposit liabilities, bills payable and bonds payable (Notes 16, 17 and 19) |
| Contingent - derivatives | 8,473 | Cross-currency swaps with various terms |
| Securities transactions | | |
| Purchases | 13,100 | Outright purchases of investment securities at FVTPL, FVOCI and at amortized cost |
| Sales | 77,841 | Outright sale of investment securities at FVTPL and FVOCI |
| Foreign currency | | |
| Buy | 28,461 | Outright purchases of foreign currency |
| Sell | 18,638 | Outright sale of foreign currency |
| Associates | | |
| Outstanding Balance: | | |
| Receivables from customers* | ₱1,307 | Unsecured with ECL of ₱0.1 million; with annual fixed interest rates ranging from 5.00% to 6.85% and maturity terms from 94 to 360 days (Note 9) |
| Accounts receivable | 1 | Non-interest bearing receivable on rental fees (Note 9) |
| Deposit liabilities* | 1,415 | With annual fixed interest rates ranging from 0.00% to 3.63% including time deposits with maturity terms from 31 to 35 days (Note 16) |
| Dividends declared | 169 | Dividends declared by PALIC, SMFC and TSI |
| Amount/Volume: | | |
| Receivables from customers | 604 | Generally similar to terms and conditions above |
| Accounts receivable | (1) | Generally similar to terms and conditions above |
| Deposit liabilities | 579 | Generally similar to terms and conditions above |
| Interest Income | 57 | Interest income on receivables from customers (Note 9) |
| Trading and securities gain - net | 5 | Net gain from securities transactions (Note 8) |
| Foreign exchange loss - net | (13) | Net loss from foreign exchange transactions |
| Leasing income | 17 | Income from leasing agreements with various lease terms |
| Interest expense | 2 | Interest expense on deposit liabilities (Note 16) |
| Securities transactions | | |
| Outright sales | 1,664 | Outright sale of investment securities at FVTPL and FVOCI |
| Foreign currency | | |
| Buy | 168 | Outright purchases of foreign currency |
| Sell | 374 | Outright sale of foreign currency |
| Other Related Parties | | |
| Outstanding Balance: | | |
| Receivables from customers* | ₱32,227 | Secured - ₱6.6 billion and unsecured - ₱25.6 billion, with ECL of ₱11.4 million; with annual fixed interest rates ranging from 3.88% to 5.20% and maturity terms from 28 days to 5 years (Note 9) |
| Accounts receivable | 2 | Credit card receivables, current and non-revolving (Note 9) |
| Assets held under joint operations | 219 | Parcels of land and former branch sites of the Parent Company contributed to joint operations (Note 14) |
| Deposit liabilities* | 13,890 | With annual fixed interest rates ranging from 0.00% to 3.50% including time deposits with maturity terms from 1 day to 357 days (Note 16) |

(Forward)

| Category | Consolidated<br>Amount | Terms and Conditions/Nature |
|---|---|---|
| Amount/Volume: | | |
| Receivables from customers | ₱2,755 | Generally similar to terms and conditions above |
| Accounts receivable | (1) | Generally similar to terms and conditions above |
| Deposit liabilities | 69 | Generally similar to terms and conditions above |
| Bills payable | (51) | Generally similar to terms and conditions above |
| Interest income | 1,025 | Interest income on receivables from customers (Note 9) |
| Foreign exchange gain - net | 2 | Net gain from foreign exchange transactions |
| Leasing income | 21 | Income from leasing agreements with various lease terms |
| Interest expense | 605 | Interest expense on deposit liabilities and bills payable (Notes 16 and 17) |
| Contingent | | |
| Unused commercial LCs | 5 | LC transactions with various terms |
| Securities transactions | | |
| Outright sales | 572 | Outright sale of investment securities at FVTPL and FVOCI |
| Foreign currency | | |
| Buy | 308 | Outright purchases of foreign currency |
| Sell | 1,140 | Outright sale of foreign currency |
| Key Personnel | | |
| Outstanding Balance: | | |
| Receivables from customers | ₱85 | Secured - ₱62.5 million unsecured - ₱22.1 million, no impairment; with annual fixed interest rates ranging from 0.00% to 10.00% and maturity terms from 1 year to 15 years (Note 9) |
| Deposit liabilities | 167 | With various terms and minimum annual interest rate of 0.00% (Note 16) |
| Amount/Volume: | | |
| Deposit liabilities | 1 | Generally similar to terms and conditions above |
| Interest income | 3 | Interest income on receivables from customers (Note 9) |

| **Category** | **Parent Company**<br>**Amount** | **Terms and Conditions/Nature** |
|---|---|---|
| **2020** | | |
| **Entities with Significant Influence** | | |
| Outstanding Balance: | | |
| Deposit liabilities* | **₱1,986** | With annual fixed interest rate ranging from 0.00% to 0.30% including time deposits with maturity terms of 30 to 39 days (Note 16) |
| Amount/Volume: | | |
| Deposit liabilities | **(385)** | Generally similar to terms and conditions above |
| Interest expense | **1** | Interest expense on deposit liabilities (Note 16) |
| **Subsidiaries** | | |
| Outstanding Balance: | | |
| Interbank loans receivable* | **₱6,412** | Foreign currency-denominated lending which earn annual fixed interest rates ranging from 0.00% to 3.45% with maturity terms from 17 to 212 days with minimal expected credit loss (Note 7) |
| Investment Securities at | | |
| FVTPL | **83** | Treasury notes and private bonds purchased from FMIC and PSBank |
| FVOCI | **1,218** | Treasury note purchased from PSBank |
| Receivables from customers* | **4,971** | Unsecured, with ECL of ₱35.0 million;<br>With annual fixed interest rates ranging from 1.13% to 1.37% and maturity terms from 1 day to 3 years (Note 9) |
| Accounts receivable | **120** | Non-interest bearing receivables on service fees, underwriting fees, remittance, rental fees and common use service area fees (Note 9) |
| Other receivables | **3** | Accrued rent receivable from PSBank and Orix |
| Derivative assets | **751** | Swaps bought with various terms (Note 8) |
| Deposit liabilities* | **3,373** | With annual fixed interest rates ranging from 0.00% to 0.30% including time deposits with maturity terms of 40 days (Note 16) |
| Treasury stocks | **65** | Parent Company's shares held by FMIC's mutual fund subsidiary (Note 23) |
| Dividend declared | **1,103** | Dividend declared by PSBank (Note 11) |
| Amount/Volume: | | |
| Interbank loans receivable | **734** | Generally similar to terms and conditions above |
| Receivables from customers | **(11,108)** | Generally similar to terms and conditions above |
| Accounts receivable | **(16)** | Generally similar to terms and conditions above |
| Deposit liabilities | **(856)** | Generally similar to terms and conditions above |

(Forward)

| Category | Parent Company<br>Amount | <br>Terms and Conditions/Nature |
|---|---|---|
| Interest income | **₱159** | Interest income on receivables from customers and interbank loans receivables (Note 9) |
| Service charges, fees and commissions | **3** | Income from transactional fees |
| Trading and securities gain - net | **28** | Net gain from securities transactions (Note 8) |
| Foreign exchange loss - net | **(31)** | Net loss from foreign exchange transactions |
| Leasing income | **5** | Income from leasing agreements with various lease terms |
| Miscellaneous income | **219** | Information technology and other fees (Note 25) |
| Interest expense | **22** | Interest expense on deposit liabilities, bills payable and interbank loans payable (Notes 16 and 17) |
| Contingent - derivatives | **5,450** | Swaps with various terms |
| Securities transactions | | |
| Purchases | **65,038** | Outright purchases of investment securities at FVTPL and FVOCI |
| Sales | **10,880** | Outright sale of investment securities at FVTPL and FVOCI |
| Foreign currency | | |
| Buy | **10,644** | Outright purchases of foreign currency |
| Sell | **3,833** | Outright sale of foreign currency |
| **Associates** | | |
| Outstanding Balance: | | |
| Deposit liabilities* | **₱2,052** | With annual fixed interest rates ranging from 0.00% to 0.25% including time deposits with maturity terms of 31 to 35 days (Note 16) |
| Amount/Volume: | | |
| Receivables from customers | **(1,301)** | Generally similar to terms and conditions above |
| Deposit liabilities | **661** | Generally similar to terms and conditions above |
| Interest Income | **31** | Interest income on receivables from customers (Note 9) |
| Trading and securities gain – net | **42** | Net gain from securities transactions |
| Foreign exchange loss - net | **(2)** | Net loss from foreign exchange transactions |
| Leasing income | **10** | Income from leasing agreements with various lease terms |
| Securities transactions | | |
| Outright purchases | **400** | Outright purchases of investment securities at FVTPL and FVOCI |
| Outright sales | **2,290** | Outright sale of investment securities at FVTPL and FVOCI |
| Foreign currency | | |
| Buy | **178** | Outright purchases of foreign currency |
| Sell | **1,929** | Outright sale of foreign currency |
| **Other Related Parties** | | |
| Outstanding Balance: | | |
| Receivables from customers* | **₱34,004** | Secured - ₱5.4 million, unsecured - ₱28.6 million, with ECL of ₱220.0 million.<br>With annual fixed interest rates ranging from 2.50% to 5.00% and maturity terms from 30 days to 5 years (Note 9) |
| Assets held under joint operations | **219** | Parcels of land and former branch sites of the Parent Company contributed to joint operations (Note 14) |
| Deposit liabilities* | **18,054** | With annual fixed interest rates ranging from 0.00% to 1.00% including time deposits with maturity terms of 6 days to 359 days (Note 16) |
| Amount/Volume: | | |
| Receivables from customers | **1,777** | Generally similar to terms and conditions above |
| Deposit liabilities | **4,677** | Generally similar to terms and conditions above |
| Interest income | **1,484** | Interest income on receivables from customers |
| Foreign exchange gain - net | **–** | Net gain from foreign exchange transactions |
| Leasing income | **15** | Income from leasing agreements with various lease terms |
| Interest expense | **2** | Interest expense on deposit liabilities (Note 16) |
| Contingent | | |
| Unused commercial LCs | **35** | LC transactions with various terms |
| Securities transactions | | |
| Sales | **–** | Outright sale of investment securities at FVTPL and FVOCI |
| Foreign currency | | |
| Buy | **273** | Outright purchases of foreign currency |
| Sell | **95** | Outright sale of foreign currency |
| **Key Personnel** | | |
| Outstanding Balance: | | |
| Receivables from customers | **₱72** | Secured - ₱55 million and unsecured - ₱17 million, no impairment; with annual fixed interest rates ranging from 0.00% to 10.00% and maturity terms of 2 to 15 years (Note 9) |

(Forward)

| Category | Parent Company<br>Amount | <br>Terms and Conditions/Nature |
|---|---|---|
| Deposit liabilities | **₱314** | With various terms and annual interest rate of 0.00% (Note 16) |
| Amount/Volume: | | |
| Receivables from customers | **2** | Generally similar to terms and conditions above |
| Deposit liabilities | **147** | Generally similar to terms and conditions above |
| Interest income | **2** | Interest income on receivables from customers (Note 9) |
| 2019 | | |
| Entities with Significant Influence | | |
| Outstanding Balance: | | |
| Deposit liabilities* | ₱2,371 | With annual fixed interest rate ranging from 0.00% to 3.00% (including time deposits) and maturity terms of 10 to 30 days (Note 16) |
| Amount/Volume: | | |
| Deposit liabilities | 1,891 | Generally similar to terms and conditions above |
| Interest expense | 6 | Interest expense on deposit liabilities (Note 16) |
| Subsidiaries | | |
| Outstanding Balance: | | |
| Interbank loans receivable* | ₱5,678 | Foreign currency-denominated lending which earn annual fixed interest rates ranging from 0.00% to 3.17% and maturity terms of 7 to 366 days with minimal ECL (Note 7) |
| Investment Securities at | | |
| FVTPL | 125 | Treasury notes and private bonds purchased from FMIC (Note 8) |
| Amortized Cost | 2,368 | Treasury notes purchased from FMIC (Note 8) |
| Receivables from customers* | 16,079 | Secured - ₱14.1 million and unsecured – ₱16.0 billion, with ECL of ₱1.7 million; with annual fixed interest rates ranging from 2.94% to 4.25% and maturity terms of 6 days to 3 years (Note 9) |
| Accounts receivable | 136 | Non-interest bearing receivables on service fees, underwriting fees, remittance, rental fees and common use service area fees (Note 9) |
| Derivative assets | 726 | Cross-currency swaps with various terms (Note 8) |
| Deposit liabilities* | 4,229 | With annual fixed interest rates ranging from 0.00% to 3.00% (including time deposits) and maturity terms of 6 days to 126 days (Note 16) |
| Treasury stocks | 72 | Parent Company's shares held by FMIC's mutual fund subsidiary (Note 23) |
| Dividend declared | 1,073 | Dividend declared by PSBank and MB Bahamas (Note 11) |
| Amount/Volume: | | |
| Interbank loans receivable | 1,044 | Generally similar to terms and conditions above |
| Receivables from customers | 2,394 | Generally similar to terms and conditions above |
| Accounts receivable | (138) | Generally similar to terms and conditions above |
| Deposit liabilities | 1,136 | Generally similar to terms and conditions above |
| Interest income | 767 | Interest income on receivables from customers and interbank loans receivables (Note 9) |
| Service charges, fees and commissions | 38 | Income from transactional fees |
| Trading and securities gain - net | 167 | Net gain from securities transactions (Note 8) |
| Foreign exchange loss - net | (123) | Net loss from foreign exchange transactions |
| Leasing income | 31 | Income from leasing agreements with various lease terms |
| Miscellaneous income | 305 | Information technology and other fees (Note 25) |
| Interest expense | 53 | Interest expense on deposit liabilities, bills payable and interbank loans payable (Notes 16 and 17) |
| Contingent - derivatives | 8,473 | Cross-currency swaps with various terms |
| Securities transactions | | |
| Purchases | 13,100 | Outright purchases of investment securities at FVTPL, FVOCI and at amortized cost |
| Sales | 77,541 | Outright sale of investment securities at FVTPL and FVOCI |
| Foreign currency | | |
| Buy | 28,461 | Outright purchases of foreign currency |
| Sell | 18,638 | Outright sale of foreign currency |

| | Parent Company | |
|---|---|---|
| Category | Amount | Terms and Conditions/Nature |
| Associates | | |
| Outstanding Balance: | | |
| Receivables form customers* | ₱1,307 | Unsecured with ECL; with annual fixed rates ranging from 5.00% to 6.85% and maturity terms of 94 to 360 days (Note 9) |
| Deposit liabilities* | 1,391 | With annual fixed interest rates ranging from 0.00% to 3.63% (including time deposits) and maturity terms of 31 to 35 days (Note 16) |
| Amount/Volume: | | |
| Receivables from customers | 604 | Generally similar to terms and conditions above |
| Deposit liabilities | 570 | Generally similar to terms and conditions above |
| Interest Income | 57 | Interest income on receivables from customers (Note 9) |
| Foreign exchange loss - net | (13) | Net loss from foreign exchange transactions |
| Leasing income | 3 | Income from leasing agreements with various lease terms |
| Interest expense | 2 | Interest expense on deposit liabilities (Note 16) |
| Outright sale of securities | 268 | Outright sale of investment securities at FVTPL and FVOCI |
| Foreign currency | | |
| Buy | 168 | Outright purchases of foreign currency |
| Sell | 374 | Outright sale of foreign currency |
| Other Related Parties | | |
| Outstanding Balance: | | |
| Receivables from customers* | ₱32,227 | Secured - ₱6.6 billion and unsecured - ₱25.6 billion, with ECL of ₱11.4 million; with annual fixed interest rates ranging from 3.88% to 5.20% and maturity terms of 28 days to 5 years (Note 9) |
| Assets held under joint operations | 219 | Parcels of land and former branch sites of the Parent Company contributed to joint operations (Note 14) |
| Deposit liabilities* | 13,377 | With annual fixed interest rates ranging from 0.00% to 3.50% (including time deposits) and maturity terms of 6 to 357 days (Note 16) |
| Amount/Volume: | | |
| Receivables from customers | 2,755 | Generally similar to terms and conditions above |
| Deposit liabilities | 194 | Generally similar to terms and conditions above |
| Interest income | 1,025 | Interest income on receivables from customers |
| Foreign exchange gain - net | 2 | Net gain from foreign exchange transactions |
| Leasing income | 21 | Income from leasing agreements with various lease terms |
| Interest expense | 591 | Interest expense on deposit liabilities (Note 16) |
| Contingent | | |
| Unused commercial LCs | 5 | LC transactions with various terms |
| Securities transactions | | |
| Sales | 200 | Outright sale of investment securities at FVTPL and FVOCI |
| Foreign currency | | |
| Buy | 308 | Outright purchases of foreign currency |
| Sell | 1,140 | Outright sale of foreign currency |
| Key Personnel | | |
| Outstanding Balance: | | |
| Receivables from customers | ₱70 | Secured - ₱58.8 million and unsecured - ₱10.8 million, no impairment; with annual fixed interest rates ranging from 0.00% to 10.00% and maturity terms of 5 to 15 years (Note 9) |
| Deposit liabilities | 167 | With various terms and with annual interest rates of 0.00% (Note 16) |
| Amount/Volume: | | |
| Receivables from customers | 2 | Generally similar to terms and conditions above |
| Deposit liabilities | 1 | Generally similar to terms and conditions above |
| Interest income | 2 | Interest income on receivables from customers (Note 9) |

As of December 31, 2020 and 2019, government bonds with total face value of ₱60.0 million (classified as 'Investment securities at FVOCI') and ₱60.0 million (classified as 'Investment securities at amortized cost'), respectively, are pledged by PSBank to the Parent Company to secure the latter's payroll account with PSBank. Also, the Parent Company has assigned to PSBank government securities with total face value of ₱4.1 billion (classified as 'Investment securities at FVOCI') and ₱4.0 billion (classified as 'Investment securities at amortized cost'), respectively to secure PSBank's deposits to the Parent Company.

Receivables from customers and deposit liabilities and their related statement of financial position and statement of income accounts resulted from the lending and deposit-taking activities of the Group and the Parent Company. Together with the sale of investment properties, borrowings, contingent accounts including derivative transactions, outright purchases and sales of securities and foreign currency buy and sell, leasing of office premises, securing of insurance coverage on loans and property risk, and other management services rendered, these are conducted in the normal course of business, at arm's-length transactions and are generally settled in cash. The amounts and related volumes and changes are presented in the summary above. Terms of receivables from customers, deposit liabilities and borrowings are also disclosed in Notes 9, 16 and 17, respectively, while other related party transactions above have been referred to their respective note disclosures.

The compensation of the key management personnel of the Group and the Parent Company follows:

| | Consolidated | | | Parent Company | | |
|---|---|---|---|---|---|---|
| | **2020** | 2019 | 2018 | **2020** | 2019 | 2018 |
| Short-term employee benefits | **₱3,879** | ₱3,446 | ₱3,222 | **₱3,120** | ₱2,500 | ₱2,334 |
| Post-employment benefits | **132** | 140 | 197 | **73** | 56 | 80 |
| | **₱4,011** | ₱3,586 | ₱3,419 | **₱3,193** | ₱2,556 | ₱2,414 |

Director's fees and bonuses of the Parent Company in 2020, 2019 and 2018 amounted to ₱69.0 million, ₱66.1 million and ₱57.8 million, respectively.

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 ₱99.6 million, ₱98.3 million and ₱69.1 million in 2020, 2019 and 2018, respectively. In 2020 and 2019, the Parent Company purchased securities totaling ₱938.7 million and ₱2.1 billion, respectively, from its related party retirement plans and also sold securities totaling ₱3.4 billion and ₱4.5 billion, respectively, and recognized net trading gain of ₱46.6 million in 2020 and net trading loss of ₱11.3 million in 2019. Further, as of December 31, 2020 and 2019, the total outstanding deposit liabilities of the Group from these related party retirement funds amounted to ₱112.0 million and ₱103.6 million, respectively. Interest expense on deposit liabilities amounted to ₱1.6 million, ₱23.7 million and ₱17.7 million in 2020, 2019 and 2018, respectively.

As of December 31, 2020 and 2019, the related party retirement plans also hold investments in the equity shares of various companies within the Group amounting to ₱240.3 million and ₱278.8 million, respectively, with unrealized trading losses of ₱73.4 million and ₱20.1 million, respectively, and investments in mutual funds and trust funds of various companies within the Group amounting to ₱733.1 million and ₱672.4 million, respectively, with unrealized trading gains of ₱3.4 million and ₱19.5 million, respectively. Further as of December 31, 2020 and 2019, investments in the corporate bonds of the Parent Company by the related party retirement plans amounted to ₱1.7 billion and ₱3.7 billion, respectively, with unrealized trading gains of ₱71.9 million and ₱109.1 million, respectively. In 2020, 2019 and 2018, realized trading gains amounted to ₱11.2 million, ₱92.0 million and ₱48.6 million, respectively. The related party retirement plans also recognized dividend income of ₱2.8 million and ₱0.7 million in 2020 and 2019, respectively.

## 32. **Earnings per Share**

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):

| | **2020** | 2019 | 2018 |
|---|---|---|---|
| a. Net income attributable to equity holders of the Parent Company | **₱13,831** | ₱28,055 | ₱22,008 |
| b. Weighted average number of outstanding common shares of the Parent Company | **4,496** | 4,496 | 4,267 |
| c. Basic/diluted earnings per share (a/b) | **₱3.08** | ₱6.24 | ₱5.16* |

**Restated to show the effect of stock dividends issued in 2019.*

## 33. **Foreign Exchange**

Closing rates as of December 31 and WAR for each of the year ended December 31 are as follows:

| | BAP | | |
|---|---|---|---|
| | **2020** | 2019 | 2018 |
| Closing | **₱48.02** | ₱50.64 | ₱52.58 |
| WAR | **49.63** | 51.79 | 52.68 |

## 34. **Other Matters**

The Group has no significant matters to report in 2020 on the following:

a. Known trends, events or uncertainties that would have material impact on liquidity and on the sales or revenues except that in order to anticipate the impact of COVID-19 pandemic, as required by the expected credit loss model of PFRS 9, the Group increased provisions for credit and impairment losses to ₱40.8 billion for the year ended December 31, 2020.
b. Explanatory comments about the seasonality or cyclicality of operations.
c. Issuances, repurchases and repayments of debt and equity securities except for (a) maturity of the ₱8.0 billion LTNCD of the Parent Company as discussed in Note 16 and ₱28.0 billion fixed rate bonds as discussed in Note 19; (b) issuances of the ₱10.5 billion fixed rate bonds and US$ 500 million senior unsecured notes of the Parent Company and the ₱4.65 billion fixed rate bonds of PSBank as discussed in Note 19; (c) redemption of the 2025 Peso Notes by the Parent Company as discussed in Note 20, and (d) maturity of the ₱1.7 billion and ₱895.2 million unsecured notes issued by ORIX Metro on April 29 and October 29, 2020, respectively as discussed in Note 21.
d. Unusual items as to nature, size or incidents affecting assets, liabilities, equity, net income or cash flows except for the disposal of investment securities at amortized cost and payment of cash dividends by the Parent Company, as discussed in Notes 8 and 23, respectively; and
e. Effect of changes in the composition of the Group during the year, including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinuing operations (except as discussed in Notes 2 and 11).

## 35. Subsequent Events

a. On January 21, 2021, the BOD of PSBank declared 7.50% regular cash dividend for the fourth quarter of 2020 amounting to ₱320.14 million or ₱0.75 per share, payable on February 22, 2021 to all stockholders of record as of February 5, 2021.
b. On February 17, 2021, the BOD of the Parent Company declared a regular cash dividend of ₱1.00 per share and a special cash dividend of ₱3.00 per share payable on March 18, 2021 to all stockholders of record as of March 5, 2021.

## 36. Approval of the Release of the Financial Statements

The accompanying financial statements of the Group and of the Parent Company were authorized for issue by the BOD on February 17, 2021.

## 37. Report on the Supplementary Information Required Under BSP Circular No. 1074

Supplementary Information Under BSP Circular No. 1074
On January 8, 2020, the Monetary Board approved the amendments to the relevant provisions of the Manual of Regulations for Banks and Manual of Regulations for Foreign Exchange Transactions. Among the provisions is the requirement to include the following additional information to the Audited Financial Statements.

a. *Quantitative Indicators of Financial Performance*
The following basic ratios measure the financial performance of the Group and the Parent Company:

| | Consolidated | | | Parent Company | | |
|---|---|---|---|---|---|---|
| | **2020** | 2019 | 2018 | **2020** | 2019 | 2018 |
| Return on average equity [1] | **4.36%** | 9.47% | 9.08% | **4.29%** | 9.16% | 8.81% |
| Return on average assets [2] | **0.56%** | 1.20% | 1.02% | **0.65%** | 1.42% | 1.23% |
| Net interest margin on average earning assets [3] | **3.98%** | 3.84% | 3.82% | **3.76%** | 3.09% | 2.98% |

[1] *Net income attributable to equity holders of the Parent Company for the year divided by average total equity attributable to the Parent Company.*
[2] *Net income attributable to equity holders of the Parent Company for the year divided by average total assets.*
[3] *Net interest income for the year divided by average interest-earning assets.*

b. *Description of Capital Instrument Issued*
The Group and the Parent Company consider its common stock and subordinated debts as capital instruments eligible as Tier 1 and Tier 2 capitals.

c. *Significant Credit Exposures*
Significant credit exposures as to industry, net of unearned discount and capitalized interest, as reported to the BSP, follows:

| | Consolidated | | | | Parent Company | | | |
|---|---|---|---|---|---|---|---|---|
| | **2020** | | 2019 | | **2020** | | 2019 | |
| | **Amount** | **%** | Amount | % | **Amount** | **%** | Amount | % |
| Real estate activities | **₱224,269** | **17.49%** | ₱229,299 | 15.48% | **₱178,707** | **16.59%** | ₱181,400 | 15.49% |
| Wholesale and retail trade, repair of motor vehicles and motorcycles | **170,916** | **13.33%** | 237,091 | 16.00% | **161,437** | **14.99%** | 214,289 | 18.30% |
| Manufacturing | **160,993** | **12.55%** | 203,449 | 13.73% | **159,068** | **14.77%** | 201,007 | 17.17% |
| Financial and insurance activities | **106,442** | **8.30%** | 118,660 | 8.01% | **110,095** | **10.22%** | 132,065 | 11.28% |
| Electricity, gas, steam and air conditioning supply | **67,961** | **5.30%** | 67,840 | 4.58% | **65,835** | **6.11%** | 65,547 | 5.60% |
| Information and communication | **62,956** | **4.91%** | 69,793 | 4.71% | **62,399** | **5.79%** | 69,226 | 5.91% |
| (Forward) | | | | | | | | |

| | Consolidated | | | | Parent Company | | | |
|---|---|---|---|---|---|---|---|---|
| | **2020** | | 2019 | | **2020** | | 2019 | |
| | **Amount** | **%** | Amount | % | **Amount** | **%** | Amount | % |
| Activities of household employees | **₱56,213** | **4.38%** | ₱58,938 | 3.98% | **₱55,892** | **5.19%** | ₱58,468 | 4.99% |
| Construction | **44,203** | **3.45%** | 60,033 | 4.05% | **37,095** | **3.44%** | 49,977 | 4.27% |
| Transportation and storage | **26,875** | **2.10%** | 28,038 | 1.89% | **24,619** | **2.29%** | 25,528 | 2.18% |
| Accommodation and food service activities | **26,053** | **2.03%** | 28,472 | 1.92% | **25,740** | **2.39%** | 28,140 | 2.40% |
| Agriculture, forestry, and fishing | **22,024** | **1.72%** | 27,103 | 1.83% | **19,977** | **1.85%** | 24,079 | 2.05% |
| Other service activities | **15,104** | **1.18%** | 9,355 | 0.63% | **398** | **0.04%** | 597 | 0.05% |
| Administrative and support service activities | **5,712** | **0.45%** | 6,821 | 0.46% | **5,148** | **0.48%** | 6,119 | 0.52% |
| Human health and social work activities | **3,907** | **0.30%** | 4,073 | 0.28% | **3,717** | **0.35%** | 3,825 | 0.33% |
| Water supply, sewerage, waste management and remediation activities | **3,181** | **0.25%** | 8,074 | 0.55% | **3,102** | **0.29%** | 7,785 | 0.66% |
| Mining and quarrying | **1,935** | **0.15%** | 3,890 | 0.26% | **1,369** | **0.13%** | 3,155 | 0.27% |
| Education | **1,411** | **0.11%** | 1,662 | 0.11% | **1,067** | **0.10%** | 1,254 | 0.11% |
| Professional scientific and technical activities | **1,313** | **0.10%** | 2,116 | 0.14% | **1,154** | **0.11%** | 1,956 | 0.17% |
| Arts, entertainment and recreation | **348** | **0.03%** | 216 | 0.01% | **259** | **0.02%** | 137 | 0.01% |
| Others | **280,668** | **21.87%** | 316,523 | 21.38% | **159,976** | **14.85%** | 96,456 | 8.24% |
| | **₱1,282,484** | **100.00%** | ₱1,481,446 | 100.00% | **₱1,077,054** | **100.00%** | ₱1,171,010 | 100.00% |

The BSP considers that concentration of credit exists when total loan exposure to a particular industry or economic sector exceeds 30.00% of total loan portfolio except for thrift banks.

d. *Breakdown of Loans*

The following table shows information relating to receivables from customers by collateral, gross of unearned discounts and capitalized interest:

| | Consolidated | | | | Parent Company | | | |
|---|---|---|---|---|---|---|---|---|
| | **2020** | | 2019 | | **2020** | | 2019 | |
| | **Amount** | **%** | Amount | % | **Amount** | **%** | Amount | % |
| Secured by: | | | | | | | | |
| Other securities | **₱239,372** | **18.45** | ₱294,368 | 19.81 | **₱239,372** | **22.00** | ₱294,362 | 25.13 |
| Chattel | **101,659** | **7.84** | 159,754 | 7.55 | **66,693** | **6.13** | 26,950 | 2.30 |
| Real estate | **126,873** | **9.78** | 112,107 | 10.75 | **20,396** | **1.87** | 74,718 | 6.38 |
| Deposit hold-out | **38,098** | **2.94** | 31,054 | 2.09 | **37,472** | **3.44** | 30,004 | 2.56 |
| Equity securities | **26,329** | **2.03** | 27,705 | 1.87 | **5,558** | **0.51** | 11,996 | 1.02 |
| Others | **22,090** | **1.70** | 27,366 | 1.84 | **2,803** | **0.26** | 5,114 | 0.44 |
| | **554,421** | **42.74** | 652,354 | 43.91 | **372,294** | **34.21** | 443,144 | 37.83 |
| Unsecured | **742,880** | **57.26** | 833,282 | 56.09 | **716,024** | **65.79** | 728,142 | 62.17 |
| | **₱1,297,301** | **100.00** | ₱1,485,636 | 100.00 | **₱1,088,318** | **100.00** | ₱1,171,286 | 100.00 |

Non-performing loans (NPLs) included in the total loan portfolio of the Group and the Parent Company, as reported to the BSP, are presented below:

| | Consolidated | | Parent Company | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Gross NPLs | **₱30,919** | ₱19,277 | **₱17,790** | ₱10,209 |
| Less allowance for credit losses | **17,593** | 11,019 | **14,194** | 8,236 |
| Net carrying amount | **₱13,326** | ₱8,258 | **₱3,596** | ₱1,973 |

Under banking regulations, loan accounts shall be considered non-performing, even without any missed contractual payments, when they are considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal or interest is unlikely without foreclosure of collateral, if any. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than ninety (90) days from contractual due date, or accrued interests for more than ninety (90) days have been capitalized, refinanced, or delayed by agreement. Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained. Moreover, NPLs shall remain classified as such until (a) there is sufficient evidence to support that full collection of principal and interests is probable and payments of interest and/or principal are received for at least six (6) months; or (b) written-off. Microfinance and other small loans with similar credit characteristics shall be considered non-performing after contractual due date or after they have become past due.

e. *Information on Related Party Loans*
In the ordinary course of business, the Group has loan transactions with investees and with certain directors, officers, stockholders and related interests (DOSRI) based on BSP Circular No. 423 dated March 15, 2004, as amended. Existing banking regulations limit the amount of individual loans to DOSRI, 70.00% of which must be secured, to the total of their respective deposits and book value of their respective investments in the lending company within the Group. In the aggregate, loans to DOSRI generally should not exceed the respective total equity or 15.00% of the respective total loan portfolio, whichever is lower, of the Parent Company, MCC (until 2019), PSBank, FMIC, and ORIX Metro.

The following table shows information on related party loans as reported to the BSP:

| | **2020** | | 2019 | |
|---|---|---|---|---|
| | **DOSRI Loans** | **Related Party Loans** | DOSRI Loans | Related Party Loans |
| **Consolidated** | | | | |
| Total outstanding loans | **₱8,732** | **₱47,636** | ₱13,837 | ₱69,244 |
| Percent of DOSRI/ Related Party Loans to total loan portfolio | **0.64%** | **3.50%** | 0.89% | 4.46% |
| Percent of unsecured DOSRI/Related Party Loans to total DOSRI/Related Party Loans | **17.42%** | **99.10%** | 22.10% | 83.93% |
| Percent of past due DOSRI/Related Party Loans to total DOSRI/Related Party Loans | **0.01%** | **0.00%** | 0.00% | 0.00% |
| Percent of non-performing DOSRI/Related Party Loans to total DOSRI/Related Party Loans | **0.01%** | **0.00%** | 0.00% | 0.00% |
| **Parent Company** | | | | |
| Total outstanding loans | **₱8,497** | **₱47,521** | ₱13,571 | ₱67,944 |
| Percent of DOSRI/ Related Party Loans to total loan portfolio | **0.75%** | **4.19%** | 1.11% | 5.54% |
| Percent of unsecured DOSRI/Related Party Loans to total DOSRI/Related Party Loans | **15.33%** | **99.10%** | 20.73% | 83.62% |
| Percent of past due DOSRI/Related Party Loans to total DOSRI/Related Party Loans | **0.00%** | **0.00%** | 0.00% | 0.00% |
| Percent of non-performing DOSRI/Related Party Loans to total DOSRI/Related Party Loans | **0.00%** | **0.00%** | 0.00% | 0.00% |

BSP Circular Nos. 560 and 654 provide the rules and regulations that govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks which require that the total outstanding loans, other credit accommodations and guarantees to each of the bank's/quasi-bank's subsidiaries and affiliates shall not exceed 10.00% while a separate individual limit of 25.00% for those engaged in energy and power generation, of the net worth of the lending bank/quasi-bank, provided that the unsecured portion of which shall not exceed 5.00% or 12.50%, respectively, of such net worth. Further, the total outstanding loans, credit accommodations and guarantees to all subsidiaries and affiliates shall not exceed 20.00% of the net worth of the lending bank/quasi-bank; and the subsidiaries and affiliates of the lending bank/quasi-bank are not related interest of any director, officer and/or stockholder of the lending institution, except where such director, officer or stockholder sits in the BOD or is appointed officer of such corporation as representative of the bank/quasi-bank as reported to the BSP. As of December 31, 2020 and 2019, the total outstanding loans, other credit accommodations and guarantees to each of the Parent Company's subsidiaries and affiliates did not exceed 10.00% of the Parent Company's net worth, as reported to the BSP, and the unsecured portion did not exceed 5.00% of such net worth wherein the total outstanding loans, other credit accommodations and guarantees to all such subsidiaries and affiliates represent 13.18% and

16.59%, respectively, of the Parent Company's net worth. The Parent Company has no outstanding loans, other credit accommodations and guarantees to subsidiaries and affiliates engaged in energy and power generation.

Total interest income on DOSRI loans in 2020, 2019 and 2018 amounted to ₱367.8 million, ₱485.8 million and ₱276.5 million, respectively, for the Group and ₱366.0 million, ₱468.7 million and ₱262.8 million, respectively, for the Parent Company.

f. *Contingencies and Commitments Arising from Off-balance Sheet Items*

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

| | Consolidated | | Parent Company | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Trust Banking Group accounts | **₱567,841** | ₱491,659 | **₱558,273** | ₱484,586 |
| Credit card lines | **205,815** | 209,766 | **205,815** | – |
| Unused commercial letters of credit | **42,283** | 44,036 | **40,930** | 41,342 |
| Undrawn commitments - facilities to lend | **17,413** | 21,980 | **17,393** | 21,980 |
| Bank guaranty with indemnity agreement | **8,591** | 9,904 | **8,591** | 9,904 |
| Credit line certificate with bank commission | **4,262** | 5,984 | **4,262** | 5,984 |
| Outstanding guarantees | **3,826** | 139 | **3,826** | 139 |
| Outstanding shipside bonds/airway bills | **2,594** | 1,931 | **2,594** | 1,931 |
| Inward bills for collection | **1,909** | 991 | **1,908** | 991 |
| Late deposits/payments received | **1,756** | 1,539 | **1,746** | 1,530 |
| Confirmed export letters of credits | **964** | 935 | **39** | 44 |
| Outward bills for collection | **821** | 850 | **819** | 849 |
| Others | **11,488** | 12,933 | **862** | 835 |
| | **₱869,563** | ₱802,647 | **₱847,058** | ₱570,115 |

38. **Report on the Supplementary Information Required Under Revenue Regulations (RR) No. 15-2010**

Supplementary Information Under RR No. 15-2010

On November 25, 2010, the BIR issued RR No. 15-2010 to amend certain provisions of RR No. 21-2002 which provides that starting 2010, the notes to financial statements shall include information on taxes, duties and license fees paid or accrued during the taxable year.

The Parent Company reported the following types of taxes for the year ended December 31, 2020 included under 'Taxes and licenses' account in the statement of income:

| | |
|---|---|
| GRT | ₱5,108 |
| DST | 2,076 |
| Local taxes | 220 |
| Real estate tax | 140 |
| Others | 334 |
| | ₱7,878 |

Details of the total withholding taxes remittances for the taxable year December 31, 2020 follow:

| | |
|---|---|
| Final withholding taxes | ₱2,853 |
| Taxes withheld on compensation | 2,541 |
| Expanded withholding taxes | 755 |
| | ₱6,149 |