SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended: **September 30, 2020**

2. Commission identification number: 023269

3. BIR Tax Identification No.: 000-500-232-000

4. Exact name of issuer as specified in its charter: **FIRST METRO INVESTMENT CORPORATION**

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

6. Industry Classification Code: [ ] (SEC Use Only)

7. Address of principal office: 45th Floor GT Tower Int'l., Ayala Avenue cor H.V. dela Costa St., Makati City
Postal Code: 1200

8. Issuer's telephone number, including area code: (632) 8858-7900

9. Former name, former address and former fiscal year, if changed since last report: Not Applicable

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

    (a) Authorized capital stock: 800,000,000 shares ₱8,000,000,000

    (b) Number of shares outstanding as of September 30, 2020:

Common shares	420,869,240
Less: Treasury shares	(48,402,024)
	372,467,216

    (c) Amount of debt outstanding (unpaid subscriptions): None

11. Are any or all of the securities listed in the Philippine Stock Exchange?

    Yes [ ] No [/]

12. Indicate by check mark whether the registrant:

    (a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)
    Yes [/] No [ ]

    (b) has been subject to such filing requirements for the past ninety (90) days.
    Yes [/] No [ ]

PART I - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

FIRST METRO INVESTMENT CORPORATION AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As of	
	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
ASSETS		
Cash and Other Cash Items	**₱4,943,984,966**	₱3,965,262,171
Due from Bangko Sentral ng Pilipinas	**1,385,352,853**	5,733,306,404
GS Purchased Under Reverse Repurchase Agreement	**2,649,647,147**	1,346,691,935
Investment Securities at:		
Fair Value Through Profit or Loss (FVTPL)	**9,920,439,862**	12,220,450,739
Fair Value Through Other Comprehensive Income (FVOCI)	**2,091,520,202**	1,888,082,706
Amortized Cost	**1,390,914,550**	590,784,592
Loans and Receivables	**1,650,540,358**	1,685,581,594
Property and Equipment	**106,109,052**	148,541,382
Investments in Associates	**7,324,974,176**	6,868,612,892
Investment Properties	**187,863,826**	189,156,987
Deferred Tax Assets	**103,478,873**	68,913,952
Other Assets	**976,227,059**	929,913,086
	₱32,731,052,924	₱35,635,298,440

LIABILITIES AND EQUITY		
LIABILITIES		
Bills Payable	**₱6,592,471,520**	₱11,307,448,092
Accounts Payable	**4,201,359,981**	2,245,025,783
Accrued Taxes, Interest and Other Expenses	**194,852,886**	141,606,625
Income Taxes Payable	**9,344,944**	12,372,102
Deferred Tax Liability	–	4,007,210
Puttable Instruments of Mutual Fund Subsidiaries	**6,655,435,016**	6,553,071,770
Other Liabilities	**362,291,832**	503,478,374
	18,015,756,179	20,767,009,956
EQUITY		
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY		
Common Stock	**4,208,692,400**	4,208,692,400
Capital Paid in Excess of Par Value	**2,065,694,042**	2,065,694,042
Retained Earnings	**11,660,742,264**	11,784,009,258
Treasury Stock	**(2,661,979,203)**	(2,661,979,203)
Net Unrealized Loss on FVOCI Investments	**(719,194,889)**	(687,006,778)
Cash Flow Hedge Reserve	–	(9,501,975)
Cumulative Translation Adjustment	**16,363,423**	23,667,780
Remeasurements of Retirement Liability	**3,802,589**	3,008,393
Equity in Other Comprehensive Income of Associates	**47,318,929**	46,472,423
	14,621,439,555	14,773,056,340
Equity Attributable to Non-Controlling Interests	**93,857,190**	95,232,144
	14,715,296,745	14,868,288,484

	₱32,731,052,924	₱35,635,298,440

FIRST METRO INVESTMENT CORPORATION AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENTS OF INCOME

	For the Period Ended September 30 (Unaudited)		For the Quarter Ended September 30 (Unaudited)	
	2020	2019	2020	2019
OPERATING INCOME				
Income from Treasury Group/Sales Distribution Group	**₱436,549,941**	₱1,412,781,616	**₱131,503,800**	₱469,127,434
Fee Income from Investment Banking Group	**61,713,675**	314,140,651	**34,344,091**	94,149,003
Other Income (Loss)	**(59,479,688)**	603,329,015	**42,671,043**	74,736,141
GROSS OPERATING INCOME	**438,783,928**	2,330,251,282	**208,518,934**	638,012,578
Interest Expense	**129,940,112**	912,558,919	**22,408,956**	270,229,862
NET OPERATING INCOME BEFORE OPERATING EXPENSES	**308,843,816**	1,417,692,363	**186,109,978**	367,782,716
OPERATING EXPENSES				
Compensation and Fringe Benefits	**424,321,941**	405,102,611	**178,914,781**	123,641,159
Depreciation and Amortization	**57,748,389**	79,421,008	**20,700,244**	27,227,330
Professional Fees	**46,844,027**	67,038,059	**(19,710,491)**	28,906,687
Rent Expense	**13,363,859**	7,426,705	**7,407,282**	2,025,640
Representation and Traveling Expenses	**9,937,316**	15,148,614	**4,651,438**	7,711,977
Supervision Fees	**8,431,036**	9,040,155	**2,810,345**	3,013,385
Other Expenses	**218,290,933**	309,974,534	**87,646,518**	97,119,451
	778,937,501	893,151,686	**282,420,117**	289,645,629
NET INCOME (LOSS) BEFORE TAXES AND LICENSES	**(470,093,685)**	524,540,677	**(96,310,139)**	78,137,087
Taxes and Licenses	**102,030,174**	173,701,877	**38,774,958**	66,577,515
NET INCOME (LOSS) BEFORE NON-OPERATING INCOME	**(572,123,859)**	350,838,800	**(135,085,097)**	11,559,572
Non-Operating Income	**535,532,894**	567,503,784	**160,242,945**	252,172,223
NET INCOME (LOSS) BEFORE PROVISION FOR INCOME TAX	**(36,590,965)**	918,342,584	**25,157,848**	263,731,795
Provision for Income Tax	**43,699,233**	229,777,923	**9,287,006**	57,311,391
NET INCOME (LOSS)	**(₱80,290,198)**	₱688,564,661	**₱15,870,842**	₱206,420,404
Attributable to:				
Equity Holders of the Parent Company	**(₱79,066,995)**	₱682,668,924	**₱16,267,498**	₱204,731,124
Non-Controlling Interest	**(1,223,203)**	5,895,737	**(396,656)**	1,689,280
	(₱80,290,198)	₱688,564,661	**₱15,870,842**	₱206,420,404
EARNINGS (LOSS) PER SHARE*	**(₱0.21)**	₱1.83	**₱0.04**	₱0.55

** Attributable to Equity Holders of the Parent Company*

FIRST METRO INVESTMENT CORPORATION AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the Period Ended September 30 (Unaudited)		For the Quarter Ended September 30 (Unaudited)	
	2020	2019	2020	2019
NET INCOME (LOSS) FOR THE PERIOD	**(₱80,290,198)**	₱688,564,661	**₱15,870,842**	₱206,420,404
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that may be reclassified to profit or loss:				
Changes in Net Unrealized Gain (Loss) on FVOCI – Debt Instruments	**(39,580,358)**	27,592,529	**(4,665,821)**	(73,800,347)
Changes in Cash Flow Hedge Reserve	**9,501,975**	(7,796,041)	**-**	(7,796,041)
Cumulative translation adjustment	**(7,304,357)**	(3,521,945)	**(3,343,692)**	2,386,269
Equity in other Comprehensive Income of Associates	**292,369,575**	311,749,509	**130,760,798**	157,004,844
Total items that may be reclassified to profit or loss:	**254,986,835**	328,024,052	**122,751,285**	77,794,725
Items that will not be reclassified to profit or loss:				
Changes in Net Unrealized Gain (Loss) on FVOCI - Equity Instruments	**7,392,247**	(444,500)	**37,004,950**	(28,790,462)
Remeasurements of Retirement Liability	**794,196**	605,925	**(635,237)**	–
Equity in other Comprehensive Income of Associates	**(291,523,070)**	1,049,972	**(118,523,122)**	13,565,970
Total items that will not be reclassified to profit or loss:	**(283,336,627)**	1,211,397	**(82,153,409)**	(15,224,492)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS), net of tax	**(28,349,792)**	329,235,449	**40,597,876**	62,570,233
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	**(₱108,639,990)**	₱1,017,800,110	**₱56,468,718**	₱268,990,637
Attributable to:				
Equity Holders of the Parent Company	**(₱107,416,787)**	₱1,011,904,373	**₱56,865,374**	₱267,301,357
Non-Controlling Interest	**(1,223,203)**	5,895,737	**(396,656)**	1,689,280
	(₱108,639,990)	₱1,017,800,110	**₱56,468,718**	₱268,990,637

FIRST METRO INVESTMENT CORPORATION AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Common Stock	Capital Paid in Excess of Par Value	Retained Earnings	Treasury Stock	Net Unrealized Loss on FVOCI	Cash Flow Hedge	Remeasurement of Retirement Liability	Cumulative Translation Adjustment	Equity in Other Comprehensive Income (Loss) of Associates	Total	Non-Controlling Interests	Total Equity
Balance at January 1, 2020	**₱4,208,692,400**	**₱2,065,694,042**	**₱11,784,009,258**	**(₱2,661,979,203)**	**(₱687,006,778)**	**(₱9,501,975)**	**₱3,008,393**	**₱23,667,780**	**₱46,472,424**	**₱14,773,056,341**	**₱95,232,144**	**₱14,868,288,485**
Total Comprehensive Income (Loss)	**–**	**–**	**(123,266,995)**	**–**	**(32,188,111)**	**9,501,975**	**794,196**	**(7,304,357)**	**846,505**	**(151,616,787)**	**(1,374,954)**	**(152,991,741)**
Acquisition of Treasury Shares	–	–	–	–	–	–	–	–	–	–	–	–
Balance at September 30, 2020	**₱4,208,692,400**	**₱2,065,694,042**	**₱11,660,742,263**	**(₱2,661,979,203)**	**(₱719,194,889)**	**₱–**	**₱3,802,589**	**₱16,363,423**	**₱47,318,929**	**₱14,621,439,554**	**₱93,857,190**	**₱14,715,296,744**
Balance at January 1, 2019	₱4,208,692,400	₱2,065,694,042	₱11,381,561,910	(₱2,659,550,871)	(₱249,995,343)	₱–	₱47,309,895	₱32,745,913	(₱23,774,021)	₱14,802,683,925	₱91,184,266	₱14,893,868,191
Total Comprehensive Income (Loss)	–	–	682,668,925	–	27,148,029	(7,796,041)	605,925	(3,521,945)	312,799,480	1,011,904,373	6,481,168	1,018,385,541
Acquisition of Treasury Shares	–	–	–	(2,313,532)	–	–	–	–	–	(2,313,532)	–	(2,313,532)
Balance at September 30, 2019	₱4,208,692,400	₱2,065,694,042	₱12,064,230,835	(₱2,661,864,403)	(₱222,847,314)	(₱7,796,041)	₱47,915,820	₱29,223,968	₱289,025,459	₱15,812,274,766	₱97,665,434	₱15,909,940,200

FIRST METRO INVESTMENT CORPORATION AND SUBSIDIARIES
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Quarter Ended September 30 (Unaudited)	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) before Income Tax	**(₱36,590,963)**	₱918,342,585
Adjustments for:		
Share in Net Income of Investees	(455,514,780)	(571,892,706)
Interest Income	(414,917,114)	(964,979,773)
Interest Expense	129,940,112	912,558,919
Dividend Income	(92,978,464)	(128,375,208)
Provision (Recovery) from Impairment and Credit Losses	(79,394,582)	2,956,651
Depreciation and Amortization	57,748,389	79,421,008
Gain on sale of FVOCI Investments	(31,773,294)	(364,468,614)
Gain on sale of Amortized Cost Investments	–	(26,414,495)
Unrealized Forex Loss (Gain) on Bills Payable	(17,608,941)	3,579,940
Unrealized Forex Loss on Amortized Cost	1,948,410	5,921,299
Unrealized Forex Loss on FVOCI Investments	–	8,876
Amortization of Premium of FVOCI Investments	(1,723,532)	4,979,285
Amortization of Premium of Amortized Cost	(551,500)	35,248,143
Amortization of Bond Issue Cost/ Premium on Bonds Payable	–	3,042,250
Profit from Assets Sold	(451,087)	(51,478,846)
Changes in operating assets and liabilities:		
Decrease (increase) in the amounts of:		
FVTPL Investments	2,309,512,852	(5,118,447,861)
Loans and Receivables	(16,878,509)	(100,760,311)
Other Assets	(30,461,534)	14,605,341
Increase (decrease) in the amounts of:		
Accounts Payable	1,956,334,198	1,334,211,341
Accrued Taxes and Other Expenses	80,826,924	95,421,535
Other Liabilities	23,325,683	(20,586,851)
Net cash provided by (used) in operations	**3,380,792,268**	(3,937,107,492)
Interest Income Received	**464,946,585**	1,049,312,323
Interest Expense Paid	**(157,520,776)**	(921,981,208)
Income Taxes Paid	**(109,214,541)**	(252,308,454)
Net cash provided by (used in) operating activities	**3,579,003,536**	(4,062,084,831)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
FVOCI Investments	**(3,934,365,941)**	(13,537,738,084)
Amortized Cost	**(907,039,007)**	(366,371,079)
Property and Equipment	**(8,996,361)**	(21,062,068)
Intangible Assets	**(2,362,941)**	(2,410,395)
Proceeds from sale/redemption of:		
FVOCI Investments	**3,700,049,251**	13,205,174,479
Amortized Cost	**105,520,000**	16,686,159,068
Property and Equipment	**3,674,260**	2,765,766
Investment Properties	**1,116,000**	66,970,100
Investments in Associates	–	848
Dividends received	**94,868,738**	130,318,108
Net cash provided by (used in) investing activities	**(947,536,001)**	16,163,806,743

(Forward)

	For the Period September 30 (Unaudited)	
	2020	2019
CASH FLOWS FROM FINANCING ACTIVITIES		
Settlements of Bills Payable	**(₱61,152,665,336)**	(₱232,140,095,424)
Proceeds from issuance of Bills Payable	**56,455,297,705**	227,007,644,952
Settlement of Bonds Payable	–	(2,920,000,000)
Acquisition of Treasury Shares	–	(2,313,532)
Dividends paid	**(375,448)**	(356,239)
Net cash used in financing activities	**(4,697,743,079)**	(8,055,120,243)
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	**(2,066,275,544)**	4,046,601,669
CASH & CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		
Cash and Other Cash Items	**3,965,262,171**	2,935,131,821
Due from Bangko Sentral ng Pilipinas	**5,733,306,404**	3,489,997,884
Interbank Loans Receivable and GS Purchased Under Reverse Repurchase Agreement	**1,346,691,935**	–
	11,045,260,510	6,425,129,705
CASH & CASH EQUIVALENTS AT END OF THE PERIOD		
Cash and Other Cash Items	**4,943,984,966**	3,526,734,835
Due from Bangko Sentral ng Pilipinas	**1,385,352,853**	1,634,996,539
Interbank Loans Receivable and GS Purchased Under Reverse Repurchase Agreement	**2,649,647,147**	5,310,000,000
	₱8,978,984,966	₱10,471,731,374

FIRST METRO INVESTMENT CORPORATION AND SUBSIDIARIES
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

A. Accounting Policies

Basis of Preparation
The accompanying unaudited consolidated financial statements have been prepared in accordance with Philippine Accounting Standards (PAS) 34, *Interim Financial Reporting*. Accordingly, the unaudited consolidated financial statements do not include all of the information and disclosures required in the annual audited financial statements and should be read in conjunction with the First Metro Investment Corporation and Subsidiaries (the Group) annual consolidated audited financial statements as of and for the year ended December 31, 2019.

The accompanying financial statements have been prepared on a historical cost basis except for debt and equity investment securities and derivative instrument designated as cash flow hedge that have been measured at fair value. The financial statements are presented in Philippine peso (₱), the functional currency of the Parent Company and all values are rounded to the nearest peso except when otherwise indicated.

The financial statements of the Parent Company and its subsidiaries (the Group) provide comparative information in respect of the previous period.

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

Presentation of Financial Statements
The statements of financial position of the Group are presented in order of liquidity.

Basis of Consolidation
The unaudited consolidated financial statements comprise the financial statements of the Parent Company and its wholly owned and majority owned subsidiaries, as follows:

Subsidiary	Effective Percentage of Ownership
Securities Brokerage:	
First Metro Securities Brokerage Corporation (FMSBC) and Subsidiary	100.00
Financial Market:	
PBC Capital Investment Corporation (PBC) and Subsidiary	100.00
Insurance Brokerage:	
First Metro Insurance Brokers Corporation (FMIBC)	100.00
Mutual Funds:	
First Metro Asia Focus Equity Fund, Inc. (FMAFEF)	100.00
First Metro Save and Learn Dollar Bond Fund, Inc. (FMSLDBF)	94.09
First Metro Philippine Equity Exchange Traded Fund, Inc. (FMPEETF)	35.45
First Metro Save and Learn Equity Fund, Inc. (FMSALEF)	26.06
First Metro Save and Learn Balanced Fund, Inc. (FMSALBF)	25.06
First Metro Save and Learn Fixed Income Fund, Inc. (FMSALFIF)	24.26

Others:	
Prima Ventures Development Corporation (PVDC)	100.00
FMIC Equities, Inc. (FEI)	100.00
SBC Properties, Inc. (SPI)	100.00
Resiliency (SPC), Inc.	100.00
First Metro Asset Management, Inc. (FAMI)	70.00

The Group controls an investee if and only if the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure or rights to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

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 voting shareholders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income, expenses and other comprehensive income (OCI) of a subsidiary are included in the financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the equity holders of the Parent Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. The unaudited consolidated financial statements are prepared for the same reporting period as the Parent Company's financial statements, using consistent accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

Non-Controlling Interests

Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not attributed, directly or indirectly, to the Parent Company.

Non-controlling interests 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 the Parent Company's shareholders' equity.

Changes in Accounting Policies and Disclosures
The accounting policies and disclosures adopted in the preparation of the unaudited interim consolidated financial statements are consistent with those followed in the preparation of the audited annual consolidated financial statements as of and for the year ended December 31, 2019.

Significant Accounting Policies

Foreign Currency Translation
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 functional currency of the Parent Company and its subsidiaries is Philippine peso (₱), except for FMSLDBF whose functional currency is United States dollar (USD).

Transactions and balances
For financial reporting purposes, the foreign currency-denominated monetary assets and liabilities 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.

Subsidiary with different functional currency
As at the reporting date, the assets and liabilities of FMSLDBF are translated into the Group presentation currency at BAP closing rate prevailing at the statement of financial position date, and their income and expenses are translated at BAP weighted average rate (BAPWAR). Exchange differences arising on translation are taken to statement of comprehensive income as 'Cumulative translation adjustment'. Upon disposal of FMSLDBF or when the Group ceases to have control, the deferred cumulative amount recognized in the statement of comprehensive income is recognized in the statement of income.

Fair Value Measurement
The Group measures financial instruments at fair value at each statement of financial position date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the 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.

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

The 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 reassessing 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.

<u>Financial Instruments - Initial Recognition</u>

Date of recognition

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

Initial recognition of financial instruments

All financial instruments are initially recognized at fair value. Except for financial instruments at FVTPL, the initial measurement of financial instruments includes transaction costs.

'Day 1' profit or loss

Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Group recognizes the difference between the transaction price and fair value (a 'Day 1' profit or loss) in the statement of income under 'Miscellaneous income' or 'Miscellaneous expense' unless it qualifies for recognition as some other type of asset. In cases where 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' profit or loss amount.

Derivatives recorded at FVTPL - Embedded derivatives
Derivatives are entered into as a service to customers and as a means of reducing or managing their respective foreign exchange and interest rate exposures, as well as for trading purposes. Such derivative financial instruments are initially recorded at fair value on the date at which the derivative contract is entered into and are subsequently remeasured at fair value. Any gains or losses arising from changes in fair values of derivatives (except those accounted for as accounting hedges) are taken directly to the statement of income and are included in ‘Trading and securities gains (losses)’. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Under PFRS 9, the Group accounts for derivatives embedded in financial liabilities and non-financial host contracts similar with PAS 39. For financial assets, embedded derivatives are accounted for together with the host contracts and are classified based on the business model and contractual cash flows of the instrument.

Puttable instruments of mutual fund subsidiaries classified as financial liabilities at FVTPL
The Group has seed capital investments in several funds where it is in a position to be able to control those funds. These funds are consolidated with the shares held by investors other than the Group are considered as puttable instruments, recorded under ‘Puttable instruments of mutual fund subsidiaries classified as liability’ account in the statement of financial position, with changes in the net asset value per unit of the mutual funds recognized in ‘Trading and securities gain’ in the statement of income.

Financial Instruments – Classification and Subsequent Measurement
The Group classifies its financial assets in the following categories: financial assets at FVTPL, investment securities at FVOCI and financial assets measured at amortized cost while financial liabilities are classified as financial liabilities at FVTPL and financial liabilities at amortized cost. The classification of financial instruments depends on the contractual terms and the business model for managing the instruments. 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 assess 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 validity 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 or financial liabilities held for trading (FVTPL)
Debt instruments that do not meet the amortized cost criteria, or that meet the criteria but the Group has chosen to designate as at FVTPL at initial recognition, are classified as financial assets at FVTPL. Equity investments are classified as financial assets at FVTPL, unless the Group designates an equity investment that is not held for trading as at FVOCI at initial recognition. The Group's financial assets at FVTPL include government securities, corporate bonds and equity securities which are held for trading purposes and debt instruments which contractual cash flows is not SPPI.

A financial asset is considered as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term;
- on initial recognition, it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or,
- it is a derivative that is not designated and effective as a hedging instrument or financial guarantee.

Financial assets at FVTPL are measured at fair value. Related transaction costs are recognized directly as expense in profit or loss. Unrealized gains and losses arising from changes (mark-to market) n the fair value of the financial assets at FVTPL category and realized gains or losses arising from disposals of these instruments are included in Trading and securities gains (losses) in the statements of income.

Interest earned on these investments is reported in statements of income under Interest income account while dividend income is reported as Dividends in the statements of income account when the right of payment has been established.

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

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 financial assets in order to both collect contractual cash flows and sell financial assets; and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the outstanding principal amount. The effective yield component of FVOCI debt securities, as well as the impact of restatement on foreign currency-denominated FVOCI debt securities, are reported in the statement of income. Interest earned on holding FVOCI investments are reported as 'Interest income' using the effective interest rate (EIR) method. When the FVOCI debt securities are disposed of, the cumulative gain or loss previously recognized in other comprehensive income is recognized as 'Trading and securities gain (loss)' in the statement of income. The ECL arising from impairment of such investments do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortized cost is recognized in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognized in OCI is recycled to the profit or loss upon derecognition.

Equity instruments 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 these equity securities are recognized in the statement of income as 'Dividends' when the right of the payment has been established. 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 other of comprehensive income is reclassified to retained earnings. 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 financial assets in order to collect contractual cash flows; and (ii) the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the outstanding principal amount. These include 'Cash and other cash items', 'Due from BSP', 'IBLR 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 expected credit losses are recognized in the statement of income under 'Provision for (recovery from) impairment, credit and other probable losses'. The effects of revaluation on foreign currency-denominated investments are recognized in the statement of income.

Financial liabilities carried at amortized cost
Issued financial instruments or their components, which are not designated at FVTPL, are classified as financial liabilities carried at amortized cost 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 its own equity shares. Financial liabilities carried at amortized cost include 'Bills payable', 'Bonds payable', or other appropriate financial liability accounts.

After initial measurement, Bills payable, Bonds payable, and similar financial liabilities not qualified as and not designated as FVTPL, are subsequently measured at amortized cost using the effective interest 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. Any effects of restatement on foreign currency-denominated liabilities are recognized in the statement of income.

Treasury bonds
Issued bonds payable by the Parent Company that are being held by a subsidiary are deducted from the carrying value of the bond. Treasury bonds are recognized in the consolidated accounts at acquisition cost, and any related unamortized premium, discount and issue costs at the Parent Company are cancelled. The difference between the acquisition cost and the book value of the treasury bonds is treated as gain or loss and recorded under 'Miscellaneous income' or 'Miscellaneous expense' in the statement of income.

Repurchase and Reverse Repurchase Agreements
Securities sold under agreements to repurchase at a specified future date ('repos') are not derecognized from the statement of financial position. The corresponding cash received, including accrued interest, is recognized in the statement of financial position as a 'Bills payable' 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 effective interest method.

Reclassification of Financial Assets

The Group can only reclassify financial assets if the objective of its business model for managing those financial assets changes. Accordingly, the Group is required to reclassify financial assets:
(i) from amortized cost to FVTPL, if the objective of the business model changes so that the amortized cost criteria are no longer met; and (ii) from FVTPL to amortized cost, if the objective of the business model changes so that the amortized cost criteria start to be met and the characteristics of the instrument's contractual cash flows need the amortized cost criteria.

A change in the objective of the Group's business model will take effect only at the beginning of the next reporting period following change in the business model.

Classification of Financial Instruments between Debt and Equity

A financial instrument is classified as debt, if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or
- 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.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

Impairment of Financial Assets

From January 1, 2018 the Group has been recording the allowance based on a forward-looking expected credit losses (ECL) approach for all loans and other debt financial assets not held at FVTPL, together with loan commitments. Equity instruments are not subject to impairment under PFRS 9.

Overview of the ECL principles

The ECL allowance is based on the credit losses expected to arise on 12-month duration if there was no significant increase in the credit risk (SICR) of the financial asset since origination. Otherwise if a SICR is observed, then the ECL estimation is extended until the end of the life of the financial asset. The 12-month ECL represents the losses that result from default events on a financial asset which may happen within 12 months after the reporting date. The Lifetime ECL on the other hand represents the losses that result from default events on a financial asset which may happen over its life. Both Lifetime ECLs and 12-month ECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

Based on these processes, debt financial assets are grouped into Stage 1, Stage 2, and Stage 3 as described below.

For non-credit-impaired financial instruments:

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

For credit-impaired financial instruments:

- Financial instruments are classified as Stage 3 when there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a loan or a portfolio of loans. The ECL model requires a lifetime ECL for impaired financial instruments.

Definition of "default" and "cure"

The Group defines a financial instrument as in default, which is fully aligned with the definition of credit impaired, in all cases when the borrower becomes 90 days past due on its contractual payments. As a part of a qualitative assessment of whether a customer is in default, the Group also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Group carefully considers whether the event should result in treating the customer as defaulted. An instrument is considered to be no longer in default (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

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in probabilities of default and qualitative factors, including a backstop based on delinquency. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Group's internal credit assessment, the borrower or counterparty is determined to have well-defined credit weaknesses. For exposures without internal credit grades, if contractual payments are more than 30 days past due threshold, the credit risk is deemed to have increased significantly since initial recognition. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, the group shall revert to recognizing a 12-month ECL.

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.

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 instrument is modelled based on historical data and is estimated based on current market conditions and reasonable and supportable information about future economic conditions. The 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 is modelled on historical data and represents an estimate of the outstanding amount of credit exposure at the time a default may occur. For off-balance sheet and undrawn committed amounts, EAD includes an estimate of any further amount to be drawn at the time of default.

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

Forward-looking information
The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. A broad range of forward-looking information are considered as economic inputs, such as GDP growth, 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.

<u>Derecognition of Financial Assets and Liabilities</u>
Financial assets
A financial asset (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 over 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 over the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

The Group's accounting policy for write-offs and recoveries after write-offs of financial assets under PFRS 9 remains the same as it was under PAS 39. Financial assets are written off either partially or in their entirety only when the Group has stopped pursuing the recovery.

Financial liabilities
A financial liability is derecognized when the obligation under the liability is discharged or 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.

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Company assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Company and all of the counterparties.

Derivative Financial Instruments and Hedge Accounting
Derivative financial instruments are recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to the statement of income.

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

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

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

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

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

Hedges that meet all the qualifying criteria for hedge accounting are accounted for, as described below:

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

income. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in the fair value of the hedged item.
The amounts accumulated in OCI are accounted for, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a nonfinancial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognized in OCI for the period. This also applies where the hedged forecast transaction of a non-financial asset or non-financial liability subsequently becomes a firm commitment for which fair value hedge accounting is applied.

For any other cash flow hedges, the amount accumulated in OCI is reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect profit or loss.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in OCI must remain in accumulated OCI if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated OCI must be accounted for depending on the nature of the underlying transaction as described above.

The Group’s cash flow hedges consist principally of cross-currency swaps that are used to protect against exposures to variability in future interest and principal cash flows on its issued floating rate euro notes due to changes in interest rate risk and/or foreign currency risk. The hedging ratio is established by matching the notional of the derivatives against the principal of the hedged issued foreign currency debt.

As of September 30, 2020, the Parent Companies’ cross currency swap designated as hedging instrument in a cash flow hedge had already matured.

Hedge effectiveness testing
To qualify for hedge accounting, the Group requires that at the inception of the hedge and throughout its life, each hedge must be expected to be highly effective (prospective effectiveness), and demonstrate actual effectiveness (retrospective effectiveness) on an ongoing basis. The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed.

The method that the Group adopts for assessing hedge effectiveness will depend on its risk management strategy.

For prospective effectiveness, the hedging instrument must be expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated. The Group applies the dollar-offset method using hypothetical derivatives in performing hedge effectiveness testing. For actual effectiveness to be achieved, the changes in fair value or cash flows must offset each other on the range of 80.00% to 125.00%. Any hedge ineffectiveness is recognized in the statement of income.

<u>Current versus Noncurrent Classification</u>
Derivative instruments that are not designated as effective hedging instruments are classified as current or noncurrent or separated into a current and noncurrent portion based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows):

- When the Group will hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the statement of financial position date, the derivative is classified as noncurrent (or separated into current and noncurrent portions) consistent with the classification of the underlying item.
- Embedded derivatives that are not closely related to the host contract are classified consistent with the cash flows of the host contract.

Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and a noncurrent portion only if a reliable allocation can be made.

<u>Cash and Cash Equivalents</u>
For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items (i.e., Due from Banks and Cash on Hand), amounts due from BSP, IBLR and SPURA with original maturities of three months or less from the dates of placements and are subject to insignificant risk of changes in value. Cash and cash equivalents are carried at amortized cost. Due from BSP includes the statutory reserves required by the BSP, which the Company considers as cash equivalents wherein drawings can be made to meet cash requirements.

<u>Investments in Subsidiaries and Associates</u>
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.

Investment in associates
An associate is an entity over which the Group has 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.

Consolidated financial statements
The Group's consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries.

The Group's investments in its associates are accounted for using the equity method. (See discussion on the next section, 'Parent Company financial statements', on accounting using the equity method).

Upon loss of significant influence over the 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 the statement of income.

Parent Company financial statements
The Parent Company's investments in subsidiaries and associates are accounted for using the equity method. Under the equity method, the investment in subsidiaries or associates is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Parent Company's share of net assets of the subsidiary or associate since the acquisition date. Goodwill relating to the subsidiary or associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The statement of income reflects the Parent Company's share of the results of operations of the subsidiary and associate. Any change in OCI of those investees is presented as part of the Parent Company's OCI. In addition, when there has been a change recognized directly in the equity of the subsidiary or associate, the Parent Company recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Parent Company and the subsidiary or associate are eliminated to the extent of the interest in the subsidiary or associate.

The aggregate of the Parent Company's share of profit or loss of subsidiaries and associates is shown on the face of the statement of income outside operating profit and represents share in the profit or loss after tax.

The financial statements of the subsidiaries or associates are prepared for the same reporting period as the Parent Company. When necessary, adjustments are made to bring the accounting policies in line with those of the Parent Company.

After application of the equity method, the Parent Company determines whether it is necessary to recognize an impairment loss on its investment in subsidiaries or associates. At each statement of financial position date, the Parent Company determines whether there is objective evidence that the investment in subsidiaries or associates is impaired. If there is such evidence, the Parent Company calculates the amount of impairment as the difference between the recoverable amount of the subsidiaries or associates and its carrying value, then recognizes the loss under 'Provision for (recovery from) impairment and other probable losses' in the statement of income.

Property and Equipment

Depreciable properties, including leasehold improvements and furniture, fixture and equipment are stated at cost less accumulated depreciation and amortization, and any allowance for impairment losses. 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.

Depreciation is calculated using the straight-line method over the estimated useful life of the depreciable assets. The estimated useful lives of the depreciable assets are as follows:

Furniture, fixtures and equipment	3 to 5 years
Condominium Units	34 years
Leasehold improvements	5 years or the terms of the related lease agreements, whichever is shorter

The depreciation method and useful life are reviewed periodically to ensure that the method and period of depreciation 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 under 'Gain on sale of assets' in the statement of income in the year the asset is derecognized.

Investment Properties

Investment properties are measured initially at cost, including transaction costs. An investment property acquired through an exchange transaction is measured at the fair value of the asset acquired

unless the fair value of such asset cannot be measured, in which case, the investment property acquired is measured at the carrying amount of the asset given up. Foreclosed properties are classified under 'Investment properties' from foreclosure date.
Subsequent to initial recognition, depreciable investment properties are carried at cost less accumulated depreciation and allowance for impairment losses, whereas, non-depreciable investment properties are carried at cost less allowance for impairment losses.

Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs, are normally charged against current operations when the costs are incurred.

Depreciation is calculated on a straight-line basis using the useful life of 5 and 34 years from the time of acquisition for land improvements and condominium units, respectively.

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 as 'Gain on sale of assets' in the year of retirement or disposal.

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 completion 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.

<u>Intangible Assets</u>
Intangible assets refer to the Group's software licenses. An intangible asset is recognized only when the cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the statement of income in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and they are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of income under 'Miscellaneous expense.

Gains or losses arising from the derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of income when the asset is derecognized.

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the 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 right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Group recognizes right-of-use assets at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

The right-of-use assets are subject to impairment in line with the Group's policy as described in the next section.

Lease liabilities

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.
After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Impairment of Nonfinancial Assets

At each statement of financial position date, the Group assesses whether there is any indication that its nonfinancial 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 the recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell 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 from other assets or groups of assets, in which case the recoverable amount is assessed as part of the Cash Generating Unit (CGU) 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 against operations in the year in which it arises. The following criteria are also applied in assessing impairment of specific assets:

Property and equipment, investment properties and intangible assets with definite useful lives
For property and equipment, investment properties and intangible assets with definite useful lives, 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, 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 useful life.

Investments in associates
After application of the equity method, the Group determines whether it is necessary to recognize an additional impairment loss on the Group's investments in associates. If this is the case, the Group calculates the amount of impairment loss as the difference between the recoverable amount of investment in the associate and the acquisition cost and recognizes the amount under 'Provision for (recovery from) impairment and other probable losses' in the statement income.

<u>Common Stock</u>
Common stocks are classified as equity and are recorded at par. Proceeds in excess of par value are recorded as 'Capital paid in excess of par value' in the statement of financial position. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

<u>Capital paid in excess of par value</u>
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.

<u>Treasury Shares and Contracts on Own Shares</u>
Own equity instruments which are acquired (treasury shares) are deducted from equity and accounted for at weighted average cost. Consideration paid or received and all transaction costs directly attributable on the purchase, sale, issue, or cancellation of the Parent Company's own equity instruments is recognized directly in equity. No gain or loss is recognized in the statement of income on the purchase, sale, issue or cancellation of own equity instruments.

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

The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or agent. The Group concluded that it is acting as a principal in all of its revenue arrangements except for certain brokerage transactions. The following specific recognition criteria must also be met before revenue is recognized within the scope of PFRS 15:

Fees and commission income
The Group earns fees and commission income from a diverse range of services it provides to its customers.

Fee income can be 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. These fees include management fees and advisory fees.

b) Fee income from providing transaction services
Fees arising from negotiating or participating in the negotiation of a transaction for a third party - such as underwriting fees, corporate finance fees, and brokerage fees for the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses - are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria. Loan syndication fees are recognized in the statement of income when the syndication has been completed and the Group retains no part of the loans for itself or retains part at the same EIR as for the other participants.

Gain on sale of assets
Gain on sale of assets is recognized when the control of the asset have passed to the buyer, usually on the date of delivery, and the collectability of the sales price is reasonably assured. Any income recognized is recorded under 'Gain on sale of assets' in the statement of income.

The Group assessed that there is no difference in accounting for the above fees and commission income and gain on sale of assets under PFRS 15 and PAS 18.

<u>*Revenue outside the scope of PFRS 15*</u>
Interest income

a. *Interest income recognized using the effective interest rate method* – Interest income is recognized in profit or loss for all instruments measured at amortized cost and debt instruments classified as investment securities at FVOCI using the effective interest method.

   The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the EIR, the Group estimate cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are integral part of the EIR transaction costs and all other premiums or discounts.

   When financial asset becomes credit-impaired and is, therefore, regarded as 'Stage 3', the Group calculates interest income by applying the EIR to the net amortized cost of the financial asset. If the financial assets cures and is no longer credit impaired, the Group reverts to calculating interest income on a gross basis.

b. *Other interest income* – Interest income on all trading assets and financial assets mandatorily required to be measured at FVTPL is recognized using the contractual interest rate and is included under 'Interest income on financial assets at FVTPL in the statement of income.

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

Trading and securities gains (losses)
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.

Unrealized gains and losses comprise changes in the fair value of financial instruments for the period and from reversal of prior period's unrealized gains and losses for financial instruments, including puttable instruments classified as financial liability, which were realized in the reporting period.

Realized gains and losses on disposals of financial instruments classified as at fair value through profit or loss are calculated using pro-rata approach starting January 1, 2018.

Rental income
Rental income arising from 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 'Miscellaneous income'.

Gain on sale or redemption of unquoted commercial papers
This income results from sale or redemption of unquoted commercial papers. The gain on sale or redemption of unquoted commercial papers is recorded under 'Miscellaneous income' in the statement of income.

Expenses
Expenses constitute costs of administering the business and these are charged to operations as incurred.

Retirement Benefits
The Group has a funded noncontributory defined benefit retirement plan. The retirement cost of the Parent Company, FMSBC and FAMI is determined using the projected unit credit method.

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Defined benefit costs comprise the following:
(a) service cost;
(b) net interest on the net defined benefit liability or asset; and
(c) 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 the statement of income. Past service costs are recognized when plan amendment or curtailment occurs.

Net interest on the net defined benefit liability or asset is the change during the period 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 high quality corporate 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 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).

The Group's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

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'.

Contingencies

Contingent liabilities are not recognized in the financial statements but are disclosed unless the possibility of an outflow of assets 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 tax

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 taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as of the statement of financial position date.

Deferred tax

Deferred tax is provided, using the balance sheet liability method, on all temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

- 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 income nor taxable income or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries and foreign associates, 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 corporate income tax (RCIT), and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient taxable profit will be available against which the deductible temporary differences and carryforward of unused tax credits from MCIT and unused NOLCO can be utilized except:

- Where the deferred tax asset 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 income nor taxable income or loss.
- 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 income 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 taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each statement of financial position date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are applicable to the period 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.

Deferred tax relating to items recognized directly in the statement of comprehensive income is also recognized in the statement of comprehensive income and not in the statement of income.

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

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognized subsequently if new information about facts and circumstances changed. The adjustment would either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or in profit or loss.

Earnings per Share

Basic earnings per share (EPS) 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, if any. The Group does not have dilutive potential common shares.

Dividends on Common Shares

Dividends on common shares are recognized as a liability and deducted from equity when approved by the respective Board of Directors (BOD) of the Parent Company and its subsidiaries. Dividends for the year that are approved after the statement of financial position date are dealt with as an event after the statement of financial position date.

Subsequent Events

Post-year-end events that provide additional information about the Group's financial 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 operating segments is presented in Note E. Segment Information.

Standards Issued but not yet Effective

Pronouncements issued but not yet effective up to the date of the Group's financial statements are listed below. The Group intends to adopt these pronouncements when they become effective. Except as otherwise indicated, the Group does not expect the adoption of these pronouncements to have significant impact on its financial statements.

Effective beginning on or after January 1, 2021

PFRS 17, *Insurance Contracts*

PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, Insurance Contracts. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments

The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *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 investors' interests in the associate or joint venture.

  On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes 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.

B. Significant Accounting Judgments and Estimates

The preparation of the financial statements in accordance with PFRS requires the Group's management to make judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses, and the disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the judgments and assumptions used in arriving at the estimates to change. The effects of any change in judgments and estimates are reflected in the financial statements as 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:

<u>Judgments</u>
In the process of applying the Group's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the financial statements:

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:
   - Performance of the business model and the financial assets held within that business model are evaluated and reported to the Group's key management personnel
   - Risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed

- Compensation of business units whether based on the fair value of the assets managed or on the contractual cash flows collected
- Expected frequency, value and timing of sales

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

b. *Consolidation of entities in which the Group holds less than majority of voting rights*.
The Group applies judgment in assessing whether it holds control over an investee where the Group's ownership interest and voting rights is 50.0% and below. For this, the Group considers the following factors: (a) power over the investee; (b) exposure, or rights, to variable returns from its involvement with the investee; and (c) the ability to use its power over the investee to affect the amount of the investor's returns.

The Group directly holds 35.45%, 26.06%, 25.06% and 24.26% in FMPEETF, FMSALEF, FMSALBF, and FMSALFIF, respectively, as of September 30, 2020. The Group assessed that control over FMPEETF, FMSALEF, FMSALFIF, and FMSALBF (the Funds) exists because the Parent Company is acting as principal of the Funds, through the fund manager of the Funds, FAMI, which is a 70.0% owned subsidiary of the Parent Company, and given the Parent Company's economic interests (comprising direct interests and future management and advisory fees) over these Funds. The following factors were considered in the assessment: (a) the Parent Company has wide decision making rights over the relevant activities of the Funds and (b) the removal rights are not substantive since there are multiple parties (widely dispersed shareholders) who hold the removal rights; further, members of the BOD of the Funds are normally nominated/appointed by the Parent Company.

c. *Existence of significant influence over an associate with less than 20.0% ownership*
In determining whether the Group has significant influence over an investee requires significant judgment. Generally, a shareholding of 20.0% to 50.0% of the voting rights of an investee is presumed to give the Group a significant influence.

There are instances that an investor exercises significant influence even if its ownership is less than 20.0%. The Group applies significant judgment in assessing whether it holds significant influence over an investee and considers the following: (a) representation on 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; or (e) provision of essential technical information.

The Parent Company and another investor of Lepanto Consolidated Mining Company (LCMC) entered into a collaboration agreement to: (a) jointly vote their fully paid "A" and "B" common shares during stockholders meeting in all matters affecting their right as stockholders; (b) for the parties' respective nominees in the BOD to decide and vote jointly for every corporate act and purpose during meetings of the BOD; and (c) to consult each other on all the issues and corporate acts raised in the BOD and in the stockholders' meetings and come up with a common decision and vote uniformly at the said meetings. The Parent Company and the other investor, together, have two (2) board seats out of the nine (9) or equivalent to 22.2% of the members of the BOD of LCMC. As a result of the collaboration agreement, management assessed that the Parent Company has significant influence over LCMC.

Estimates

The measurement of impairment losses under PFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

a. *Credit losses of financial assets*

The measurement of impairment losses under PFRS 9 across all categories of financial assets requires judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. 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. Significant factors affecting the estimates on the ECL model include:

- The Group's internal grading model, which assigns PDs to individual grades.
- The Group's criteria for assessing if there has been a SICR and so allowances for financial assets should be measured on a Lifetime Expected Credit Loss (LTECL) basis and the qualitative assessment.
- The Group's definition of default, which is consistent with regulatory requirements.
- The segmentation of financial assets when the ECL is assessed on a collective basis.
- Development of ECL models, including the various formulas and the choice of inputs.

b. *Impairment of non-financial assets (Investments in subsidiaries and associates)*

The Group assesses impairment on 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:

- significant underperformance relative to historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends

The Group uses the higher of fair value less costs to sell and VIU in determining recoverable amount.

c. *Leases – Estimating the incremental borrowing rate*

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR 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 right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease.

The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the credit spread for a stand-alone credit rating).

d. *Recognition of deferred taxes*
Deferred tax assets are recognized for all unused tax losses 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, future tax planning strategies, and type of deductions to be availed in the future i.e. either itemized deductions or optional standard deduction (OSD).

e. *Present value of retirement obligation*
The cost of the defined benefit pension plan and other post-employment benefits 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 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 statement of financial position date.

The mortality rate is based on publicly available mortality tables for the Philippines and is modified accordingly with estimates of mortality improvements. Future salary increases and pension increases are based on expected future inflation rates, seniority, promotion and other market factors.

While the Group believes that the assumptions are reasonable and appropriate, significant differences between actual experience and assumptions may materially affect the cost of employee benefits and related obligations.

C. Financial Risk Management

The Group has exposures to the following risks from the use of financial instruments:

- Operational risk
- Regulatory Compliance risk
- Credit risk
- Liquidity risk
- Market risk

Risk Management Framework
The Group's implementation of the risk management process involves a top-down approach that starts with the BOD. The Parent Company's BOD, through the board-level Risk Oversight Committee (ROC), is actively involved in planning, approving, reviewing, and assessing all risks involved within the Parent Company. ROC also establishes the risk culture and sets the tone for all institutional risk-related activities and ensures that the risk policies are clearly formulated and disseminated within the Parent Company.

The ROC's functions are supported by the Executive Committee (EXCOM), which provides essential inputs and advice, particularly on credit and investment policy matters. The EXCOM is provided with the necessary assistance by the following management working committees, namely: the Senior Management Committee (SMC), the Credit Committee (CreCom), the Investment Committee (InCom), Deal Committee (DealCom) and the Policy Committee (PolCom).

The SMC is responsible for identifying, synchronizing and addressing various operational problems and concerns of the Parent Company and certain subsidiaries. The SMC is also tasked with providing the general guidelines and advice on all transactional dealings which consider facet of risks, i.e., market, credit, operational risks, etc. The SMC's other functions are similar to that of Asset and Liability Committee (ALCO) of most banks. Its members comprise of the most senior officers of the Parent Company which have significant risk responsibilities over the asset and liability management.

The CreCom, another senior management committee comprised of senior officers of the Parent Company, is tasked with reviewing all credit proposals and approving loan applications and credit facilities up to set limits/criteria; when exceeded, the decision is elevated to the EXCOM. It also provides support on monitoring and reviewing active credit and investments positions as well as documentations.

The InCom evaluates and formulates the Treasury Group's (TG) investment direction, strategy, and implementation, and monitors the performance and compliance thereof.

The DealCom is tasked with the reviewing/screening of new deal proposals preparatory to sending mandate letter, clearing the business units' new deals subject to the final approval of credit authority, and monitoring all deals in process of the business units.

The Compliance Division (CD) also collaborates with the ROC. The main task of the CD is to monitor and assess compliance of various units of the Parent Company and certain subsidiaries to its rules and regulations as well as their compliance with the rules and regulations prescribed by the government regulatory bodies. The CD is also tasked to properly disseminate these rules and regulations to the various units of the Parent Company as well as its subsidiaries when applicable.

The PolCom is tasked with reviewing the policy proposals from all FMIC units which are subsequently confirmed and approved by appropriate body.

The Chief Risk Officer (CRO) manages and oversees the day-to-day activities of the Risk Management Division (RMD). The CRO likewise evaluates all risk policy proposals and reports to be presented to the ROC. The CRO, through the RMD, also coordinates with the Risk Taking Units (RTUs) and the Risk Control and Compliance Units (RCCUs) of the Parent Company with regard to the submission of requisite reports on their risk compliance and control activities.

RMD is tasked with identifying, analyzing, measuring, controlling and evaluating risk exposures arising from fluctuations in the prices or market values of instruments, products and transactions of the Parent Company and certain subsidiaries. It is responsible for recommending trading risk and liquidity management policies, setting uniform standards of risk assessment and measurement, providing senior management with periodic evaluation and simulation and analyzing limit compliance exceptions. The RMD furnishes daily reports to Senior Management and RTUs and provide monthly reports to ROC. The RMD also coordinates with the Risk Taking Units (RTUs) and the Risk Control and Compliance Units (RCCUs) of the Parent Company with regard to the submission of requisite reports on their risk compliance and control activities.

The identified market, such as equity prices, interest rate and foreign currency, and liquidity, as well as credit and operations risks are consequently measured and then controlled by a system of limits. The RMD defines and presents for approval of the ROC and BOD the various risk management measures to be used in quantifying those risks.

The Parent Company requires either internal or external legal opinions to ensure that all documentations related to transactions entered into by the Parent Company are enforceable. Specific, internal legal functions/responsibilities including coordination with external counsel groups are handled by the Legal Department.

Operational Risk
The Parent Company's operational risk management framework outlines its effective management of operational risks via a staged approach which involves risk identification, analysis and assessment, treatment, monitoring and reporting. The document also provides pertinent operational risk management tools that need to be in place.

In line with the framework, various methodologies and tools were established to facilitate management of operational risk. These include operational risk incident data management, risk event database maintenance, risk assessment, key risk indicator monitoring and contingent legal liability reporting. The Parent Company, likewise, has in place a responsive risk management policy for effective oversight, due diligence and management of risks arising from outsourcing, prior to entering into, as well as, during the lifespan of an outsourcing agreement/arrangement. This is recognizing that while outsourcing can be cost effective and brings other competitive advantages, it also poses an Outsourcing Risk. Outsourcing Risk is the risk that third party service providers may not act within the intended limits of their authority and/or not perform in a manner consistent with outsourcing party's strategies, objectives and desired results, as well as, legal and regulatory requirements.

Moreover, the Parent Company has in place a structured Information Systems Strategic Plan (ISSP). The plan is reviewed and updated on regular basis to keep it in sync with Parent Company's strategic business direction.

The Ultimate Parent Company, Metrobank, on the other hand, through its Internal Audit Group (IAG), reviews operational risk management processes and provide an independent assurance as to its adequacy and effectiveness.

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, and by monitoring exposures in relation to such limits. Counterparty credit lines are established by the Parent Company annually to guide its transactions. Business transactions are restricted to these accredited counterparties, and any violations are reported to the designated control units.

The management of credit risk is outlined in the Credit Policy Manual where credit authority and approval bodies are formalized within the institution. This is further supported by various operating manuals from relevant units subject to periodic review, any changes are elevated to appropriate approving body. The Parent Company operates under sound, well-defined credit-granting criteria which include a thorough understanding of the borrower or counterparty, as well as the purpose and structure of the credit, risks and risk mitigants and its source of repayment. Independent validation of credit reviews is done annually. Vendors are subject to financial assessments according to prescribed policy. Credit ratings of counterparties are likewise periodically tracks and reported to board committee level. The Parent Company gathers sufficient information to enable a comprehensive assessment of the true risk profile of the borrower or counterparty through the use of Internal Credit Risk Rating System (ICRRS) as well as rating information from independent credit rating providers. On implementation of PFRS 9 on ECL, the PFRS 9 - ECL Technical Document provides guidance on the methodology and calculation of the impairment provision; models are assessed and recalibrated as needed.

Management of Credit Risk
The Parent Company 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 enters into market-traded securities 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 credit or transaction) by adopting a credit risk management environment that has the following components:

- Formulating credit policies in areas like documentation and collateral requirements as well as credit assessments and risk grading processes. The monitoring and reporting procedures are likewise documented.
- The guidelines provided by the regulators are also incorporated to internal policies to ensure adherence to regulatory requirements.
- Providing seminars or programs that enhance skills and risk awareness among its personnel.
- Establishing authorization limits for the approval and renewal of credit facilities.
- Independent credit evaluation by Credit Division prior to loan approval.
- Screening of prospective borrowers/deals by the DealCom/SMC prior to endorsement to other Committees like CreCom/EXCOM.
- Limiting concentrations of exposures by periodic monitoring of counterparties including what industry they belong to.
- Performance of independent credit review validation by RMD.
- Performance of Vendor Financial Assessments for its service providers.
- Continuously monitoring the credit quality of various portfolios including certain subsidiaries.
- Maintaining an ICRRS, approved by the BOD, in order to categorize exposures according to the risk profile. The rating system is a combination of quantitative and qualitative factors. This is also used for determining impairment provisions against specific credit exposures. The current risk grading framework consists of ten grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation.

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.

Collateral and other credit enhancements
The Group holds collateral against loans and receivables in the form of real estate and chattel mortgages, guarantees, and other registered securities over assets. Estimates of fair value are based on the value of the collateral assessed at the time of borrowing and these are periodically updated following the internally approved guidelines on accepted collaterals. Generally, collateral is not held over loans and advances to banks except for reverse repurchase agreements. Collateral valuations are monitored periodically by an independent unit of the Parent Company

It is the Group's policy to dispose foreclosed properties acquired in an orderly fashion.

Concentrations of Credit Risk
Concentrations of credit risk arise when the company is exposed to particular group of counterparties or a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate relative sensitivity of the Parent Company's performance to developments affecting a particular industry or geographic location.

For risk concentration monitoring purposes, the financial assets are broadly categorized into (1) loans and advances; (2) loans and receivables; and (3) trading and financial investment securities. To mitigate risk concentration, the Parent Company checks for breaches in regulatory and internal limits. Internal credit concentration limits were set at not more than 20.0% and 25.0% of the selected financial assets for counterparties and industry exposures, respectively. Monitoring reports are done monthly wherein the same are elevated to the ROC on its monthly meeting for information and appropriate actions.

Each business unit is responsible for the performance and quality of its credit portfolio and for monitoring and controlling all credit risks in its portfolio. IAG undertakes the periodic review of business units and credit processes.

Credit quality per class of financial assets
The credit quality of financial assets is assessed and managed using external and internal ratings.

Liquidity Risk and Funding Management
Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from the Group's inability to meet its obligations when they come due without incurring unacceptable losses or costs.

Liquidity management is among the most important activities conducted within the Group. The Group manages its liquidity risk through analyzing net funding requirements under alternative scenarios, diversification of funding sources and contingency planning.

For liquidity risk, the Group uses the Maximum Cumulative Outflow (MCO or Liquidity Gap) analysis in analyzing its funding requirements. The report is prepared once a month and forwarded to the SMC and the RTU. The assumptions employed in the preparation of this report are approved by the BOD. These assumptions are reviewed and updated, as necessary, by the Senior Management through the RMD and TG. In addition, the Group develops a Liquidity Risk Management and Contingency Funding Plan to serve as reference in case of an occurrence of an event. This plan is also approved by the BOD.

The Group's liquidity risk is managed by holding sufficient liquid assets of appropriate quality to ensure short-term funding requirements are met and by maintaining a portfolio of unencumbered government securities. Deposits with banks are made on a short-term basis with almost all being available on demand or within one month.

TG uses liquidity forecast models that estimate the Group's cash flow needs based on the Group's actual contractual obligations and under normal and extraordinary circumstances.

Based on the behavioral pattern of the deposit substitute accounts, which has been observed to have a "core deposit" level of about 45.0% to 50.0%, liquidity forecast and/or plans for its use are determined like earmarking for future loans and for other investment outlets. The plans and strategies in the liquidity risk management are contained in the board-approved Liquidity Risk Management and Contingency Funding Plan.

Liquidity is monitored by the Group on a daily basis and further analyzed at predetermined scenarios/situations.

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

Financial liabilities
The maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date. When 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.

Market Risk
Market risk is the risk of loss to future earnings, fair values or future cash flows that may result from changes in the price of a financial instrument. The Parent Company's market risk originates from its holdings of debt securities and equities.

The Parent Company manages market risk by segregating its statement of financial position into a trading book and a banking book. The management of this portfolio is assigned to the SMC, chaired by the President.

The RMD serves under the ROC and performs daily market risk analyses to ensure compliance with the company's policies and procedures. The methodologies used in managing the risk include the daily marking-to-market, monitoring of loss alerts and stop loss limits, profit alert and start sell limits, nominal position limits as well as Value-at-Risk (VaR) and Earnings-at-Risk (EaR) limits.

Stress testing on the portfolio is also done on a daily basis to complement the VaR methodology. The stress testing results are reported to the President and Treasury Group Head as well as to the Controller and the CRO and subsequently to the ROC and the BOD.

Guiding daily monitoring activities are limits structures that are based on annual targets set during budget hearings, approved by the ROC and the BOD. Monitoring reports are discussed in the ROC monthly meetings.

The Group follows a prudent policy in managing its assets and liabilities to ensure that exposure to fluctuations in interest rates are kept within acceptable limits. Majority of the Parent Company's loan portfolio have no repricing rate arrangements. The determination of the applicable rates is sourced from the Parent Company's approved lending rates. Lending rates are determined based on funding cost plus certain spreads.

Another interest rate risk area where the Parent Company has exposures is on the effect of future changes in the prevailing level of interest rates on its fixed and floating interest rate-financial assets and liabilities. It has identified the financial assets and liabilities that are to mature or to reprice in the future and monitors its effect on the statement of income and equity.

The Company slots its interest rate sensitive assets or liabilities according to maturity or repricing date, whichever comes first. The Company has no non-maturing deposits. Interest rate risk in the banking book is measured through the Interest Rate Gap and EaR, measured and reported monthly.

Foreign exchange risk
Foreign exchange risk is the risk to earnings or capital arising from changes in foreign exchange rates. The Group takes an exposure to effects on the fluctuations in the prevailing foreign currency exchange rates on its cash flows.

Equity price risk
Equity price risk is the risk that the fair values of equities will fluctuate as a result of changes in the levels of equity indices and the value of individual stocks. The non-trading equity price risk exposures arise from the Parent Company's investment portfolio and a few golf shares.

The Parent Company's policies and procedures as well as risk limit structures on its equity investment portfolio are approved by the ROC and BOD. Management's strategies and plans are discussed in the regular Incom meetings. The committee is headed by the President and the members include the Investment Banking Group Head, Treasury Group Head and Research Department Head.

D. Fair Value Measurement

The methods and assumptions used by the Group in estimating the fair value of financial instruments and nonfinancial assets are:

Cash and other cash items, due from BSP and financial liabilities at cost - Carrying amounts approximate fair values due to the relatively short-term maturities of these investments.

Debt securities - Fair value of debt securities (Investment securities at FVTPL, FVOCI and Amortized Cost) composed of government securities issued by the Philippine government and private debt securities are determined based on quoted prices at the close of business as appearing on Bloomberg.

Equity securities - Quoted equity securities are valued based on their closing prices published by the Philippine Stock Exchange. The fair value of unquoted equity securities are determined based on the adjusted asset approach and Guideline Company Method (GCM). The adjusted asset approach derives the value of the investment using the net asset of the investee adjusted to its fair value. GCM allows a value indicator of a company to be derived by applying relevant multipliers of similar, publicly traded "comparable" companies to the company's financial metrics.

Derivative instruments - Fair values are estimated based on prices derived using acceptable valuation models. The model utilizes published underlying rates (e.g. interest rates and quoted price volatilities) and is implemented through validated calculation engines.

Loans and receivables - Fair values of loans are estimated using the discounted cash flow methodology, using Bloomberg's risk free rate plus estimated credit spread. Where the instrument reprices on a quarterly basis or has a relatively short maturity, the carrying amount approximates fair value.

Investment properties - Fair value has been determined based on valuations made by independent appraisers who holds a recognized and relevant professional qualification and who has recent experience in the location and category of the investment property being valued. Valuations were derived on the basis of recent sales of similar properties in the same areas as the investment properties and taking into account the highest and best use of the properties at the time the valuations were made.

The following tables summarize the carrying amount and fair values of the financial assets, financial liabilities and nonfinancial assets, analyzed based on inputs to fair value:

	As of September 30, 2020				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets measured at fair value:					
Investment Securities at FVTPL:					
Debt securities:					
Government	**₱4,054,905,147**	**₱4,054,905,147**	**₱**	**₱–**	**₱4,054,905,147**
Private	**655,935,216**	**655,935,216**	**–**	**–**	**655,935,216**
Equity securities	**5,209,599,499**	**5,209,599,499**	**–**	**–**	**5,209,599,499**
FVOCI:					
Debt securities:					
Government	**1,001,641,022**	**1,001,641,022**	**–**	**–**	**1,001,641,022**
Private	**36,254,031**	**36,254,031**	**–**	**–**	**36,254,031**
Equity securities	**1,053,625,149**	**941,705,329**	**13,300,000**	**98,619,820**	**1,053,625,149**
	₱12,011,960,064	**₱11,900,040,244**	**₱13,300,000**	**₱98,619,820**	**₱12,011,960,064**
Assets and liabilities for which fair values are disclosed:					
Financial assets					
Loans and receivables:					
Loans and discounts:					
Corporate lending	**₱428,504,201**	**₱–**	**₱–**	**₱480,320,197**	**₱480,320,197**
Others	**8,681,781**	**–**	**–**	**8,681,781**	**8,681,781**
Unquoted commercial papers	**477,500,000**	**–**	**–**	**488,126,384**	**488,126,384**
Amortized Cost:					
Government	**497,111,734**	**509,071,408**	**–**	**–**	**509,071,408**
Private	**893,802,816**	**884,748,893**	**–**	**–**	**884,748,893**
	₱2,305,600,533	**₱1,390,914,550**	**₱–**	**₱977,128,363**	**₱2,305 600,533**
Financial liabilities					
Puttable instruments classified as financial liability at FVTPL	**₱6,655,435,016**	**₱–**	**₱–**	**₱6,655,435,016**	**₱6,655,435,016**
Nonfinancial assets					
Investment properties	**₱187,863,826**	**₱–**	**₱–**	**₱594,857,500**	**₱594,857,500**

As of September 30, 2020, no transfers were made among the three levels in the fair value hierarchy.

Inputs used in estimating fair values of the equity securities measured at FVOCI under Level 3 include price-to-book ratio.

For financial assets and liabilities for which fair values are disclosed, inputs used in estimating fair values categorized under Level 3 include risk-free rates and applicable risk premium.

Significant (decreases) increases in the risk-free rates and risk premium, in isolation, would result in a significantly higher (lower) fair value measurement. Significant increases (decreases) in volatility, in isolation, would result in a significantly higher (lower) fair value measurement.

E. Segment Information

The Group's operating businesses are organized and managed separately according to the nature of services provided and the different markets served, with each segment representing a strategic business unit.

As of September 30, 2020, the Group's operating segments are as follows:

- Treasury Group and Sales and Distribution Group **-** manages the liquidity and funding requirements of the Parent Company and the distribution of financial instruments such as government securities and corporate papers. It offers a wide variety of profitable and secure instruments such as treasury bills, treasury notes/bonds, commercial papers, and promissory notes. As a quasi-bank licensed by the BSP, it borrows money from the public and issues its own financial instruments. Moreover, it is an accredited government securities eligible dealer authorized by the Bureau of Treasury in trading government securities and it remains a dominant selling agent in the distribution of government securities, government-owned or controlled corporations and other corporate issuances;

- Investment Banking Group **-** is responsible for raising long-term funding requirements of the government and the private sectors. Its products and services include debt and equity underwriting, loan syndication, financial advisory, project finance and structured financial solutions.

- Mutual Funds **-** these are the fund business of the Group;

- Strategic Investments **-** these are the business of the Group which are involved in leasing and finance, life insurance and mining;

- Others **-** principally consists of institutions with significant presence in each of its respective markets which include stock brokerage and real estate. This also includes non-interest income and expenses managed on a group basis that are not allocated to operating segments.

No operating segments have been aggregated to form reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements. This segment information is presented monthly to the Parent Company's BOD which is the Chief Operating Decision Maker.

The following table present revenue and income information of the Group's operating segments measured in accordance with PFRS as of and for the period ended September 30, 2020:

	Treasury Group/Sales and Distribution Group	Investment Banking	Mutual Funds	Strategic Investments	Others	Total Segment	Adjustment/ Elimination	Consolidated
Results of Operations								
Net interest income	**₱129,338,569**	**₱–**	**₱104,709,453**	**₱–**	**₱53,102,903**	**₱287,150,925**	**₱-**	**₱287,150,925**
Non-interest income (loss)	**181,316,142**	**61,713,675**	**(380,475,494)**	**–**	**257,131,863**	**119,686,186**	**(122,765,340)**	**(3,079,154)**
Total Income (Loss)	**310,654,711**	**61,713,675**	**(275,766,040)**	**–**	**310,234,766**	**406,837,112**	**(122,765,340)**	**284,071,771**
Non-interest expense	**91,631,797**	**4,319,957**	**147,971,173**	**–**	**287,350,769**	**531,273,696**	**(128,826,126)**	**402,447,570**
Income (loss) before share in net income of Investees	**219,022,914**	**57,393,718**	**(423,737,214)**	**–**	**22,883,997**	**(124,436,585)**	**6,060,786**	**(118,375,799)**
Share in net income of investees	**–**	**–**	**–**	**452,501,776**	**(312,559)**	**452,189,218**	**–**	**452,189,218**
Income tax provision	**(39,745,567)**	**–**	**(16,561,079)**	**–**	**(6,962,059)**	**(63,268,704)**	**–**	**(63,268,704)**
Non-controlling interest in net income of consolidated subsidiaries	**–**	**–**	**–**	**–**	**1,223,203**	**1,223,203**	**–**	**1,223,203**
Net income (loss) attributable to the Parent Company	**179,277,348**	**57,393,718**	**(440,298,293)**	**452,501,776**	**16,832,582**	**265,707,132**	**6,060,786**	**271,767,917**
Net Interest Income (Expense) – others								**(2,173,923)**
Net Interest Income								**269,593,994**
Operating and Non-Operating Income								**27,569,500**
Income - net of interest expense								**297,163,494**
Operating and Non-Operating Expense								**395,799,960_**
Loss Before Share in Net Earnings								**(98,636,465)**
Provision for Income Tax								**(19,569,471)**
Net income (loss) attributable to the Parent Company	**₱179,277,348**	**₱57,393,718**	**(₱440,298,293)**	**₱452,501,776**	**₱16,832,582**	**₱265,707,132**	**₱6,060,786**	**(₱79,066,994)**
Statement of Financial Position								
Total Assets	**₱9,775,548,989**	**₱–**	**₱8,872,635,784**	**₱7,286,709,308**	**₱10,709,807,131**	**₱36,644,701,212**	**(₱3,913,648,288)**	**₱32,731,052,924**
Total Liabilities	**6,601,350,154**	**–**	**6,799,501,589**	**–**	**5,398,630,893**	**18,799,482,636**	**(783,726,458)**	**18,015,756,179**
Other Segment Information								
Capital expenditures	**–**	**–**	**–**	**–**	**11,359,301**	**11,359,301**	**–**	**11,359,301**
Deferred tax assets	**–**	**–**	**–**	**–**	**103,478,873**	**103,478,873**	**–**	**103,478,873**
Depreciation and amortization	**–**	**–**	**–**	**–**	**57,748,389**	**57,748,389**	**–**	**57,748,389**
Recovery from impairment losses	**–**	**–**	**–**	**–**	**(79,394,582)**	**(79,394,582)**	**–**	**(79,394,582)**

Inter-segment revenues are eliminated upon consolidation and reflected in the 'adjustment/elimination' column.

Segment assets and liabilities comprise operating assets and liabilities.

Interest income is reported net of interest expense as management primarily relies on the net interest income as performance measure, not the gross income and expense.

Non-interest income consists of ‘Service charges, fees and commissions’, ‘Gain on sale of assets’, ‘Trading and securities gain (loss)’, ‘Foreign exchange gain - net’, ‘Dividends’ and ‘Miscellaneous income’.

Non-interest expense consists of ‘Taxes and licenses’, ‘Compensation and fringe benefits’, ‘Broker’s commission’, ‘Rent, light and water’, ‘Depreciation and amortization’, ‘Representation and entertainment’, ‘Provision for (recovery from) impairment and other probable losses’ and ‘Miscellaneous expense’.

Capital expenditure consists of additions to property and equipment and software licenses.

F. 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. Related parties may be individuals or corporate entities.

The Group and the Parent Company have transactions with its subsidiaries, associated companies, affiliates, and with certain related interests collectively referred to as directors, officers, stockholders and other related interests (DOSRI). These transactions consist primarily of loan transactions, management contracts, outright purchases and sales of trading and investment securities, business and development support and other regular banking transactions.

Existing BSP regulations limit the amount of individual loans to DOSRI, of which 70.0% must be secured, to the total amount of their respective deposits and book value of their respective investments in the Parent Company. In the aggregate, loans to DOSRI generally should not exceed 100.0% of the Parent Company’s combined capital accounts, net of deferred income tax, unbooked valuation reserves and other capital adjustments as may be required by the BSP.

The following table shows information on loans to DOSRI as of September 30, 2020:

Total outstanding DOSRI loans	**₱5,815,183**
Percent of DOSRI loans to total loans	**1.25%**
Percent of unsecured DOSRI loans to total DOSRI	**0.0%**
Percent of past due DOSRI loans to total DOSRI	**0.0%**
Percent of non-performing DOSRI loans to total DOSRI	**0.0%**

Under BSP Circular No. 423, loans and other credit accommodations and guarantees secured by assets are considered as non-risk by the Parent Company and therefore excluded from DOSRI individual and aggregate ceilings.

The following are the balances of the Group's related party transactions as of September 30, 2020:

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Ultimate Parent Company			
Cash and other cash items		**₱744,275,076**	Peso and US dollar-denominated demand, savings and time deposits. Peso deposits carry interest from 0.0% to 1.25% while US dollar deposits carry interest from 0.1% to 0.4%
FVTPL		**46,876,251**	Investments in the Ultimate Parent Company's share of stock
Account and Accrued interest receivables		**824,156**	From time deposits and other receivables
Other assets		**129,491**	From rental deposits
Accrued other expenses payable		**710,186**	Accrued professional fees
Interest income	**₱5,355,161**		From interbank loans, savings and time deposits
Fees and Commissions	**13,207,017**		Arrangers, issue management, incentive and selling fees income
Interest expense	**11,442,109**		Interest expense from interbank borrowings
Miscellaneous expense	**9,113,234**		Internal audit and other professional fees and miscellaneous expenses
Other Related Parties			
Cash and other cash items		**₱43,717,822**	Savings, current and time deposits and short-term placements with interest rates ranging from 0.0% to 1.25% per annum
Other receivables		**2,805**	Accrued interest receivables
Miscellaneous deposits		**1,658,278**	Security deposits
Accrued other expenses payable		**399,047**	Accrued professional fees
Interest income	**₱2,152,647**		Interest income from investment in private bonds, short-term placements, savings and time deposits
Fees and Commissions	**94,086**		From selling services rendered
Interest expense	**156,250**		Interest expense from interbank borrowings
Miscellaneous expenses	**5,835,187**		Rent, membership & dues

G. Other Information

- Seasonality or Cyclicality of Interim Operations

  The Parent Company's operations is driven mainly by prevailing market and economic conditions, as well as, by the demands and or needs of the investors and borrowers and is not influenced by seasonal or cyclical pulls.

- No Unusual Items

  There are no items affecting assets, liabilities, equity, net income or cash flows, which may be considered unusual by virtue of their nature, size or incidence.

- Use of Estimates in the Preparation of Financial Statements

  The preparation of the financial statements in accordance with PFRS requires the Group's Management to make judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses, and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the judgments and assumptions used in arriving at the estimates to change. The effects of any change in judgments and estimates are reflected in the financial statements as 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.

- Issuances, Repurchases and Repayments of Securities

  There were no additional issuances of the Parent Company's debt and equity securities for the period.

- Dividends

  There was no dividend declaration during the quarter ended September 30, 2020.

- Material Events

  There were no material events that took place during the quarter ended September 30, 2020.

- Subsequent Events

  There were no material events that took place during the quarter ended September 30, 2020.

- Commitments and Contingent Accounts

  As of September 30, 2020, the Group has outstanding contingent liability from legal cases amounting to ₱0.8 million.

  In the normal course of business, the Group is involved in various contingencies which, in the opinion of the management, will not have a material effect on the Group's consolidated financial statements. It does not recognize any provision for probable losses as of September 30, 2020.

- Earnings (Loss) Per Share

  Earnings (Loss) per share is determined by dividing the net income (loss) for the period by the weighted average number of common shares issued and outstanding during the period, computed as follows:

	January to September	
	2020	2019
a. Net income (loss)*	**(₱79,066,995)**	₱682,668,924
b. Weighted average number of common shares	**372,467,216**	372,479,880
c. Earnings (loss) per share (a/b)	**(₱0.21)**	₱1.83

**Attributable to Equity holders of the Parent Company*

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION (September *30, 2020 vs. December 31, 2019)* AND RESULTS OF OPERATIONS *(January 1 – September 30, 2020 vs. January 1 - September 30, 2019)*

FINANCIAL POSITION

As of September 30, 2020, the consolidated total assets of the Group stood at ₱32.7 billion, lower by 8.1% or ₱2.9 billion from ₱35.6 billion as of December 31, 2019.

The changes in consolidated total assets were primarily due to the movements in the following accounts:

- *Cash and Other Cash Items* ended at ₱4.9 billion, increased by 24.7% or ₱0.9 billion from ₱4.0 billion mainly due to higher outstanding balances of demand, savings and time deposits as of reporting date.

- *Due from Bangko Sentral ng Pilipinas* represents the balance of the deposit accounts maintained with BSP to meet the reserve requirements on deposit substitute liabilities and serves as a clearing account for interbank transactions and special deposit accounts. This account decreased by 75.8% or ₱4.3 billion from ₱5.7 billion to ₱1.4 billion, mainly utilized in paying-off matured short-term money market placements.

- *GS Purchased Under Reverse Repurchase Agreement* represents overnight reverse repurchase (RRP) facility of BSP. This account increased by 96.8% from last December 31, 2019 balance of ₱1.3 billion to 2.6 billion as of September 30, 2020.

- *Financial Assets at Fair Value Through Profit or Loss (FVTPL)* decreased by 18.8% or ₱2.3 billion from ₱12.2 billion to ₱9.9 billion as of this period. The decrease pertains to the net sales of debt and equity securities investments as of reporting period. As of September 30, 2020, this account mainly consists of government securities, private debt and equity securities amounting to ₱4.0 billion, ₱0.7 billion and ₱5.2 billion, respectively.

- *Fair Value Through Other Comprehensive Income (FVOCI)* represents investments in government securities and private debt and equity securities. The increase of 10.8% or ₱0.2 billion from ₱1.9 billion to ₱2.1 billion was mainly due to the ₱3.7 billion and ₱ 3.9 billion total sale and purchases of government securities by the Parent Company, respectively, during the period.

- *Amortized Cost* consists of investments in government securities and private debt securities. The increase of 135.4% or ₱0.8 billion from ₱0.6 billion to ₱1.4 billion was mainly due to the effect of ₱907.0 million purchases netted by the ₱105.5 million maturities during the period.

- *Loans and Receivables* consist of loans and discount, unquoted commercial papers and other receivable accounts. This account decreased by ₱35.0 million from ₱1,685.6 million to ₱1,650.6 million this period.

  Loans and Discount was reduced by 12.1% or ₱62.7 million due to the impact of ₱252.3 million loan repayments netted by ₱188.3 million loan grants.

  Unquoted commercial papers which consist of various debt instruments issued by private corporations decreased by 24.2% or ₱152.5 million from ₱630.0 million to ₱477.5 million due to prepayment during the period.

Other Receivables account grew by 33.2% or ₱183.5 million mainly due to the higher receivables from customers and clearing house recorded by the Parent Company's subsidiaries.

- *Property and Equipment* pertains to condominium units and improvements, furniture and equipment owned by the Group. The decrease of 28.6% or ₱42.4 million from ₱148.5 million to ₱106.1 million this period was mainly due to ₱46.8 million depreciation expense netted by ₱5.4 million net purchases of furniture and equipment during the period.

- *Investments in Associates* represents the carrying costs of investments in shares of stocks in allied/non-allied undertakings. The increase of 6.6% or ₱0.4 billion from ₱6.9 billion to ₱7.3 billion this period was mainly due to the ₱455.5 million total share in net earnings and ₱0.8 million net equity share in other comprehensive income of associates.

- *Investment Properties* consists of land, building and condominium units held for sale or lease decreased by ₱1.3 million from ₱189.2 million to ₱187.9 during the period.

- *Deferred Tax Assets* consists of deductible temporary differences and carry forward of unused tax credits and NOLCO. The increase of 50.2% or ₱34.6 million from ₱68.9 million to ₱103.5 million was mainly due to increase in recognized deductible temporary differences of the Group.

- *Other Assets* includes prepayments, intangible assets, refundable deposits, other investments, retirement asset, deferred charges, unissued office supplies, input taxes and others. This account increased by 5.0% or ₱46.3 million from ₱929.9 million to ₱976.2 million mainly to higher prepaid taxes and miscellaneous assets during the period.

- *Bills Payable* comprises of deposit substitutes and other borrowings obtained from private firms, individuals and local banks of the Parent Company. The decrease of 41.7% or ₱4.7 billion from ₱11.3 billion to ₱6.6 billion this year was mainly due to the net impact of the ₱56.5 billion proceeds from issuances and ₱61.2 billion settlements made during the period.

- *Accounts Payable* increased by 87.1% or ₱2.0 billion from ₱2.2 billion to ₱4.2 billion as of reporting date mainly due to increase in trade payables of a subsidiary.

- *Accrued Taxes, Interest and Other Expenses* consists of expenses incurred on taxes, licenses, interests on borrowings, retirement liability and other expenses of the Group which have remained unpaid as of reporting date. The increase of 37.6% or ₱53.3 million from ₱141.6 million to ₱194.9 million was mainly due to higher retirement liability and other accrued expenses netted by lower accrued interest and taxes payable as of reporting date.

- *Income Taxes Payable* decreased by 24.5% or ₱3.0 million from ₱12.4 million to ₱9.3 million as of September 30, 2020 was mainly due to lower taxable revenue during the period.

- *Deferred Tax Liability* decreased by 100.0% from ₱4.0 million to nil as of the reporting period mainly due to absence of taxable differences of the Group during the period.

- *Puttable Instruments of Mutual Fund Subsidiaries Classified as Liability* pertains to the ownership interest of other shareholders outside the Group in the puttable instruments issued by mutual fund subsidiaries. This account grew by ₱102.4 million from ₱6.6 billion to ₱6.7 billion during the period.

- *Other Liabilities* consists of payable for securities purchased, withholding taxes, dividends, subscription and premium payables and other miscellaneous liabilities. The decrease of 28.0% or ₱141.2 million from ₱503.5 million to ₱362.3 million was mainly due to decrease in miscellaneous liability during the period.

- *Retained Earnings* decreased by ₱123.3 million from ₱11.8 billion to ₱11.7 billion mainly due to the Group's results of operations recognized during the period.

- *Net Unrealized Loss on FVOCI Investments* increased by ₱32.2 million from ₱687.0 million to ₱719.2 million this period mainly due to lower market value of these investments during the period.

- *Unrealized Loss on Fair Value Adjustment of Cash Flow Hedge* pertains to fair value adjustment of Parent Company's cross currency swap transaction under cash flow hedge. This account decrease by 100.0% due to pre-termination of the cross currency swap transaction during the period.

- *Cumulative Translation Adjustments* which pertain to foreign currency adjustment of Parent Company's foreign currency denominated equity investments with FMSLDBF decreased by 30.9% or ₱7.3 million mainly due to mainly due to deterioration of Peso Currency against Dollar Currency during the period.

- *Remeasurements of Retirement Liability* totaled ₱3.8 million, 26.4% or ₱0.8 million higher than last year balance of ₱3.0 million and this pertains to the effect of the remeasurements of the post-employment defined benefit plans recognized in other comprehensive income.

- *Equity in Other Comprehensive Income of Associates* pertains to Equity Share on Decline in Value of Investments Securities, Unrealized Gains (Losses) Arising from Remeasurement of Retirement and Life Insurance Reserves of associates. This account increased by ₱0.85 million from ₱46.5 million to ₱47.3 million during this period.

- *Equity Attributable to Non-controlling Interests* decreased by ₱1.3 million from ₱95.2 million to ₱93.9 million as of September 30, 2020.

- *Capital Funds* reached ₱14.6 billion as of September 30, 2020, which translates to 48.12% capital adequacy ratio (CAR). This is way in excess of the 10.0% CAR required by BSP on non-bank financial intermediaries with quasi-banking function.

RESULTS OF OPERATIONS

For the period ended September 30, 2020, First Metro had a consolidated net loss attributable to equity holders of the Parent Company of ₱79.1 million, 111.6% or ₱761.8 million lower than same period last year's result of ₱682.7 million income.

Detailed discussions on the changes in the consolidated statement of income accounts are as follows:

- *Income from Treasury Group and Sales and Distribution Group* mainly consists of interest income earned from fixed income portfolio, trading and mark-to-market gains (losses) from investments in debt and equity securities and other fee-based income. The Group contributed ₱ 436.5 million gross income, 69.1% or ₱976.2 million lower than last year's income of ₱1,412.8 million mainly due to lower interest income and realized trading gain from investments recognized during the period.

- *Fee Income from Investment Banking Group* generated ₱61.7 million which is 80.4% or ₱252.4 million lower than last year's fee income of ₱314.1 million mainly on account of fewer fees earned from this year's major deals such as retail treasury bonds issuance, corporate bonds issuances and financial advisory services as compared to same period of last year.

- *Other Income (Loss)* represents income earned (loss incurred) on sale of assets, lease of real property and equipment, other fees and commissions earned and various income generated by the subsidiaries. The decrease of 109.9% or ₱662.8 million from ₱603.3 million income to ₱59.5 million loss was mainly due to higher unrealized and realized trading loss incurred by the subsidiaries.

- *Non-Operating Income* mostly represents share in net earnings of associates, recovery from impairment losses and unrealized foreign exchange gain or loss. This account totaled ₱535.5 million, which is 5.6% or ₱32.0 million lower than same period last year's result of ₱567.5 million. The decrease came mainly from lower share in net earnings of associates recognized this period.

- *Interest Expense* refers to interest on outstanding bills payable to banks, individuals and private firms either paid or accrued. The decrease of 85.8% or ₱782.7 million from ₱912.6 million to ₱129.9 million was mainly due to lower volume of bills payable this period as compared to the same period last year and maturity of bonds payable in 2019.

- *Compensation and Fringe Benefits* consist of the gross remuneration and other benefits granted to employees for services rendered which increased by ₱19.2 million from last year's expense of ₱405.1 million to ₱424.3 million during this period.

- *Depreciation and Amortization* represents the monthly/periodic depreciation of the Group's condominium units, furniture, fixtures and equipment and right-of-use assets, as well as, the monthly amortization of deferred charges, leasehold rights and improvements. The decrease of 27.3% or ₱21.7 million from ₱79.4 million to ₱57.7 million this period was mainly due to lower depreciation and amortization expense incurred for property and equipment and intangible asset, respectively, during the period.

- *Professional Fees* pertain to expenses incurred for services rendered by individuals/firms on a retainer or contractual basis which totaled ₱46.8 million, 30.1% or ₱20.2 million lower than last year's expense of ₱67.0 million mainly due to decrease in management fees incurred by a subsidiary during the period.

- *Rent Expense* pertains to expenses incurred for office spaces and/or equipment leased by the Group. This account totaled ₱13.4 million this year, 79.9% or ₱5.9 million higher compared to same period last year's expenses of ₱7.4 million. The increase was mainly due to adoption of PFRS 16.

- *Representation and Traveling Expenses* totaled ₱9.9 million, 34.4% or ₱5.2 million lower than last year's expense of ₱15.1 million mainly due to lower expenses incurred for public relations activities which were directly related to the business development and promotion of the various investment products to potential clients of the Group.

- *Supervision Fees* totaled ₱8.4 million and this represents the Parent Company's accrual of share in the cost of maintaining the appropriate supervising and examining department in BSP. The decline of 6.7% or ₱0.6 million from ₱9.0 million was mainly due to lower average monthly assets of the Parent Company which serves as the basis in computing for the annual supervision fee.

- *Other Expenses* includes expenses incurred on assets acquired, brokers' commission, transfer and exchange fees, online trading fees, referral and service fees, contractual services, membership fees and dues, advertising and publicity, insurance and other expenses. This account decreased by 29.6% or ₱91.7 million from ₱310.0 million to ₱218.3 million mainly due to lower broker's commission, advertising and miscellaneous expenses incurred during the period.

- *Taxes and Licenses* totaled ₱102.0 million, 41.3% or ₱71.7 million lower than same period last year's ₱173.7 million mainly due to lower GRT and DST incurred this period.

- *Provision for Income Tax* includes regular, minimum and deferred corporate income taxes and final taxes on tax-paid investment securities. The decrease of 81.0% or ₱186.1 million from ₱229.8 million to ₱43.7 million was mainly due to the lower taxable final tax income and the recognition of deferred tax assets during the period.

DISCUSSION OF KEY PERFORMANCE INDICATORS

The following basic ratios measure the comparative financial performance of the Group for the period ended September 30, 2020 and 2019 as well as, for the year-ended December 31, 2019:

Performance Indicator	As of		
	September 30, 2020 (Unaudited)	September 30, 2019 (Unaudited)	December 31, 2019 (Audited)
a. Return on Average Assets	**0.95%**	1.81%	1.02%
b. Return on Average Equity	**2.20%**	5.48%	2.72%
c. Cost-to-Income Ratio	**121.22%**	75.39%	79.95%
d. Capital Adequacy Ratio	**48.12%**	43.34%	45.60%
e. Non-performing loans ratio	**-**	-	-

Detailed discussions on some of the key performance indicators of the Company are as follows:

- *Return on Assets*
  Return on Assets (ROA) or the ratio of annualized net income to average total assets, measures the return on money provided by both stockholders and creditors, as well as how efficiently all assets are managed. ROA decreased to 0.95% from 1.81% of same period last year, due to the effect of lower net income and average total assets.

- *Return on Equity*
  Return on Equity (ROE) or the ratio of annualized net income to average capital funds, measures the return on capital provided by the stockholders. ROE decreased to 2.20% from 5.48% of same period last year, due to the effect of lower net income and average capital.

- *Cost-to-Income Ratio*
  This represents the ratio of total operating expenses (excluding provisions for credit and impairment losses and income tax) to total operating income (excluding share in net income of associates and recovery from impairment and credit losses). It increases to 121.22% from 75.39% primarily on account of lower operating income.

- *Capital Adequacy Ratio*
  This represents the ratio of net qualifying capital over the risk-weighted assets. It rose from 43.34% to 48.12% mainly due to lower risk-weighted assets.

COMMITMENTS, MATERIAL EVENTS AND UNCERTAINTIES

1. To date, the Group has no plans of entering into any material commitments for capital expenditures in the future.

2. To the knowledge and information of the Group, there are no events or uncertainties that will have a material impact on the Group's liquidity.

3. There are no known events that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation.

4. Also, there were no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Group with unconsolidated entities or other persons created during the reporting period.

5. Likewise, there are no known trends, events or uncertainties that have had or that are reasonably expected to cause a material favorable or unfavorable impact on income from continuing operations.

6. Similarly, there were no significant elements of income or loss that did not arise from the Group's continuing operations.

7. Lastly, there were no seasonal aspects that had any material effect on the financial condition or results of operations of the Group.

FIRST METRO INVESTMENT CORPORATION AND SUBSIDIARIES
FINANCIAL SOUNDNESS INDICATORS

Performance Indicator	Formula	As of September 30	
		2020	2019
a. Current/Liquidity Ratio	Total Current Assets / Total Current Liabilities	**115.00%**	120.87%
b. Solvency Ratio	Total Liabilities / Total Assets	**55.04%**	57.78%
c. Debt to Equity Ratio	Total Liabilities / Total Equity	**123.21%**	137.72%
d. Asset to Equity Ratio	Total Assets / Total Equity	**223.86%**	238.33%
e. Interest Rate Coverage Ratio	Income before Interest Expense and Tax / Interest Expense	**(148.37%)**	156.03%
f. Return on Equity	Net Income after Tax / Average Capital	**2.20%**	5.48%
g. Return on Assets	Net Income after Tax / Average Total Assets	**0.95%**	1.81%
h. Net Profit Margin Ratio	Net Income / Net Interest Income and Operating Income	**(26.14%)**	48.08%
i. Capital Adequacy Ratio	Net Qualifying Capital / Total Risk Weighted Assets	**48.12%**	43.34%
j. Common Equity Tier (CET) 1 Ratio	CET 1 Capital / Total Risk Weighted Assets	**47.46%**	42.75%
k. Leverage Ratio	Capital Measure / Exposure Measure	**22.33%**	19.43%
l. Liquidity Coverage Ratio	Total Stocks of High-Quality Liquid Assets / Total Net Cash Outflows	**203.52%**	128.98%
m. Net Stable Finding Ratio	Available Stable Funding / Required Stable Funding	**118.32%**	103.13%

A. Financial Assets

Name of issuing entity	Number of Shares/Principal amount of bonds/notes	Amount shown in the statement of financial position	Valued based in market quotation at end of reporting period	Income/(Loss) received and accrued
Loans and Receivables:				
Loans and Discount:				
Panay Energy Dev't. Corp	₱362,704,355	₱362,704,355		
Other loans	8,681,781	8,681,781		
Other borrowers of subsidiaries	93,000,000	93,000,000		
	464,386,136	464,386,136	₱489,001,979	
Unquoted Commercial Papers				
Manila Water Company, Inc.	477,500,000	477,500,000	488,126,384	
Other Receivables	767,987,568	767,987,568	735,854,375	
	1,709,873,704	1,709,873,704	1,712,982,738	
Allowance for Credit Losses	(59,333,346)	(59,333,346)		
	1,650,540,358	1,650,540,358	1,712,982,738	₱64,598,474
Financial Assets at FVTPL:				
Government Securities	3,867,891,727	4,054,905,147		
Private Debt Securities	644,818,500	655,935,216		
Equity Securities	138,280,549	5,209,599,499		
	4,650,990,776	9,920,439,862	9,920,439,862	(146,131,279)
FVOCI:				
Government Securities	1,003,739,950	1,001,641,022		
Private Debt Securities				
Ayala Land, Inc.	4,500,000	4,481,506		
SM Investment Corp.	30,000,000	31,772,526		
Equity Securities				
Axelum Resources Corp.	179,685,700	495,932,532		
The Philippine Stock Exchange, Inc.	2,806,521	440,623,797		
Manila Electric Power Corp.	19,000	5,149,000		
Other issuers	688,577	111,919,820		
	1,221,439,748	2,091,520,202	2,091,520,202	65,658,168
Amortized Cost:				
Government securities	₱476,750,500	₱496,949,923		
Private Debt Securities				
Aboitiz Equity Ventures, Inc.	25,000,000	25,009,585		
Aboitiz Power Corporation	89,400,000	89,400,000		
Ayala Land, Inc.	51,029,000	51,003,884		
Bank of the Philippine Islands	30,000,000	30,000,000		
China Banking Corporation	35,000,000	35,000,000		
GT Capital Holdings, Inc.	9,000,000	8,864,040		

Petron Corporation	140,000,000	140,000,000		
Robinsons Bank Corporation	15,400,000	15,400,000		
Robinsons Land Corporation	200,000,000	200,000,000		
San Miguel Brewery, Inc.	61,000,000	62,126,053		
San Miguel Food and Beverages, Inc.	150,000,000	150,000,000		
SM Investments Corporation	45,700,000	47,161,065		
Security Bank Corporation	40,000,000	40,000,000		
	1,368,279,500	1,390,914,550	₱1,393,820,301	₱33,867,045
	₱8,891,250,382	₱15,053,414,972	₱15,118,763,103	₱17,992,408

Financial assets at FVTPL and FVOCI investments are measured in the statement of financial position at fair value.

Loans and receivables and Amortized cost are measured in the statement of financial position at amortized cost using the effective interest rate (EIR) method, less allowance for credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR.

B. Amounts Receivable from Directors, Officers, Employees, Related Parties, and Principal Stockholders (Other than Related parties) in the ordinary course of business

Name of and designation of debtor	Balance at beginning of period	Additions	Amounts collected	Amounts written-off	Current	Noncurrent	Balance at end of period
Officers and staff	₱12,921,463	₱2,316,528	(₱6,556,210)	(₱–)	₱846,645	₱7,835,136	**₱8,681,781**

C. Amounts of Receivable/Payable from Related Parties which are Eliminated during the Consolidation of Financial Statements

Name of debtor	Relationship	Balance at beginning of period	Additions	Amounts Collected	Amounts written-off	Current	Noncurrent	Balance at end of period
FAMI	Subsidiary	₱2,451,183	₱14,767,776	(₱15,219,106)	₱–	₱1,999,850	₱–	**₱1,999,850**
FEI	Subsidiary	1,772	19,409	(18,264)	–	2,917	–	**2,917**
FMIBC	Subsidiary	–	3,625	(708)	–	2,917	–	**2,917**
FMSBC	Subsidiary	651,490	307,886,043	(308,537,534)	–	–	–	–
PBC	Subsidiary	2,114,922	5,724,207	(7,630,796)	–	208,333	–	**208,333**
PVDC	Subsidiary	1,770	27,650	(26,503)	–	2,917	–	**2,917**
RI	Subsidiary	1,770	35,196	(34,049)	–	2,917	–	**2,917**
SBC	Subsidiary	21,250	59,285	(45,535)	–	35,000	–	**35,000**
SALEF	Subsidiary	6,522,526	48,742,173	(50,015,920)	–	5,248,779	–	**5,248,779**
SALBF	Subsidiary	2,501,402	19,961,785	(20,378,650)	–	2,084,537	–	**2,084,537**
SALFIF	Subsidiary	2,376,651	21,883,502	(21,589,982)	–	2,670,172	–	**2,670,172**
FMAFEF	Subsidiary	2,333	3,510	(5,843)	–	–	–	**–**
SALDBF	Subsidiary	384,631	5,368,907	(3,924,404)	–	1,829,133	–	**1,829,133**
FMPEETF	Subsidiary	683,491	5,497,303	(4,910,422)	–	1,270,373	–	**1,270,373**
		₱17,715,191	₱429,980,371	(₱432,337,716)	₱–	₱15,357,845	₱–	**₱15,357,845**

D. Long Term Debt

As of September 30, 2020, First Metro had no long-term debt.

E. Indebtedness to Related Parties (Long Term Loans from Related Companies)

As of September 30, 2020, First Metro had no long-term debt to related parties.

F. Guarantees of Securities of Other Issuers

As of September 30, 2020, First Metro had no outstanding guarantees of securities of other issuers.

G. Capital Stock

	Common Stock
Authorized number of shares	800,000,000
Number of shares issued and outstanding as shown under the related statement of financial position caption	372,467,216*
Number of shares reserve for options, warrants, conversion and other rights	–
Number of shares held by affiliates	369,736,960
Number of shares held by directors, officers and employees	1,910

* *Net of 48,402,024 Treasury Shares as of September 30, 2020*

FIRST METRO INVESTMENT CORPORATION AND SUBSIDIARIES

AGING OF ACCOUNTS RECEIVABLE

No. of Days Outstanding	As of September 30, 2020
01-90	₱651,894,537
91-180	9,602,051
181-360	1,007,757
Over 360	32,732,387
Total	₱695,236,732

SIGNATURES

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

FIRST METRO INVESTMENT CORPORATION
Issuer

By:

JOSE PATRICIO A. DUMLAO	MARICEL L. MADRID
President	FVP/Controller

November 11, 2020
Date