Synergy. Collaboration. Opportunities.

2019
ANNUAL
REPORT

Metrobank Card


Metrobank Card

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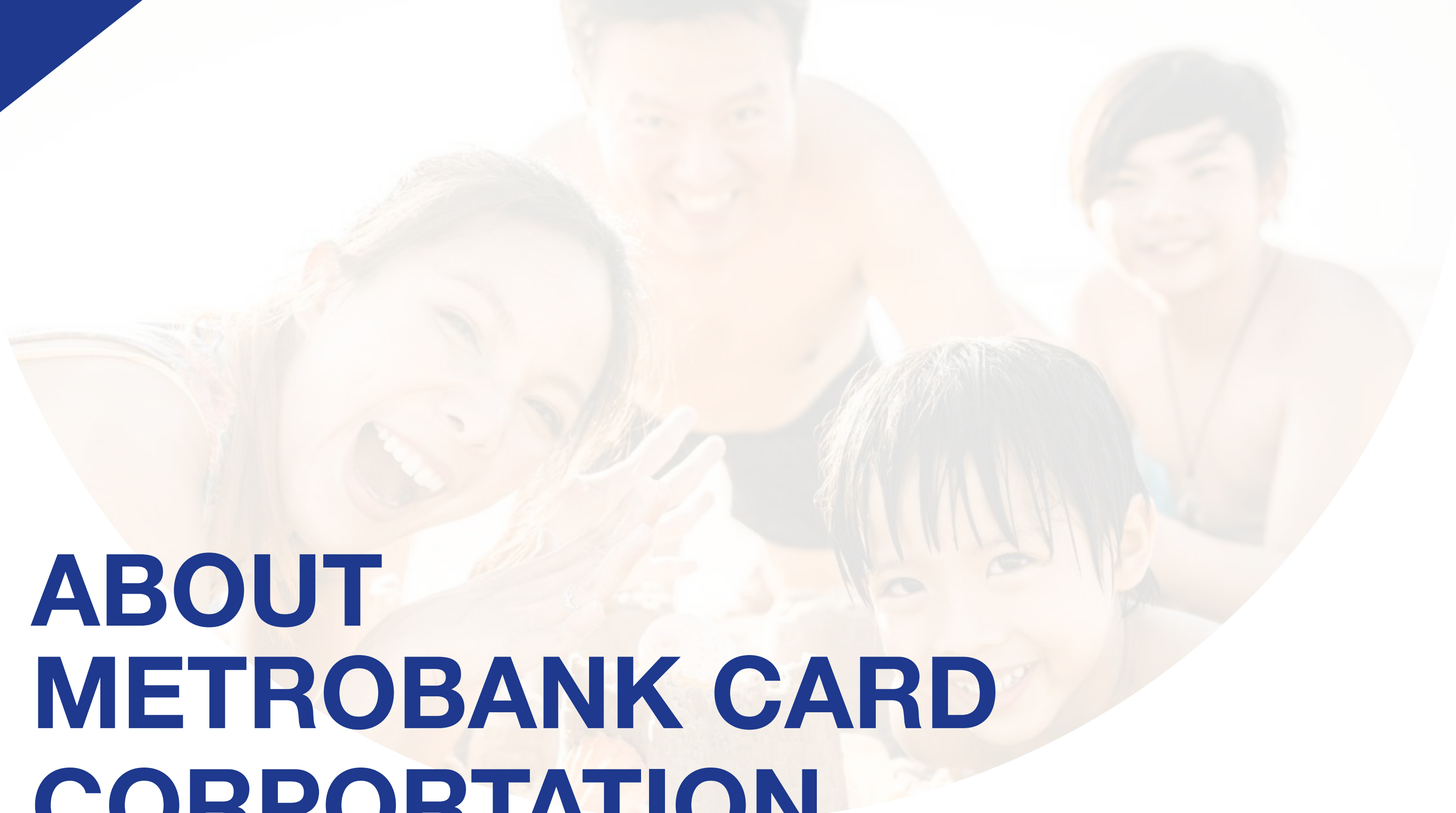


ABOUT METROBANK CARD CORPORATION

Metrobank Card Corporation (A Finance Company and General Insurance Agency) [MCC] was established in August 1985, known then as Unibancard Corporation. Its maiden product was called Unicard, a single currency credit card accepted in key establishments in the Philippines. Over the years, Unicard evolved from a locally accepted card to an internationally recognized credit card when it rode on the Mastercard scheme in 1994 and the Visa scheme in 1998.

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

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

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

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

In March 2019, the respective Board of Directors and stockholders of MCC and Metrobank approved and ratified the merger between MCC and Metrobank, which was set for the following year.

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

VISION

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

MISSION

We pledge to:

•*Be the primary payment solutions provider* to our customers by delivering superior key indicators:

- •a dominant market share in the middle-to high-end segment;
- •the best bottom line achievement (Net Profit After Tax and Efficiency Ratio);
- •a high level of client engagement and customer satisfaction, resulting in superior, relevant products with innovative benefits, convenient access, and unparalleled customer service;

•*Create a conducive working environment* for our people by being the employer of choice, a home for first-class talent, and a preferred place to work;

•*Be a good corporate citizen* by taking part in community development in every place we do business;

•*Achieve and sustain the most profitable performance* for our shareholders.

VALUES

MCC employees live the TEAM MCC & I values:

•*TEAMwork.* We work together to accomplish common goals. We are quick to offer assistance and support each other to succeed.

•*Making a Difference.* We uphold and extend the Bayanihan spirit by caring about our co-workers and the company, and by bringing value to our work each day.

•*Continuous Improvement.* We continue to seek new ways to improve our products, services, and processes, while maintaining a strong work-life balance.

•*Customer Focus.* We provide superior service at every point of contact and exceed customers' expectations, as we strive for meaningful and enduring relationships.

•*Integrity.* We conduct ourselves with the highest level of professionalism in the presence of colleagues, clients, and business partners. We base our decisions on merit and value, and avoid conflicts of interest.

MODEL

Our business model rests on the four pillars:

•*Sustainable Revenue and Profit Growth,* which is driven by customer acquisition and cross-selling across the Metrobank Group, tempered by prudent risk management;

•*High Customer Satisfaction,* which is driven by our excellent, unparalleled customer service;

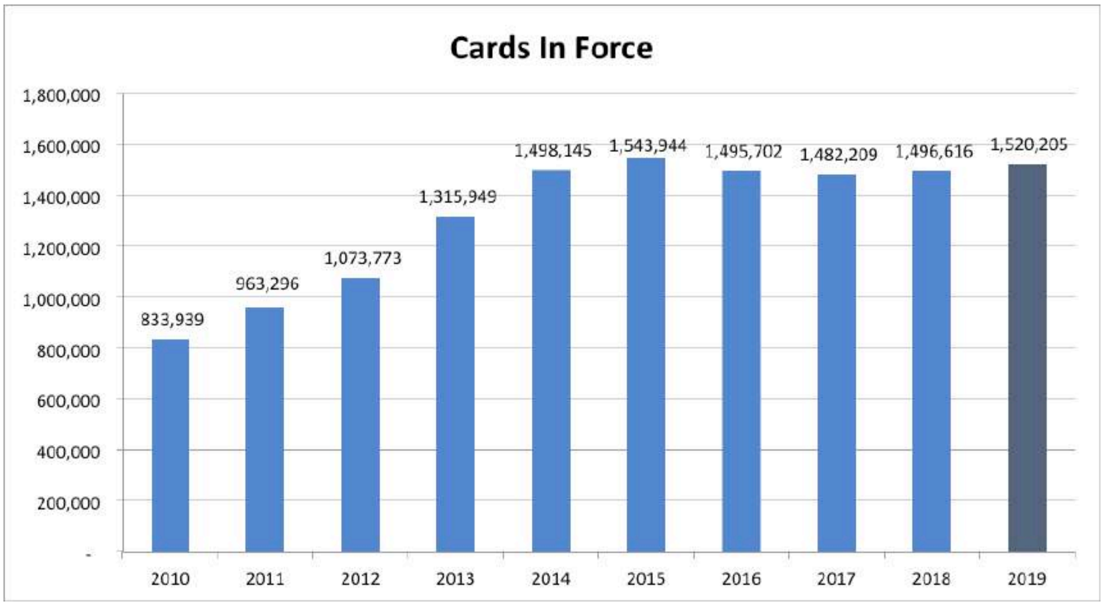
•*Staying Ahead,* which is driven by our continuous digitalization;

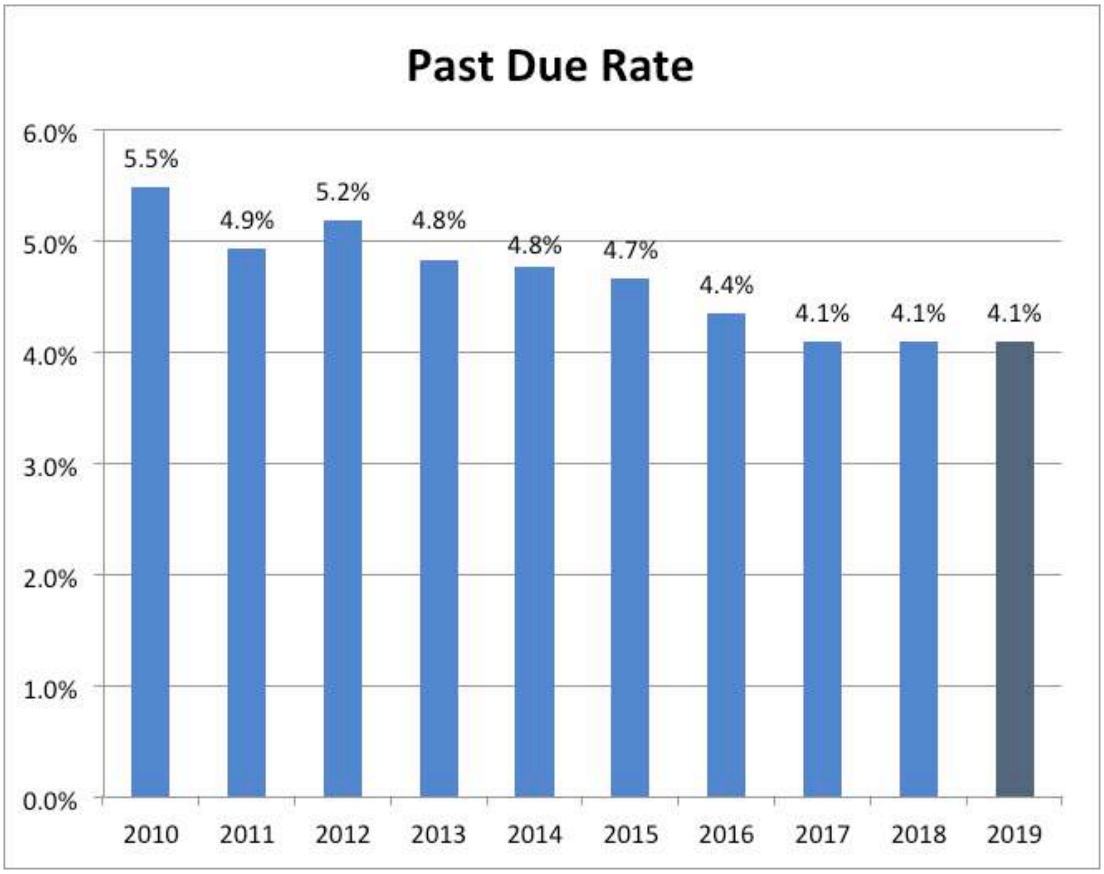
•*Being an Employer of Choice,* which is supported by our people-focused agenda and high employee engagement.

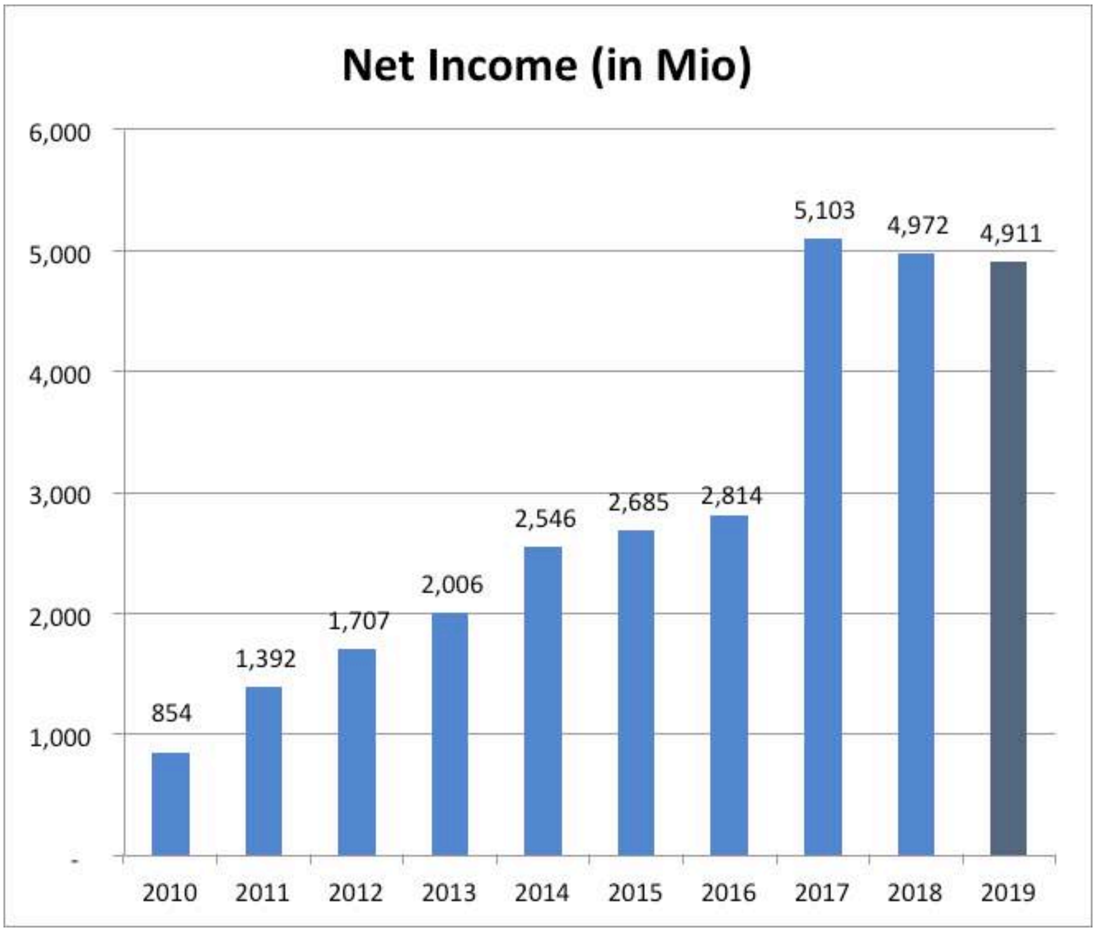
DISTINCTION

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

FINANCIAL HIGHLIGHTS






Net Income (in Mio)
6,000
5,000
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2,000
1,000
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2,546
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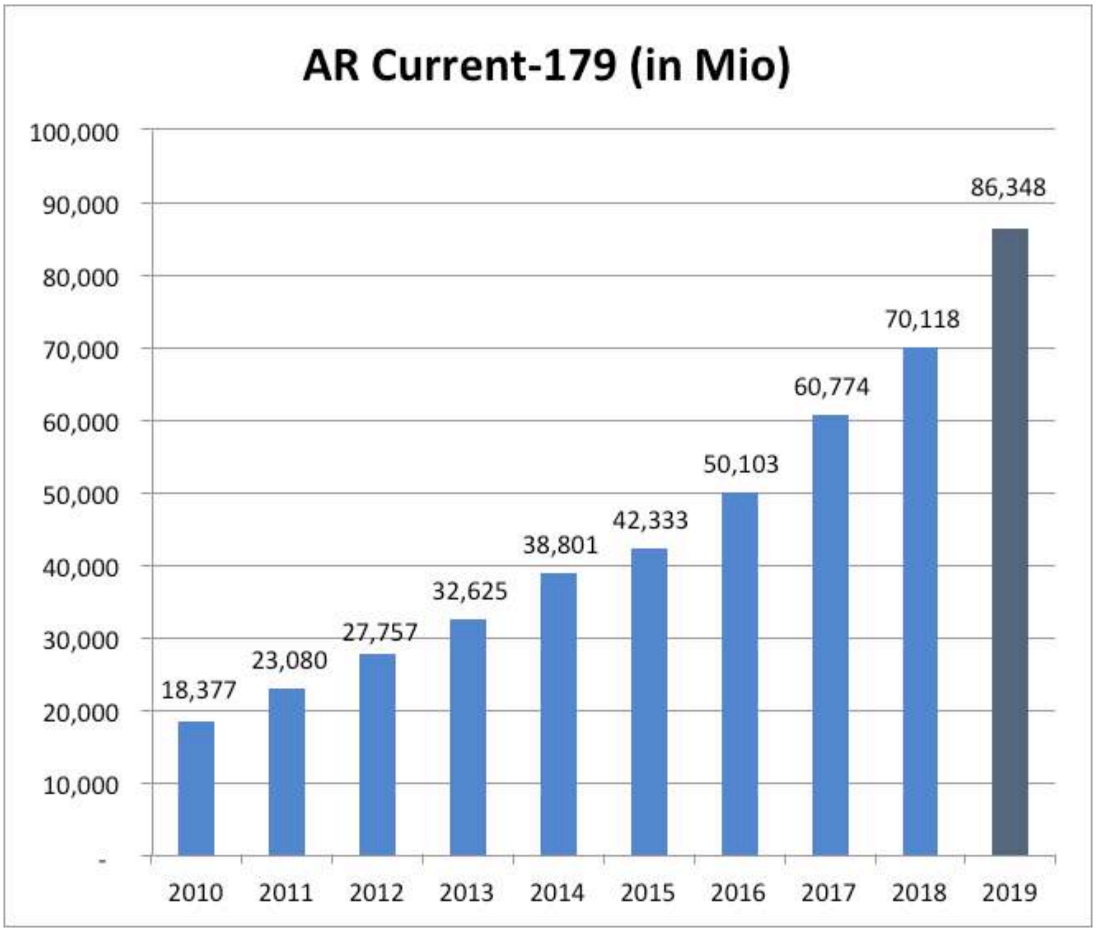
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18,377
23,080
27,757
32,625
38,801
42,333
50,103
60,774
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86,348
2010
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2013
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2015
2016
2017
2018
2019

MESSAGE FROM THE CHAIRMAN

To our dear stakeholders,

Improvement and innovation have been the theme for Metrobank Card Corporation (MCC) in 2019, and it gives me great pride to report that we have turned the tide and came out bigger and stronger.

The vision we had for years had started to come to fruition, and now we will begin to reap the benefits we have been looking forward to. We welcomed the year with MCC finally becoming an entity fully and proudly owned by Metrobank, unifying the brands into a more powerful and formidable structure, and marking one of the most significant milestones for both corporations.

This dynamic synergy has pushed MCC further in the industry by aligning with Metrobank's growth strategy, and has likewise allowed Metrobank to utilize the vital strengths of MCC. This new accord helped maximize the operational efficiencies of both parties, further expanding on opportunities for collaboration while remaining fully committed to delivering superior products and services to existing and new customers.

As the year ends, we round it up with a remarkable and highly anticipated union, a prosperous transformation, and an enhanced quality of service. I am proud to impart our achievements in 2019 with all of you, and I am hopeful for another year of successful accomplishments marked by a strengthened commitment as one Metrobank in 2020.

Mabuhay!

FABIAN S. DEE
CHAIRMAN OF THE BOARD

PRESIDENT'S REPORT

I am pleased to report another strong year for Metrobank Card Corporation (MCC)—new business innovations and flourishing expansion have led to excellent financial results for the year 2019.

In 2019, MCC posted a P4.91 billion Net Profit After Tax (NPAT) with an annualized Return on Equity (ROE) of 28.6%. MCC's cards-in-force ended at 1,520,205 which yielded an 17% growth in billings and 23% growth in receivables. MCC's total assets grew by 13.29% to P94 billion, with a Return on Assets (ROA) of 5.6%.

This year, MCC also sustained its leadership position in terms of total number of Cards in Force (CIF), Merchant Acquiring Billings, and Receivables – proof that our commitment to customer service excellence has resulted in continued business growth.

MAXIMIZED BUSINESS SYNERGIES AND INNOVATIONS

In the early part of 2019, the Board of Metropolitan Bank and Trust Company (Metrobank) approved the proposal to merge MCC into the Parent Bank, Metrobank. Nevertheless, MCC continued to innovate to keep up with the evolving needs of its customers.

MCC launched Metrobank Interactive Assist (MIA) in

September 2019. It is Metrobank Card's new facility that allows users to easily apply for a credit card through Facebook Messenger. MIA is also being developed to accommodate more features on credit card services.

In October, MCC launched the all-new Metrobank Vantage Card, the Metrobank Titanium Mastercard, and the Metrobank Rewards Plus Visa. During the same month, MCC also launched the new NCCC Mastercard at the NCCC Mall Buhangin in Davao City together with representatives from NCCC and GHL Systems Philippines, Inc., which is NCCC's acquiring partner.

As for prepaid cards, MCC expanded its partnerships with four new White Label Prepaid Cards. MCC partnered with Ardeur World Marketing Corporation, JAC Liner, WeEvolve, and KNM Uniprint Corp. MCC also enhanced its Merchant Acquiring facilities through Dynamic Currency Conversion, Mastercard Payment Gateway Services, and MCC Online Installment.

ESTABLISHED AWARD -WINNING ACHIEVEMENTS

MCC proudly won both local and regional awards in 2019 for its successful initiatives.

First, MCC was awarded the People Program of the Year - NCR (Private Sector) by the People Management Association of the Philippines (PMAP) for its Employee Engagement Champion (E-Champ) Model during the 646th PMAP General Membership Meeting on May 29, 2019 at Dusit Thani Hotel Makati.

Additionally, at the 5th Customer Experience Asia Excellence Awards on September 24, 2019 at Marina Bay Sands Hotel, Singapore, MCC was awarded the Bronze Award for "Best Brand Experience" for the re-launch of its premium credit card, Metrobank World Mastercard, from the previous year.

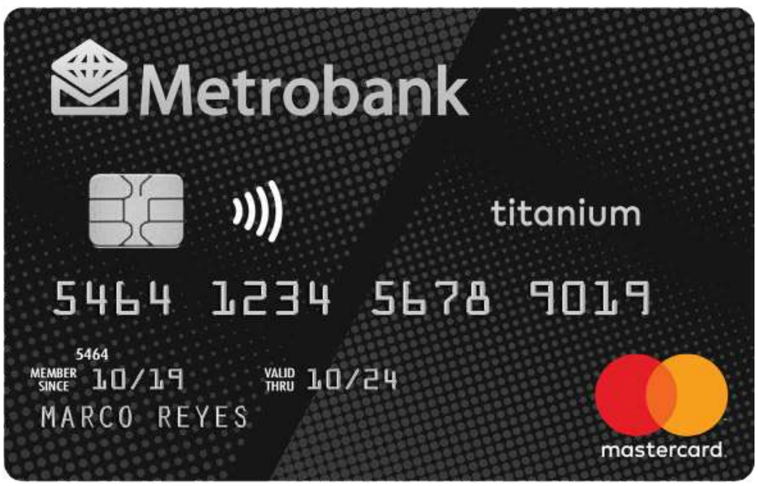
Finally, the Digital Banker awarded MCC at the 2nd Annual Global Retail Banking Innovation Awards 2019 on September 26, 2019 at the Carlton Hotel Singapore with two accolades. MCC was recognized as the Winner for "Best Social Media Marketing Initiative" for its well-received Social Media Influencers Campaign of Co-Branded Cards, and as the Highly Acclaimed for "Outstanding Digital Marketing Initiative" for its annual and customer-desired McDonald's National Usage Program.

METROBANK CREDIT CARDS IN GOOD HANDS

2019 was a year full of accomplishments and welcome changes for MCC. As we look back and share our history and achievements, we also look forward to continuing our business ventures as we merge with Metrobank in 2020.

Ramon Jaime L.V. Del Rosario
President

OUR PRODUCTS AND SERVICES



Our products and services always place the customer at the center of business. By delivering our services with a superior quality at every point of contact, we aim to set the standard for customer and partner satisfaction, while constantly seeking to nurture and deepen our relationships.

CREDIT CARDS

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

METROBANK VANTAGE CARD

Turn your Vantage into real advantage. The Metrobank Vantage Mastercard or Metrobank Vantage Visa provides you with all the perks, pleasures and privileges of the metro.

METROBANK FEMME VISA

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

METROBANK REWARDS PLUS VISA

The most rewarding feeling you can get in a credit card. The Metrobank Rewards Plus Visa gives you greater rewards on gadgets and electronics, telecommunications and transportation, and online spend.

METROBANK REWARDS PLUS VISA

Find yourself in your element. The Metrobank Titanium Mastercard incorporates retail essentials by rewarding you with 2X Rewards Points on dining, department store, and online spend.

M FREE MASTERCARD

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

M LITE MASTERCARD

The M Lite Mastercard is a low interest rate (2.49%) credit card loaded with built-in card features and privileges.

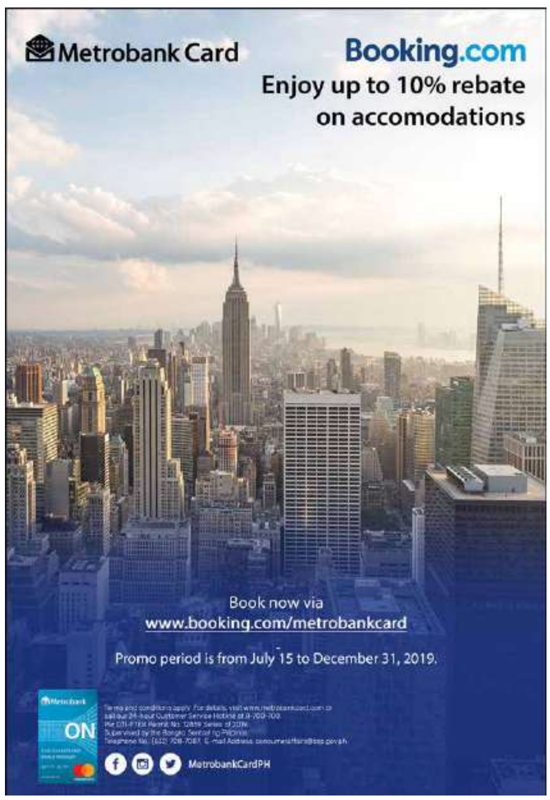
METROBANK ON INTERNET MASTERCARD

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


MY SWIPE MY TREAT
We're back to give you so much more!
Get instant treats with every spend* using your Metrobank Card.
*P2,000 retail spend gives you free McDonald's treats.
*P3,000 retail or merchant installment purchase gives you a choice of free McDonald's treats or a P100 value gift from:
Jamba Juice
SM GIFT PASS
National
PANCAKE HOUSE
Teriyaki BOY
Promo period is from June 10 to August 31, 2019.
MetrobankCardPH
Metrobank Card


Metrobank Card
ZALORA
WWW.ZALORA.COM.PH
20% OFF at Zalora
Use Code: NEWMCC to get 20% OFF on your purchase with a minimum spend of P2,000.
Promo period is until January 31, 2020.
MetrobankCardPH


Metrobank Card
Tim Hortons
CANADIAN COFFEE HOUSE
FREE beverage upsize and 10-piece Timbits
For a minimum single receipt purchase of P500.
Valid in all Tim Hortons branches except NAIA Terminal 3.
Promo period is from December 5, 2019 to February 29, 2020.
APPLY NOW!
Look for @MiaofMetrobankCard on Messenger, visit bit.ly/MCCreditApply or scan the QR Code


Metrobank Card
Booking.com
Enjoy up to 10% rebate on accomodations
Book now via www.booking.com/metrobankcard
Promo period is from July 15 to December 31, 2019.
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Metrobank Card
beepbeep.ph
Up to 20% OFF on
BEEPBEEP.ph services
20% discount on Maintenance Valet and Direct to Home services.
10% discount on Driver on demand service.
Promo period is from July 15 to October 15, 2019.
MetrobankCardPH

翠園
JADE GARDEN
50% OFF at Jade Garden
Enjoy premium dining at half the price. Only with your
Metrobank Peso Platinum Mastercard or Metrobank World Mastercard.
Promo period is from April 8 to May 31, 2019.
Available from Monday to Friday (11:30am to 2:00pm and 6:00pm to 10:00pm) except all special and legal holidays. Minimum required spend of P5,000 on total food bill. Cardholders are entitled to a maximum discount of P5,000 for single-receipt dine-in transaction. Jade Garden is located at Glorietta 2, Palm Drive cor. West Drive, Ayala Center, Makati City. For reservations, call 843-1361 or 955-1808.
Metrobank
Metrobank
For inquiries, please call our 24 hour Customer Service Hotline at 8-700-707 or visit www.metrobankcard.com
Per DTI-FTEB Permit No. 5161, Series of 2019. Terms and conditions apply.
Supervised by the Bangko Sentral ng Pilipinas
Telephone number: (632)708-7087 - E-mail Address: consumeraffairs@bsp.gov.ph.
MetrobankCardPH
Metrobank Card

CLUB WYNDHAM ASIA
WYNDHAM
Exclusive 4-days, 3-nights packages at
Wyndham Dreamland Resort Bali!
Only with your Metrobank Peso Platinum Mastercard, Metrobank World Mastercard,
Metrobank Femme Signature Visa or Metrobank Travel Platinum Visa.
Booking period is from April 1 to June 30, 2019.
Stay Period is from April 1 to September 30, 2019.
For reservations, call 1-800-1320-0136 or (632) 231-3524.
Don't have a Metrobank Card?
Visit bit.ly/MCCreditApply.
Per DTI-FTEB Permit No. xxxx, Series of 2019.
Supervised by the Bangko Sentral ng Pilipinas - Telephone number: (632)708-7087
E-mail Address: consumeraffairs@bsp.gov.ph.
MetrobankCardPH
Metrobank Card

Two Seasons
50% OFF at Two Seasons Hotels and Resort
Only with your Metrobank Travel Platinum Visa or
Metrobank Femme Signature Visa.
Booking period is from April 1 to June 30, 2019 and stay period for
Two Seasons Boracay is from June 1 to November 30, 2019,
for Two Seasons Coron Bayside and Coron Island is from April 1 to November 30, 2019.
Extra adult and extra child rates are excluded from the promo.
For reservations, call Two Seasons at 410-2075 to 80.
Terms and conditions apply. Per DTI-FTEB Permit No. 5769, Series of 2019.
For details, visit www.metrobankcard.com or
call our 24-hour Customer Service Hotline at 8-700-707.
Supervised by the Bangko Sentral ng Pilipinas.
Telephone number: (632)708-7087
E-mail Address: consumeraffairs@bsp.gov.ph
Metrobank Card

METROBANK WORLD MASTERCARD

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

METROBANK DOLLAR MASTERCARD

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

METROBANK PESO PLATINUM MASTERCARD

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

METROBANK TRAVEL PLATINUM VISA

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

METROBANK FEMME SIGNATURE VISA

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

TOYOTA MASTERCARD

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

PSBANK CREDIT MASTERCARD

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

NCCC MASTERCARD

The NCCC Mastercard was launched through a partnership with Metrobank and Davao's homegrown retail and shopping mall operator, New City Commercial Center (NCCC) to provide its customers more convenient payment options. With worldwide acceptance, the card can be used at NCCC-affiliated stores, at partner merchants of Metrobank, in online booking or bills payment, and at all local and global Mastercard-affiliated stores.

PROGRAMS AND FACILITIES

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

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

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

E-COMMERCE
E-commerce offers perks, privileges, and discounts to Metrobank credit cardholders at local and international E-commerce merchants.

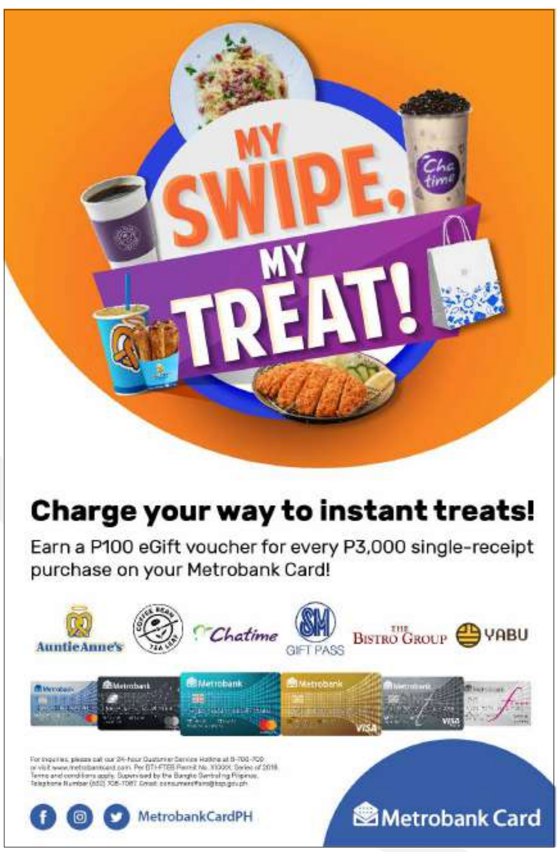
0% INSTALLMENT
The 0% Installment allows financial flexibility with no added cost. It offers cardholders the opportunity to purchase products on installment up to 24 months with no additional interest.

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

OVERSEAS AND ONLINE SPEND
Overseas and Online Spend incentivize Metrobank credit cardholders who reach a minimum accumulated spend.


ELECTROWORLD
FREE
LG
LK72B Speaker
For a minimum single-receipt purchase of P50,000
FREE
JBL
T110 In-Ear Earphones
For a minimum single-receipt purchase of P25,000
Back-to-School
Exclusives
June 15 to August 15, 2019
0%
INSTALLMENT
Get a free LG Speaker or a JBL In-Ear Earphones using your Metrobank Card!
Promo period is from June 15 to August 15, 2019.
Valid in all Electroworld full stores nationwide.
MetrobankCardPH
Metrobank Card


Metrobank Card
H&M
Get up to P5,000
H&M Gift Pass
SCAN TO APPLY NOW
Stand out in style
APPLY NOW! visit bit.ly/MCCreditApply
Promo period is from September 15 to October 22, 2019.
Promo period is extended until November 30, 2019.
MetrobankCardPH


MY
SWIPE,
MY
TREAT!
Charge your way to instant treats!
Earn a P100 eGift voucher for every P3,000 single-receipt purchase on your Metrobank Card!
Auntie Anne's
Chatime
SM GIFT PASS
The Bistro Group
YABU
MetrobankCardPH
Metrobank Card


SAMSUNG
S10
0%
INSTALLMENT
Be one of the first to own the new Samsung Galaxy S10!
Pre-order now at www.samsung.com/ph/s10preorder/ and get yours for as low as P1,666.25 for 24 months using your Metrobank Card.
Available in all accredited Samsung Experience Stores and select Abenson Stores.
Promo period is from February 22 to March 3, 2019.
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Metrobank Card
Give love this
holiday season...
... and the gift they've always wanted.
It's possible with Cash2Go's lowest rate of 0.99%
per month and longest payment terms of up to
60 months*.
Cash
2Go
Avail now via bit.ly/Cash2Go
* Also applicable to 12, 18, 24, 36, and 48 months
installment terms. Valid until December 31, 2019.
For inquiries, please call our 24-hour Customer
Service Hotline at 88-700-700 or visit
www.metrobankcard.com.
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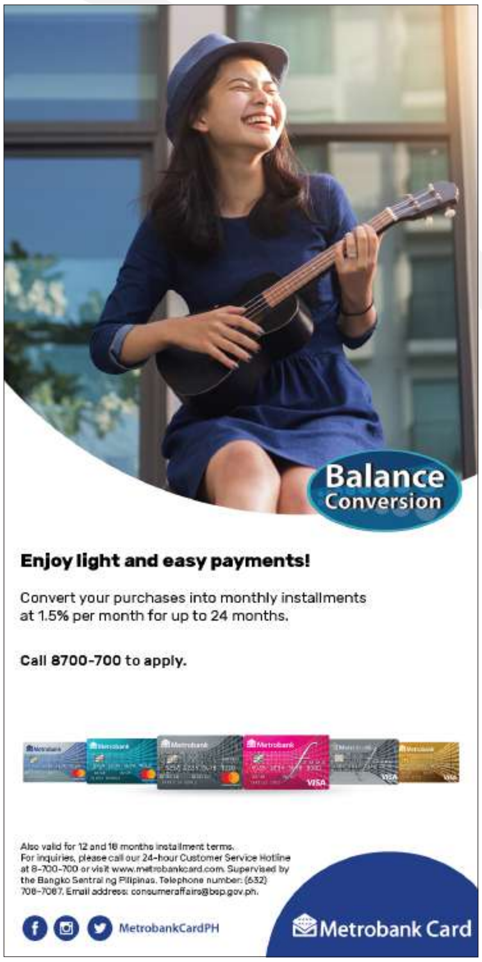
Balance
Conversion
Enjoy light and easy payments!
Convert your purchases into monthly installments
at 1.5% per month for up to 24 months.
Call 8700-700 to apply.
Also valid for 12 and 18 months installment terms.
For inquiries, please call our 24-hour Customer Service Hotline
at 8-700-700 or visit www.metrobankcard.com. Supervised by
the Bangko Sentral ng Pilipinas. Telephone number: (632)
708-7087. Email address: consumeraffairs@bsp.gov.ph.
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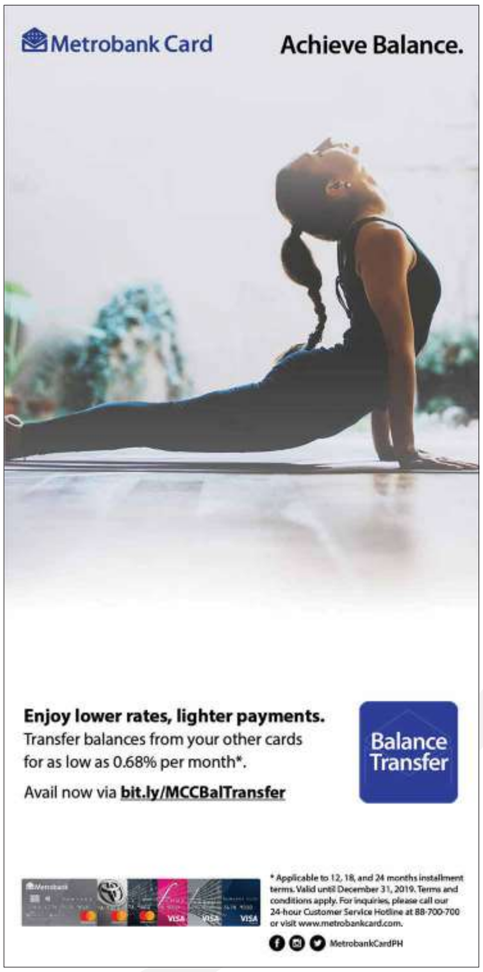
Metrobank Card
Achieve Balance.
Enjoy lower rates, lighter payments.
Transfer balances from your other cards
for as low as 0.68% per month*.
Avail now via bit.ly/MCCBalTransfer
Balance
Transfer
* Applicable to 12, 18, and 24 months installment
terms. Valid until December 31, 2019. Terms and
conditions apply. For inquiries, please call our
24-hour Customer Service Hotline at 88-700-700
or visit www.metrobankcard.com.
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CASH2GO

Cash2Go allows cardholders to convert their unused credit limit to cash and pay in installments at low interest rates per month in 3 to 60-month terms.

BALANCE TRANSFER

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

BALANCE CONVERSION

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

BILLS2PAY

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

M ONLINE

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

METROBANK CARD MOBILE APP

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

MERCHANT ACQUIRING

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

POINT-OF-SALE (POS) TERMINALS

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

• ***EMV (EUROPAY, MASTERCARD, AND VISA) CERTIFIED AND CONTACTLESS.***
Metrobank Card's POS terminals are equipped with compliant EMV chip card readers for additional fraud and charge back protection. The POS terminal's secure contactless payment capability enhances overall customer experience for everyday purchases.

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

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

•***MOBILE POINT-OF-SALE SOLUTION.***
It is a secure, low-cost and industry-compliant payment platform that provides a protected, cashless environment for merchants and customers. It cuts across the different market segments—from small and traditional retail, to corporate wholesale.

•***ANDROID POS TERMINAL.***
Compact and mobile tablet payment device powered by the Android operating platform. A wide range of advanced connectivity options are supported and comes with a large high definition tablet color display to maximize screen usage for customer facing transactions.

•***LOYALTY CARD AND GIFT CARD ACCEPTANCE.***
Our terminals can support merchant loyalty programs such as points earning, redemption and inquiry.

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

•ECR (ELECTRONIC CASH REGISTER) INTEGRATION.
End-to-end integration from merchant ECR machines to Metrobank Card POS terminals.

•DYNAMIC CURRENCY CONVERSION (DCC).
A value added service that offers international cardholders the option to pay for their purchases in local currency (Php) or their home currency (card billing currency) at the point of sale. The DCC service is applicable on Mastercard and Visa transactions via Metrobank POS terminals.

•POS CASH OUT.
A new, extended point-of-sale service that allows peso withdrawal transactions using Metrobank's BancNet-certified POS terminals with cash dispensing done by the partner merchant.

INTERNET PAYMENT SOLUTION
The Internet Payment Solution facility enables Metrobank Card merchants to accept card payments for online transactions via the following payment solutions:

•MASTERCARD PAYMENT GATEWAY SERVICES.
Provides acquiring banks and partners with a white label technology product for payment processing and fraud prevention, enabling their merchant customers to easily and securely accept global digital payments.

•METROBANK ONLINE INSTALLMENT.
Allows e-commerce merchants to offer Metrobank cardholders flexible payment options. By making online installment available to its merchants, Metrobank can help increase sales conversion for high ticket items, encourage customer loyalty, and promote Metrobank card usage.

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

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

PREPAID CARDS

Metrobank Card Corporation offers reloadable Prepaid Cards that enable cashless payments in all accredited Visa merchants worldwide. With these cards, access to cash can be done via cash withdrawals in any BancNet ATMs in the Philippines and Visa accredited ATMs internationally. Buying prepaid cards and loading cash are easy and convenient in over 12,000 establishments nationwide.

GENERAL PURPOSE PREPAID CARD

YAZZ PREPAID VISA

The YAZZ Prepaid Visa lets you enjoy all the benefits and payment convenience of a credit card but faster and easier to get with its availability in major retail establishments like SM, Robinsons, National Bookstore, and Family Mart.

TRANSPORTATION PREPAID CARDS

VICTORY LINER PREMIERE **JAC LINER PREPAID VISA**

Victory Liner and JAC Liner cards enable booking online of tickets with their respective bus companies and offer exclusive perks to their frequent riders. To add value to their riders, these companies will be enabling the loyalty function offering points for every ticket booked using these cards.

LOYALTY PREPAID CARDS

AXA PREPAID VISA

UNIPRINT ELITE PREPAID VISA

More than just an affiliation badge, companies can use prepaid cards to disburse special incentives and bonuses that allow online, in-store purchases, and earn loyalty points in the future.

COMMISSIONS / DISBURSEMENTS PREPAID CARDS

NWORLD PREPAID VISA

ARDEUR BONUS PREPAID VISA

WE EVOLVE PREPAID VISA

PISOPAY PREPAID VISA

Not only as membership cards, these cards enable companies and organizations to disburse commissions and incentives to their members and marketing agents. Their members and marketing agents can use these cards in all Visa establishments internationally and withdraw cash via BancNet ATMs nationwide and Visa ATMs worldwide.

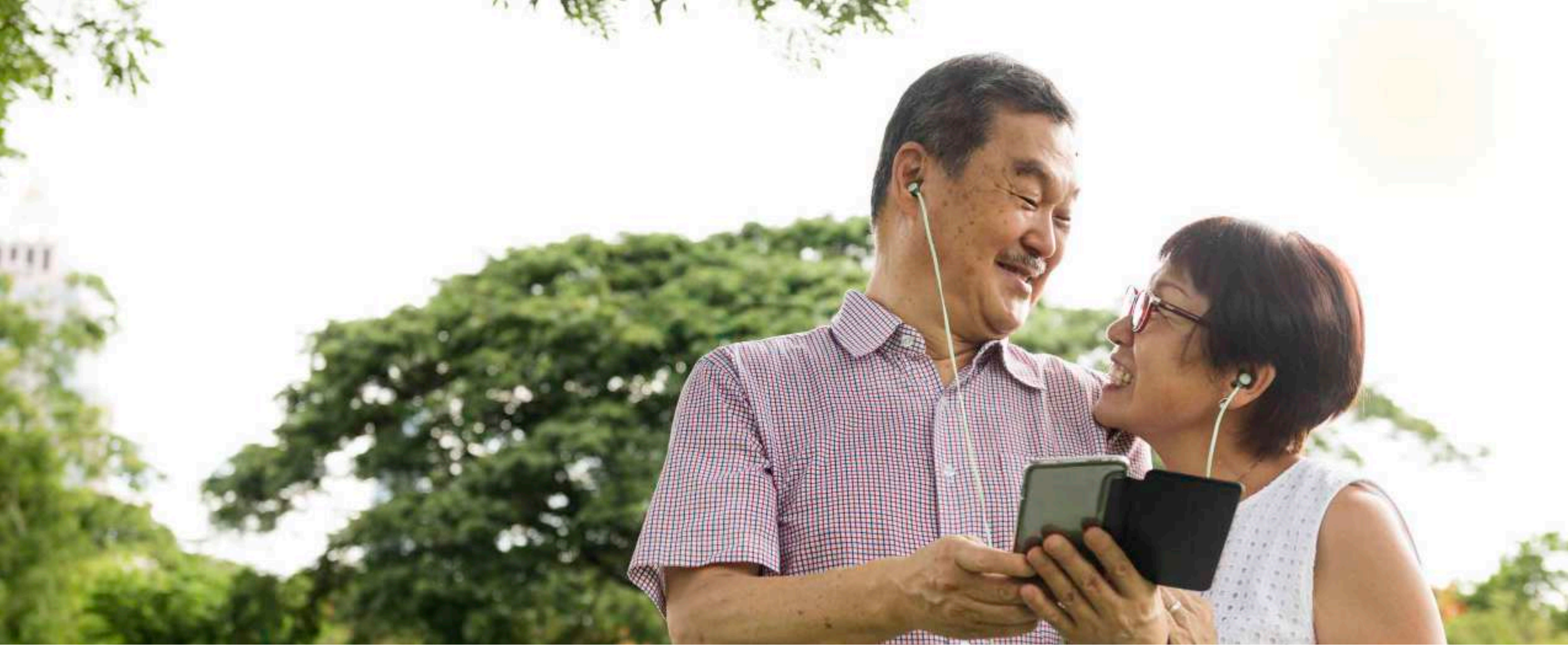

YAZZ Perks
Metrobank Card
Dine!
Get amazing discounts with your card!
Visit /yazzcardPH
15% OFF
total bill for a minimum purchase of P500.
BROTHERS BURGER
15% OFF
on any silog or home-cooked meal for a minimum single receipt purchase of P1,000
Rufo's
10% OFF
no minimum purchase required.
Mrs. Fields
15% OFF
on all items.
THE SAND WICH GUY
Metrobank Card
#YAZZYOUCAN


FREE
Midnight Dream Cake for a minimum spend of P1500
YAZZ
VISA
YAZZ Perks
BIGBY'S


₱500 OFF
on the best available rates at TRYP by Wyndham Mall of Asia - Manila
YAZZ
VISA
YAZZ Perks
TRYP
MALL OF ASIA MANILA


FREE
Diamond Peel for every Php 1,200 facial and up
YAZZ
VISA
YAZZ Perks
Bioessence


P1 PISO TRIP
WITH YOUR
VICTORY LINER PREMIERE
YAZZ
VISA
VICTORY LINER PREMIERE PREPAID VISA CARD
BOOK ONLINE!
www.victoryliner.com
Booking Period: July 17 to 21, 2019
(Booking schedule is from 12:00 MN to 1:00 AM only)
Travel Period: July 26 to 29, 2019
Promo Powered By
Metrobank Card
See flyers for details.
Per DTI-FTEB Permit No. XXXX Series of 2019
ASC No. XXXXXXXXXXXX
Fare is shouldered by Metrobank Card Corporation



INSURANCE

Having a license of being a General Insurance Agency, Metrobank Card Corporation offers AXA products for protection, health, education, retirement, investments and non-life insurance products to its cardholder base. Aside from having a secured future, cardholders also enjoy the convenience of paying the premium of their insurance products using a Metrobank Credit Card. All insurance products sold are by AXA Philippines Inc.

PROTECTION AND HEALTH

Protection and Health Insurance products allow policyholders to protect themselves and their family from financial worries caused by unexpected health issues.

CREDIT LIFE PLUS
MEDISHIELD PLUS
CREDIT PROTECT
HEALTH MAX
GLOBAL HEALTH ACCESS
FLEXI PROTECT

INVESTMENT & RETIREMENT

Investment & Retirement Insurance products allow policyholders to secure their future through secure investments and allow them to enjoy the retirement they planned for. These products provide: (a) Death Benefit and (b) Investment yield as measured by the fund's asset value at the time of redemption.

RETIRE SMART
ASSET MASTER
MY AMBITION
LIFE BASIX
AXELERATOR
ACADEMIX

LIFESTYLE

Lifestyle Insurance products allow policyholders to pursue and enjoy their passion without worrying on expenses they might incur due to unforeseen events.

SMART TRAVELLER
MOTOR INSURANCE
PERSONAL ACCIDENT


AXA
Enjoy a graceful retirement with the right game plan
Are you part of the "Sandwich Generation"?
This is an occurrence where working individuals are tasked to take care of both their children and aging parents, which potentially adds up to their financial obligations.
Protect your loved ones from being part of the sandwich generation by taking charge of your own retirement.
https://www.investopedia.com/terms/s/sandwichgeneration.asp
Because you are a valued Metrobank Card customer, we are pleased to offer you Retire Smart from our partner, AXA Philippines.
Retire Smart is an investment-linked insurance plan that can help you strategically build your retirement fund.
Please expect a call from us in the next couple of days to learn more about how Retire Smart can help you take charge of your retirement. You can also call us at (02) 898-6443, (02) 898-7213, 0908-869-7530, or 0998-592-6406.
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MetrobankCardPH
Metrobank Card


AXA
Protect the ones you love with health insurance.
Prepare for any health setbacks with AXA's Health Max!
Health Max is a comprehensive health plan that provides coverage until age 100 from 56 major and 18 minor critical illnesses including cancer, stroke and heart disease.
To know more about Health Max, get a quotation or request for a visit, call us at (02) 898-6457 or 0998-5926404.
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Need Insurance for a VISA application? We got you!
Take off with Smart Traveller Insurance
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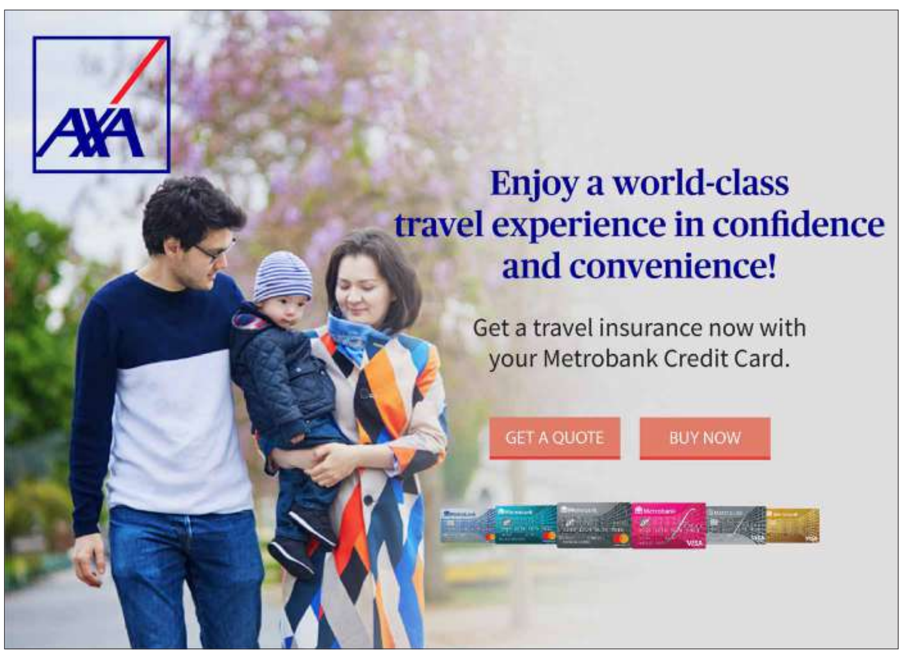
A first step towards your goals.
Experience joy that lingers on through the different milestones of your life.
#FutureSafe
Metrobank Card Corporation
A Finance Company and General Insurance Agency
AXA
Prevailing Rates under MCC Employee Program
When you use your Metrobank Credit Card
Call loc. 6444 or 6443 to know how you can avail.


AXA
Enjoy a world-class travel experience in confidence and convenience!
Get a travel insurance now with your Metrobank Credit Card.
GET A QUOTE
BUY NOW

CORPORATE GOVERNANCE

Our sterling corporate governance has shaped our identity and forged our leadership in the industry through the years. Principles and policies guide the pillars of our brand and govern all aspects of our business and corporate culture.

CORPORATE GOVERNANCE

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

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

BOARD OF DIRECTORS

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

The roles of the Chairman and the CEO or President are separate to establish accountability and ensure Board independence from management. Of the 7 members of the Board, only the President or CEO is an executive director. The Chairman on the other hand, though assumes a non-executive function, provides leadership in the Board who ensures effective functioning thereof including maintaining a relationship of trust with and among Board members. The Chairman likewise ensures a sound decision making process who promotes critical discussions in the company's top collegial body which is the Board.

BOARD COMMITTEES

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

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

Anjanette Ty Dy Buncio	Chairperson
Richard Benedict S. So	Member
Ramon Jaime Lardizabal Vivencio Del Rosario	Member

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

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

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

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

BOARD MEMBER	TYPE	NO. OF YRS	% SHARES
Fabian S. Dee	Non-executive	13	0.00001
Anjanette T. Dy Buncio	Non-executive	16	0.00001
Ramon Jaime Lardizabal Vivencio Del Rosario	Executive	(5 months)	0.00001
Francisco S. Magsajo, Jr	Independent	4	0.00001
Richard Benedict S. So	Non-executive	9	0.00001
Angelica H. Lavares	Non-executive	2	0.00001
Benedicto Jose R. Arcinas	Non-executive	2	0.00001

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

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

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

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

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

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

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

Richard Benedict S. So	Chairperson
Ramon Jaime L. Vivencio Del Rosario	Co-Chairperson
Head of Business Technology	Members
Head of Operations	
Head of Credit Operations	
Chief Financial Officer	
Head of Merchant Acquiring	
Chief Risk Officer	Advisers
Internal Audit Head	
Head of Legal	
Head of Decisions Management	
Head of Human Resources	
MBTC IT Resource	

DIRECTORS' ATTENDANCE AT BOARD AND COMMITTEE MEETINGS AS OF DECEMBER 31, 2019

NAME OF DIRECTORS	BOARD # OF MEETINGS		EXECUTIVE COMMITTEE # OF MEETINGS		AUDIT COMMITTEE # OF MEETINGS		NCR COMMITTEE # OF MEETINGS		CORPORATE GOVERNANCE COMMITTEE # OF MEETINGS		RISK OVERSIGHT COMMITTEE # OF MEETINGS		RELATED PARTY COMMITTEE # OF MEETINGS		IT STEERING COMMITTEE # OF MEETINGS	
	ATTENDED	%	ATTENDED	%	ATTENDED	%	ATTENDED	%	ATTENDED	%	ATTENDED	%	ATTENDED	%	ATTENDED	%
1. FABIAN S. DEE	11	100	—	—	—	—	—	—	—	—	—	—	—	—	—	—
2. ANJANETTE T. DY BUNCIO	11	100	11	100	—	—	4	100	—	—	—	—	—	—	—	—
3. PRADEEP PANT (RESIGNED EFFECTIVE 05 JULY 2019)	7	100	6	100	—	—	—	—	—	—	—	—	—	—	4	80
4. RICHARD BENEDICT S. SO	11	100	11	100	6	75	—	—	3	75	3	75	3	75	9	90
5. BENEDICTO JOSE R. ARCINAS	10	90.90	—	—	7	87.50	—	—	—	—	4	100	—	—	—	—
6. ANGELICA H. LAVARES	9	81.81	—	—	—	—	4	100	4	100	4	100	4	100	—	—
7. FRANCISCO S. MAGSAJO, JR.	11	100	—	—	8	100	4	100	4	100	—	—	4	100	—	—
8. RAMON JAIME L. VIVENCIO DEL ROSARIO (ELECTED EFFECTIVE 01 JULY 2019)	4	100	5	100	—	—	—	—	—	—	—	—	—	—	5	100
TOTAL NUMBER OF MEETINGS HELD DURING THE YEAR	11	100	11	100	8	100	4	100	4	100	4	100	4	100	10	100

— NOT APPLICABLE

MCC'S EXECUTIVE OFFICERS

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

PERFORMANCE ASSESSMENT PROGRAM

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

ORIENTATION AND EDUCATION PROGRAM

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

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

RETIREMENT AND SUCCESSION POLICY

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

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

1. Administration-spearheaded by the President, in partnership with the candidates' immediate superiors and division heads, and support of the Human Resources Division (HR).

2. Coverage:
    a. Key-Man-Risk
    b. Selected Department/Unit Heads
    c. Critical and hard-to-find positions as identified by HR
    d. Top high performing and high potential employees of MCC

3. Eligibility & criteria of all identified successors

4. Implementation Phases & Strategies-from preparation i.e. identification of Line of Succession and prioritization, assessment, developments & programs, regular talent management reviews, final evaluation, presentation, approvals & deployment of successors.

5. Other initiatives and strategies

REMUNERATION POLICY

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

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

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

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

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

RELATED-PARTY TRANSACTIONS

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

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

COMPLIANCE & INTERNAL AUDIT

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

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

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

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

DIVIDEND POLICY

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

By policy, MCC may only declare cash dividends provided that its capitalization will not fall below the minimum required combined capital accounts of the BSP or below the minimum risk-based capital ratios, including capital conservation buffer requirements and higher loss absorbency requirements as stipulated in the BSP's existing capital adequacy framework. For the year 2019, MCC did not declare any dividends.

CONSUMER PROTECTION

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

The Board of Directors (Board) is ultimately responsible in ensuring that consumer protection practices are embedded in MCC's business operations. The Board and Senior Management are responsible for developing MCC's consumer protection strategy and establishing an effective oversight over MCC's consumer protection programs. The Board is primarily responsible for approving and overseeing the implementation of MCC's consumer protection policies as well as the mechanism to ensure compliance with said policies. While Senior Management is responsible for the implementation of the consumer protection policies approved by the Board, the latter is responsible for monitoring and overseeing the performance of Senior Management in managing the day to day consumer protection activities of MCC.

MCC has adopted a Consumer Protection Risk Management System (CPRMS) in 2015 as part of its corporate-wide Risk Management System. The CPRMS is a means by which consumer protection risks inherent in MCC's operations are identified, measured, monitored and controlled. These include both risks to the financial consumer and MCC. MCC's CPRMS provides the foundation for ensuring MCC's adherence to consumer protection standards of conduct and compliance with consumer protection laws, rules and regulations, thus ensuring that MCC's consumer protection practices address and prevent identified risks to MCC and associated risk of financial harm or loss to consumers.

As prescribed by Bangko Sentral ng Pilipinas Circulars 857 and 1048, MCC adopts a Consumer Protection Manual which defines the general framework of MCC's consumer protection policy and stance. This manual aims to promote clarity and consistency of approach in relation to MCC's commitment in ensuring the following:

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

The risk management activities include the following:

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

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

MCC adopts a Consumer Assistance Management System (CAMS) that serves as an avenue for consumers to air out their grievances in the products and services of MCC. MCC has established the consumer assistance channels for customers to provide their feedback and these are through MCC's hotlines and emails. The information on filing a complaint can be accessed in its website at

https://www.metrobankcard.com/feedback and is likewise displayed in MCC's office premises at the lobby. MCC designated its Service Quality and Delivery Department as the independent unit that will handle the following functions under the supervision of its head who simultaneously designated as Consumer Assistance Officer:

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

The consumer assistance channels are tasked with the following:

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

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

MCC is committed in ensuring that it delivers excellent service to its customers. MCC has general service standards and key service metrics to measure the complaints management performance. In 2019, MCC's Resolution Rate is at 97.86% and 0.06% for Overdue Bucket Rate. The complaints management performance is reinforced by trainings and workshops provided to its personnel. As part of MCC's affirmative action to ensure financial awareness and education to its customers, MCC has utilized its website and social media channels to provide information to cardholders on tips on how to manage credit cards. Comparative information about key features, benefits and risks, and associated fees and charges of different card products of MCC are likewise provided in the website.

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

RISK MANAGEMENT

Our leadership comes from our exceptional risk management which serves as an important foundation for our success. Defining the company's risk appetite framework and operating under this rubric involves a continuous refinement process that is always in step with our sustained growth, expansion, and innovation.

RISK MANAGEMENT

RISK PHILOSOPHY AND GUIDING PRINCIPLES

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

RISK MANAGEMENT STRUCTURE

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

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

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

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

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

CREDIT RISK

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

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

The Company manages credit risk guided by the following principles:

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

In 2019, Risk Management focused on the validation of the expected credit loss (ECL) models, in compliance to the new accounting standards (PFRS 9), which took effect last January 2018. Several initiatives were implemented aimed at model improvements and a more accurate credit risk classification and provisioning.

MARKET RISK

Market risk is the risk to earnings or capital arising from adverse movements in factors that affect the market value of financial instruments. The Company focuses on two market risk areas such as interest rate risk and foreign currency risk.

INTEREST RATE RISK

The Treasury unit is primarily responsible in managing the liquidity, as well as, the interest rate risk of the Company. They ensure borrowings from various sources of funds are availed at the cheapest possible cost at acceptable terms. In measuring interest rate risk, the Company employs gap analysis wherein, an interest rate gap report is prepared by breaking down the balance sheet accounts according to contractual maturities/repricing dates, whichever is applicable. The difference in the amount of assets and liabilities maturing or being repriced in any pre-specified time band would be treated as an indicator of the Company's exposure to the risk of potential changes in net interest income.

To manage interest rate risk, the RMD uses a quantitative risk model on interest rate risk called the Earnings-at-Risk (EaR). EaR is used to measure any mismatch between assets and liabilities in terms of interest rate repricing and an EaR limit is set over a 1-year period. The limit is established to reduce the potential exposure of earnings and/or capital from changes in interest rates. Such method of measuring and controlling interest rate risk is applied during the year. The BOD approved EaR limit for 2019 as the difference between the 2019 budgeted net interest income and 2018 actual net interest income which amounts to P1.0 billion.

FOREIGN CURRENCY RISK

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

LIQUIDITY RISK AND FUNDING MANAGEMENT

The Company is continuously working on developing diversified funding sources to support its asset growth, as well as to minimize liquidity and interest rate risks. The Treasury unit, on a daily basis, monitors the cash position of the Company. They ensure that the Company has ample liquidity to settle financial obligations that are due as of a given period. The Treasury unit employs various liquidity/funding tools to determine the expected funding requirements for a particular period.

The RMD prepares the monthly Maximum Cumulative Outflow (MCO) report to measure the liquidity mismatch risk as of a given period. The MCO report provides quantitative information on the potential liquidity risk exposure based on pre-specified time bands. Aside from the MCO report, the RMD also prepares monthly Liquidity Stress testing to augment in measuring potential liquidity risk exposures under different stress scenarios.

CAPITAL MANAGEMENT

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

REGULATORY QUALIFYING CAPITAL

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

In addition, the risk-based capital adequacy ratio (CAR) of the Company with quasi-banking operations, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.0%.

Risk-weighted assets consist of total assets less cash on hand, amounts due from BSP, loans covered by hold-out or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the Monetary Board (MB) of the BSP. Under BSP Circular No. 360, effective July 1, 2003, the CAR is to be inclusive of a market risk charge.

On January 15, 2013, the BSP issued Circular No. 781, Basel 3 Implementing Guidelines on Minimum Capital Requirements. The guidelines revised the risk-based capital adequacy framework and introduced other minimum capital ratios such as Common Equity Tier 1 (CET1) ratio and Tier 1 Capital ratio of 6.0% and 7.5%, respectively. A capital conservation buffer of 2.5% comprised of CET1 shall also be imposed. BSP Circular No. 781 took effect on January 1, 2014. Last November 29, 2018, the BSP released a circular implementing the Basel III Counter cyclical Capital Buffer (CCyB). Current CCyB is zero percent (0%) subject to upward adjustment as determined by the Monetary Board when systemic conditions warrant up to a maximum of 2.5%.

As of December 31, 2019 MCC's CAR stood at 15.99%, well within the regulatory requirement of 10.0%. Total qualifying capital for the years ended 2019 and 2018 were P18.41 Billion and P14.32 Billion, respectively.

Qualifying Capital	2019	2018
Tier 1 Capital		
Paid-Up Common Stock	1,000.00	1,000.00
Common Stock Dividends Distributable		
Additional Paid-In Capital	76.07	76.07
Retained Earnings	13,858.74	8,886.38
Undivided Profits 2	4,911.49	4,947.16
Other Comprehensive Income	-365.89	-91.64
Less: Regulatory Adjustments		
DOSRI	103.39	101.24
Deferred Tax Assets	2,087.85	1,913.95
Goodwill	9.62	9.62
Other Intangible Assets	471.02	380.29
Total Common Equity Tier 1 (CET1) Capital	**16,808.53**	**12,412.87**
Additional Tier 1 Capital		0.00
Total Tier 1 Capital	**16,808.53**	**12,412.87**
Tier 2 Capital		
General Loan Loss Provision	901.35	746.22
Instruments Eligible As Tier 2 Capital	697.70	1,164.61
Total Tier 2 Capital	**1,599.05**	**1,910.83**
Total Qualifying Capital	**18,407.58**	**14,323.70**
Total Risk Weighted-Assets	**115,084.35**	**98,950.79**
Credit Risk	87,343.41	74,622.43
Operational Risk	27,740.94	24,328.36
CET1 Ratio	**14.61%**	**12.54%**
Tier 1 Ratio	**14.61%**	**12.54%**
Capital Adequacy Ratio	**15.99%**	**14.48%**

Capital Requirements	2019	2018
Credit Risk	8,734.34	7,462.24
Market Risk	-	-
Operational Risk	2,774.09	2,432.84
Total Capital Requirements	**11,508.44**	**9,895.08**

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

Reconciliation of All Regulatory Capital Elements	2019	2018
Common Equity Tier 1 Capital	16,808.53	12,407.18
Tier 2 Capital	1,599.05	1,898.68
Total Regulatory Capital	18,407.58	**14,305.86**
Add (Deduct) reconciling items:		
GLLP, limited to max. of 1% of CRWA	-901.35	-734.07
Regulatory Adjustments to CET 1		
Outstanding unsecured credit accommodations	103.39	101.24
Deferred Tax Asset	2,087.85	1,927.57
Goodwill	9.62	9.62
Other Intangible Assets	471.02	380.29
Discount applied to Tier 2 Carrying Amount (BSP Circ 538)	468.00	0.00
Total SHE and Tier per AFS	**20,646.11**	**15,990.52**
Stockholder's Equity	19,480.41	14,825.91
Unsecured Subordinated Debt (Tier 2 capital)	1,165.70	1,164.61
Total SHE and Tier 2 per AFS	**20,646.11**	**15,990.52**

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

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

OPERATIONAL RISK

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

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

RISK AND CONTROL SELF-ASSESSMENT

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

INCIDENT REPORTING

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

KEY RISK INDICATORS

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

INFORMATION SECURITY RISK

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

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

COMPLIANCE RISK

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

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

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

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

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

LEGAL RISK

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

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

REPUTATIONAL RISK

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

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

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

STRATEGIC RISK

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

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

ANTI-MONEY LAUNDERING

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

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

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

Financial Statements Summary

	2019	2018
Profitability		
Total Net Interest income	12,080,026,086	11,475,959,022
Total Non-Interest Income	5,629,573,516	4,985,412,333
Total Non-Interest Expenses	8,215,395,035	7,510,506,736
Pre-provision Profit	9,494,204,566	8,950,864,619
Allowance for Credit Losses	(4,582,719,283)	(3,978,501,074)
Net Income After Tax	4,911,485,283	4,972,363,545
Selected Balance Sheet Data		
Liquid Assets	90,134,835,834	79,602,384,087
Gross loans	88,005,933,323	73,095,325,362
Total Assets	93,809,193,480	82,801,787,388
Total Equity	19,480,412,988	14,825,912,003
Selected Ratios		
Return on Equity	28.6%	34.9%
Return on Assets	5.6%	6.3%
Common Equity Tier 1 Capital Ratio	14.6%	12.5%
Tier 1 Capital Ratio	14.6%	12.5%
Capital Adequacy Ratio	16.0%	14.5%
Others		
Cash Dividend declared	-	1,975,000,000
Headcount		
Officers	472	447
Staff	736	709

CORPORATE SOCIAL RESPONSIBILITY

Our passion for being a responsible and responsive corporate citizen runs parallel with our drive for business excellence. Our relationship with the communities we serve reflects our constant desire to serve Filipinos throughout the different aspects of their lives.

MANILA DOCTORS HOSPITAL
awards this Certificate of Recognition to

METROBANK CARD CORPORATION

In honor of our consistent partnership in the implementation of Manila Doctors Hospital Corporate Social Responsibility programs for the mental wellness of children with trauma and for supporting the needs of economically-challenged patients from Western Visayas who needed critical surgical intervention in Manila Doctors Hospital.

Given this 20th day of February 2020 at the Penthouse, Norberto Ty Medical Tower 2, Manila Doctors Hospital, T. M. Kalaw Avenue, City of Manila, Philippines.

DR. HIAN HO N. KUA, MBAH
First Vice President/ Hospital Director

MS. ELIZABETH G. DANTES, CPA, CMA
President

CORPORATE SOCIAL RESPONSIBILITY

Metrobank Card Corporation (MCC) has always envisioned to be an organization committed to fulfilling its responsibility to the community. The year 2019 allowed MCC and its employees to give back to various beneficiaries in many ways.

SHARING GIFTS OF HOPE

MCC has been a partner Make-A-Wish Philippines for over a decade in giving hope and joy by granting the wishes of children with critical illnesses. In 2019, MCC granted the wish items of 30 wish kids — 22 of which spent time with about a hundred employee volunteers for a total of around 300 volunteer hours. Together, they spent three memorable afternoons doing fun activities, such as learning how to make a pizza at Shakey's, creating do-it-yourselves projects like binoculars and ornaments, and celebrating the holidays with games and a guest Santa Claus at Metrobank Card Center.

GIVING BACK TO COMMUNITIES

MCC gathered volunteers at an org-wide level for initiatives of various partner organizations, such as Metrobank Foundation's Bags of Blessings, Manila Tytana Colleges' Founder's Run, and Manila Doctors Hospital's adopted schools for Brigada Eskwela.

Several departments of MCC also organized their respective CSR activities where they devoted their time to help various groups. These include a house building initiative with Gawad Kalinga, a clean-up drive for Sta. Ana E lementary school, a relief operations repacking initiative for typhoon-stricken communities with the Department of Social Welfare and Development – National Resource Operations Center, as well as feeding programs for San Pedro Calungsod Parish Sanctuary of Padre Pio and San Lorenzo Home for the Elderly.

MCC employees also had fundraising efforts for cash and in-kind donations. Beneficiaries include the Little Sisters of the Abandoned Elderly, Sta. Ana Elementary School, White Cross, Inc., the Good Shepherd Convent, Manila Doctors Hospital's in-house surgical programs and its adopted tree park, the Arroceros Park, and the Missionaries of the Poor Divine Mercy Monastery and Apostolate Center through the help of the Philippine Air

Force – 520th Air Base Wing.

Overall, the various initiatives of MCC had a combined total of about 900 attendees with over 4,000 volunteer hours.

HONORING EXTRAORDINARY SERVICE

In 2019, MCC has awarded Metrobank Foundation's 10 Outstanding Filipinos – Teachers, Police Officers, and Soldiers – with exclusively customized Metrobank credit cards to salute them for their service. Through these cards, MCC aims to empower these modern-day Filipino heroes as they continue to serve as an inspiration to many Filipinos.

MCC also supported Metrobank Foundation and DepEd in their National Teachers' Month celebrations through internal activities such as having employees to wear yellow and post org-wide photos or messages to thank their teachers on the working day near National Teachers' Day.

ADVOCATING FOR BREAST CANCER AWARENESS

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

Plus, they can participate in its Breast Cancer Awareness Month catalogue promotion – wherein MCC donates P100 to ICS for every P2,000 cardholder spend at select merchants. Since the partnership launched in 2012, MCC has donated an accumulated total of about P200,000 through this yearly promotion, which helped fund the information campaigns and breast cancer screenings of the foundation.

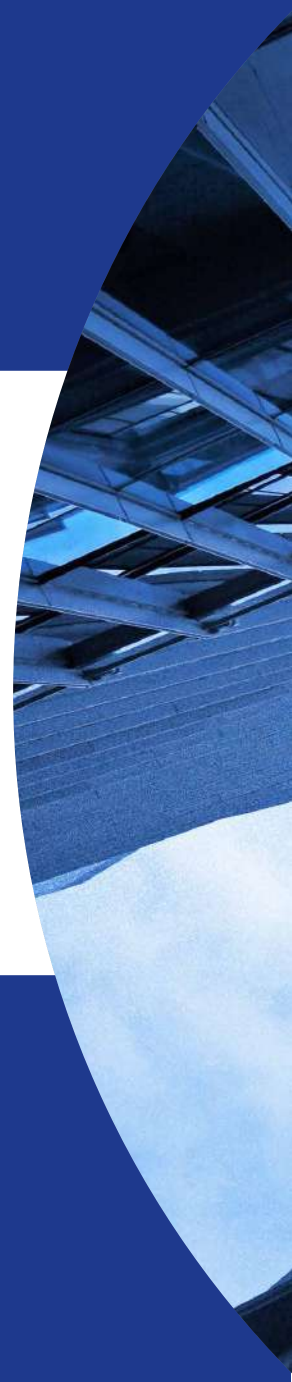

Little Sisters of the Abandoned Elderly
FIFTY ONE THOUSAND FIVE HUNDRED PESOS ONLY
Metrobank Card


Transform lives, one wish at a time.
Metrobank


PHILIPPINE AIR FORCE
HEADQUARTERS 520th AIR BASE WING
Certificate of Appreciation
METROBANK CARD
ELPIDIO B TALJA JR
Brigadier General AFP
Wing Commander


Metrobank
FEMME
icanserve
FOUNDATION INC.
4055 9876 5432 1000
12/19
12/24
LEILANI EUSEBIO
VISA

LEADERSHIP



The core of Metrobank Card Corporation relies on passion, purpose, collaboration, and customer-centric efforts. These traits, guided by our mission, vision, and values, have helped shape us into the industry -leading organization that we are today.

BOARD OF DIRECTORS

FABIAN S. DEE
Chairman
Filipino, 57

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

ANJANETTE T. DY BUNCIO
Vice Chairperson
Filipino, 52

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

RAMON JAIME L. VIVENCIO DEL ROSARIO
President / Director
Filipino, 43

SVP/Cards and Personal Credit Sector Head, Metropolitan Bank and Trust Company | Former Director, Cards & Loans Business Indonesia, Citibank N.A. | Former Consultant, Cards and Loans Head Indonesia, Citibank N.A. | Former SVP, Cards Product Management Philippines, Citibank N.A. | Former VP, Partnerships and Business Development Philippines, Citibank N.A. | Former AVP, Marketing Citibank India, Citibank N.A. | Former AVP, Risk Management Citibank India, Citi, Citibank N.A. | Former AVP, Portfolio Management Philippines, Citibank N.A. | Former Marketing Manager, Cards Citi Philippines, Citibank N.A. | Former Cards Product Manager, Cards Citi Philippines, Citibank N.A.

RICHARD BENEDICT S. SO
Director
Filipino, 54

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

BOARD OF DIRECTORS

FRANCISCO S. MAGSAJO, JR.
Independent Director
Filipino, 72

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

ATTY. ANGELICA H. LAVARES
Independent Director
Filipino, 67

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

BENEDICTO JOSE R. ARCINAS
Director
Filipino, 64

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

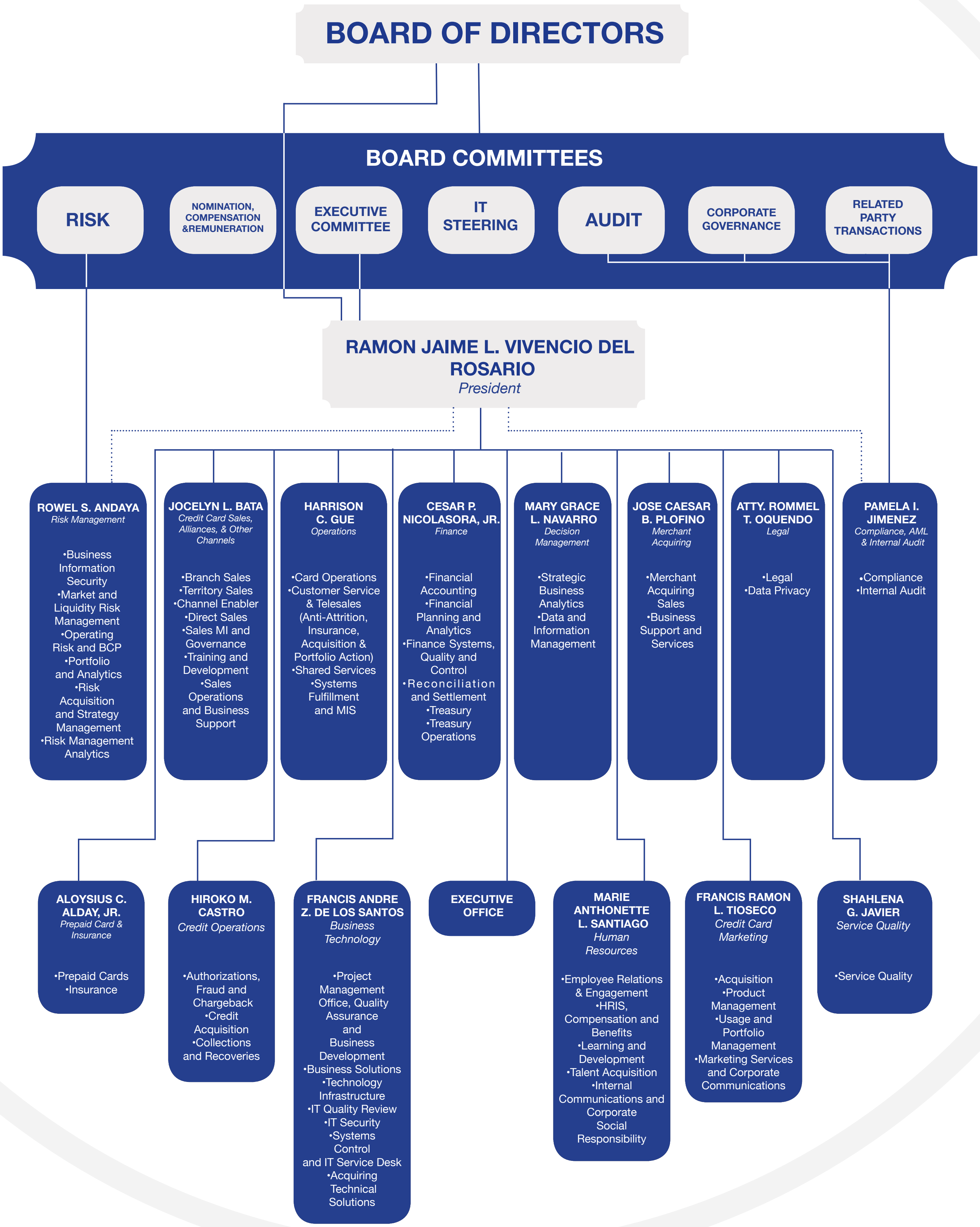
BOARD OFFICERS

ANNA THERESE RITA D. CUENCO
Treasurer

MA. LOURDES C. PLATA-ABELLAR
Corporate Secretary

MARIA SOFIA A. LOPEZ
Assistant Corporate Secretary

ORGANIZATIONAL STRUCTURE



MANAGEMENT COMMITTEE

RAMON JAIME L.V. DEL ROSARIO.
President

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

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

HIROKO M. CASTRO
Head of Credit Operations
Senior Vice President

HARRISON C. GUE
Head of Operations
Senior Vice President

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

MARIE ANTHONETTE L. SANTIAGO
Head of Human Resources & Metrobank HR Shared Services
Senior Vice President

ROWEL S. ANDAYA
Chief Risk Officer
First Vice President

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

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

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

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

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

ATTY. ROMMEL T. OQUENDO
Head of Legal
Vice President

SENIOR VICE PRESIDENTS

ALOYSIUS C.
ALDAY, JR.
Head of Prepaid and Insurance Business
Filipino, 50

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

JOCELYN L.
BATA
Head of Credit Card Sales,
Alliances & Other Channels
Filipino, 45

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

HIROKO M. CASTRO
Head of Credit Operations
Filipino, 50

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

ANNA THERESE RITA D. CUENCO
Head of Consumer Lending Group
(seconded to MBTC)
Filipino, 46

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

HARRISON C. GUE
Head of Operations
Filipino, 54

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

CESAR P. NICOLASORA, JR.
Chief Finance Officer
Filipino, 45

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

MARIE ANTHONETTE L. SANTIAGO
Head of Human Resources
Filipino, 46

Former HR Manager and ER Manager, Convergys Phils. Services Corp. | Former Training/OD Manager & ER Manager, DHL Worldwide Express (Phils.) Corp. | Former HR Officer & Recruitment/Training Officer, Belle Corporation | Former Recruitment & Career Management Assistant, Nissan Motor Phils, Inc. | MS Degree in Human Resource: University of Santo Tomas | Undergraduate degree: BA Behavioral Science, University of Santo Tomas

FIRST VICE PRESIDENTS

ROWEL S. ANDAYA

FRANCIS ANDRE Z. DE LOS SANTOS

PAMELA I. JIMENEZ

ELMER K. MERCADO

FIRST VICE PRESIDENTS

MARY GRACE L.
NAVARRO

JOSE CAESAR B.
PLOFINO

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BADURIA, JR.

THOMAS WILFRIDO R.
BILBAO

ION EDMOND A.
DE GUZMAN

ATTY. ROMMEL T.
OQUENDO

MARIA CRISTINE D.
REYES

JAY S.
TATEL

ALBERT ARNOLD A. TOM

SHEILA P. UMALI

TRICIA H. VALERIO

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ANNA LISSA C.
AÑO

AL-JALIL B.
BANDALI

MIGUEL PAOLO L.
BELTRAN

REUBEN RINALDI Y.
COBANKIAT

EMMA R.
DE PANO

IVAN DRIETER D.
EUSEBIO

MICHAEL R. GABRIEL

RAFAEL B. GAMAD, JR.

FRANCES LEA C. GUINO

SENIOR ASSISTANT VICE PRESIDENTS

WELLINGTON M. JAVELLANA, JR.

SHAHLENA G. JAVIER

ATTY. APOLONIO C. JUAN II

JOHN OLIVER T. KO

ANDRO JOSE M. LAGMAN

ANNE KRISTEN Y. MACALLAN

ALBERT ROY D. NAVARRETE

JANYLOU M. ROMARAOG

WINNIE VIC G. VENTURA

ELVIRA S. ZABLAN

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MALVIN B. BALLARTA

BERNAL S. BANTILAN

MICHAEL C. BAUTISTA

SHEILA MONICA Y. BAUTISTA

MARY GRACE D. BERAÑA

GERLY ANNE G. BERNISCA

ABIGAEL LILY C. CHIO

RAFAEL D. DURENDEZ

NOLAN CARLO U. EMPALMADO

PEACE E. IBARRA

ASSISTANT VICE PRESIDENTS

JOHANN THERESE L. JAYME

EMMANUEL MA. E. JOSE

MARIA KARENIÑA R. LOPEZ

MATIAS A. MAITIM

AILEEN B. MALCO

NADJA CECILIA R. MARQUEZ

RONALDO T. PAHATI

JOSEPH VINCENT L. PANGILINAN

HELEN A. PANLILIO

FREDERICK V. PIEDAD

MARIA SHIELA E. PUNSALAN

CHRISTIAN PATRICK B. RAMIREZ

LIEZL O. ROGANDO

JAMIE ROSE D. ROMUALDEZ

GAIL JOSEPH S. SANTOS

KHAREN S. SEROTE

ALVIN T. SERRANO

FRANCIS L. TAN

CARLSTEN A. TERROBIAS

CORPORATE INFORMATION

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

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

METROBANK CARD CENTER
6778 Ayala Avenue, Makati City, Philippines 1226

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

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

MCC DAVAO
Metrobank Davao Center Branch, Ramon Magsaysay Avenue corner J. Dela Cruz St., Davao City 8000

CONTACT INFORMATION

24/7 Contact Center:
Metro Manila: (632) 88-700-900

Customer Service:
(632) 88-700-700

Domestic Toll Free:
1-800-1888-5775

MCC Website
www.metrobankcard.com

MCC Social Media
@metrobankcardph

Facebook
www.facebook.com/MetrobankCardPH

Instagram
www.instagram.com/MetrobankCardPH

Twitter
www.twitter.com/MetrobankCardPH

YAZZ Website
www.yazzcard.com

YAZZ Social Media
@yazzcardPH

Facebook
www.facebook.com/yazzcardPH

Instagram
www.instagram.com/yazzcardph

Twitter
www.twitter.com/yazzcardPH

FINANCIAL STATEMENTS


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Metrobank Card Corporation
(A Finance Company and
General Insurance Agency)
(A Wholly Owned Subsidiary of
Metropolitan Bank and Trust Company)

Financial Statements
December 31, 2019 and 2018

And

Independent Auditor's Report

SGV
Building a better working world

A member firm of Ernst & Young Global Limited

SGV
Building a better working world

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

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

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

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Metrobank Card Corporation

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Metrobank Card Corporation *(A Finance Company and General Insurance Agency)* (the Company), which comprise the statements of financial position as at December 31, 2019 and 2018, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 28 to the financial statements is presented for the purpose of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Metrobank Card Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Veronica Arce

Veronica Mae A. Arce
Partner
CPA Certificate No. 0117208
SEC Accreditation No. 1740-A (Group A),
February 7, 2019, valid until February 6, 2022
Tax Identification No. 234-282-413
BIR Accreditation No. 08-001998-135-2018,
December 17, 2018, valid until December 16, 2021
PTR No. 8125206, January 7, 2020, Makati City

February 19, 2020

METROBANK CARD CORPORATION
(A Finance Company and General Insurance Agency)
(A Wholly Owned Subsidiary of Metropolitan Bank and Trust Company)

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2019	2018
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 6 and 21)	**₱743,566,359**	₱1,082,125,457
Due from Bangko Sentral ng Pilipinas (Notes 6 and 12)	**5,994,131,053**	9,526,731,502
Interbank loans receivable (Notes 6 and 21)	**174,919,590**	2,200,000,000
Accounts receivable (Notes 7 and 21)	**72,058,281,654**	58,455,080,198
Prepaid expenses and other current assets (Notes 10 and 21)	**290,750,056**	137,620,981
	79,261,648,712	71,401,558,138
Noncurrent Assets		
Accounts receivable (Notes 7 and 21)	**11,163,937,178**	8,338,446,930
Property and equipment (Note 9)	**713,202,096**	645,335,011
Equity instruments at fair value through other comprehensive income (FVOCI) (Note 10)	**28,157,760**	28,157,760
Deferred tax assets (Note 20)	**2,087,849,967**	1,927,572,853
Intangibles and other assets (Note 10)	**501,804,221**	460,716,696
Right-of-use assets (Notes 18 and 21)	**52,593,546**	–
	14,547,544,768	11,400,229,250
	₱93,809,193,480	₱82,801,787,388
LIABILITIES AND EQUITY		
LIABILITIES		
Current Liabilities		
Accounts payable (Notes 11 and 21):		
Merchants	**₱2,134,218,822**	₱1,525,460,186
Others	**921,777,274**	920,509,565
	3,055,996,096	2,445,969,751
Bills payable (Notes 12 and 21)	**40,794,454,390**	20,998,410,202
Notes payable (Notes 12 and 21)	**15,898,866,703**	20,481,873,027
Derivative liabilities (Notes 8 and 21)	**307,312,884**	99,372,282
Deferred revenue (Note 13)	**1,119,502,772**	1,068,800,101
Lease liabilities (Notes 18 and 21)	**27,175,140**	–
Provisions (Note 23)	**775,778,673**	915,675,612
Income tax payable	**607,688,809**	713,512,283
Accrued interest, taxes and other expenses (Notes 15 and 21)	**1,477,685,634**	1,091,695,882
	64,064,461,101	47,815,309,140
Noncurrent Liabilities		
Bills payable (Notes 12 and 21)	**1,911,288,634**	7,987,465,461
Notes payable (Notes 12 and 21)	**6,784,617,588**	10,835,553,040
Subordinated debt (Note 14)	**1,165,701,077**	1,164,611,135
Lease liabilities (Notes 18 and 21)	**28,311,826**	–
Retirement liability (Note 19)	**374,400,266**	172,936,609
	10,264,319,391	20,160,566,245
	74,328,780,492	67,975,875,385

(Forward)

	December 31	
	2019	2018
EQUITY		
Capital stock (Note 16)	**₱1,000,000,000**	₱1,000,000,000
Additional paid-in capital	**76,071,752**	76,071,752
Retained earnings (Note 16):		
Unappropriated	**5,770,229,732**	7,858,744,448
Appropriated	**13,000,000,000**	6,000,000,000
Remeasurement losses on retirement plan (Note 19)	**(294,840,141)**	(125,608,514)
Net fair value gains on equity instruments at FVOCI	**19,700,689**	19,700,689
Cash flow hedge reserve (Note 8)	**(90,749,044)**	(2,996,372)
	19,480,412,988	14,825,912,003
	₱93,809,193,480	₱82,801,787,388

See accompanying Notes to Financial Statements

METROBANK CARD CORPORATION
(A Finance Company and General Insurance Agency)
(A Wholly Owned Subsidiary of Metropolitan Bank and Trust Company)

STATEMENTS OF INCOME

	Years Ended December 31	
	2019	2018
REVENUES		
Interest and penalties (Note 7)	**₱15,882,214,105**	₱14,252,800,043
Discounts earned (Notes 13 and 21)	**2,877,594,157**	2,411,581,701
Membership fees and dues (Note 13)	**907,180,596**	882,661,306
Recoveries of accounts written-off (Note 13)	**530,501,759**	540,579,528
Awards revenue (Note 13)	**81,003,543**	67,890,112
Interest income from banks (Notes 6 and 21)	**9,618,276**	17,670,497
Miscellaneous (Notes 13, 17 and 21)	**1,063,983,795**	932,110,429
	21,352,096,231	19,105,293,616
EXPENSES		
Provision for credit losses (Note 7)	**5,153,457,368**	4,548,755,634
Interest expense (Notes 12, 14 and 21)	**3,299,334,545**	2,210,757,921
Compensation and fringe benefits (Notes 15, 19 and 21)	**1,871,133,868**	1,706,822,678
Taxes, duties and license fees (Note 15)	**1,552,899,025**	1,236,680,286
Advertising and promotions (Note 15)	**494,511,418**	444,107,219
Communications (Notes 15 and 21)	**383,307,244**	393,274,599
Rent, light and water (Notes 18 and 21)	**228,937,488**	249,130,354
Loyalty expense (Note 13)	**220,252,752**	180,158,557
Amortization of intangible assets (Note 10)	**206,280,154**	181,508,945
Depreciation of property and equipment and right-of-use assets (Notes 9, 18 and 21)	**123,549,574**	101,120,953
Distribution costs (Note 21)	**105,024,336**	99,799,521
Stationery, office supplies and printing	**91,033,109**	71,196,684
Computer-related expenses (Note 21)	**40,085,882**	48,892,362
Security, messengerial and janitorial (Note 21)	**23,138,046**	22,310,740
Management and professional fees (Notes 15 and 21)	**18,570,860**	26,161,146
Transportation and travel	**7,203,513**	7,650,084
Entertainment, amusement and recreation (Note 20)	**1,303,284**	1,627,980
Miscellaneous (Notes 17 and 21)	**515,669,929**	472,130,849
	14,335,692,395	12,002,086,512
INCOME BEFORE INCOME TAX	**7,016,403,836**	7,103,207,104
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 20)		
Corporate	**2,192,148,128**	2,296,078,462
Deferred	**(87,749,274)**	(165,743,966)
Final	**519,698**	509,063
	2,104,918,552	2,130,843,559
NET INCOME	**₱4,911,485,284**	₱4,972,363,545

See accompanying Notes to Financial Statements.

METROBANK CARD CORPORATION
(A Finance Company and General Insurance Agency)
(A Wholly Owned Subsidiary of Metropolitan Bank and Trust Company)

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2019	2018
NET INCOME	**₱4,911,485,284**	₱4,972,363,545
OTHER COMPREHENSIVE INCOME (LOSS)		
Item that recycle to profit or loss in subsequent periods:		
Changes in fair value from cash flow hedge	**(497,165,681)**	(99,372,282)
Reclassification to the income statement from cash flow hedge	**409,413,009**	96,375,910
	(87,752,672)	(2,996,372)
Items that do not recycle to profit or loss in subsequent periods:		
Net change in fair value of equity instruments at FVOCI	–	23,177,281
Income tax effect (Note 20)	–	(3,476,592)
	–	19,700,689
Remeasurement gains (losses) on retirement plan (Note 19)	**(241,759,467)**	84,512,744
Income tax effect (Note 20)	**72,527,840**	(25,353,823)
	(169,231,627)	59,158,921
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	**(256,984,299)**	75,863,238
TOTAL COMPREHENSIVE INCOME, NET OF TAX	**₱4,654,500,985**	₱5,048,226,783

See accompanying Notes to Financial Statements.

METROBANK CARD CORPORATION
(A Finance Company and General Insurance Agency)
(A Wholly Owned Subsidiary of Metropolitan Bank and Trust Company)
STATEMENTS OF CHANGES IN EQUITY

			Retained Earnings					
	Capital Stock (Note 16)	Additional Paid-in Capital	Unappropriated (Note 16)	Appropriated (Note 16)	Remeasurement Losses on Retirement Plan (Note 19)	Net Fair Value Gains on Equity Instruments at FVOCI	Cash Flow Hedge Reserve (Note 8)	Total
Balance at January 1, 2019	**₱1,000,000,000**	**₱76,071,752**	**₱7,858,744,448**	**₱6,000,000,000**	**(₱125,608,514)**	**₱19,700,689**	**(₱2,996,372)**	**₱14,825,912,003**
Total comprehensive income for the year	–	–	**4,911,485,284**	–	**(169,231,627)**	–	**(87,752,672)**	**4,654,500,985**
Net appropriations (Note 16)	–	–	**(7,000,000,000)**	**7,000,000,000**	–	–	–	–
Balance at December 31, 2019	**₱1,000,000,000**	**₱76,071,752**	**₱5,770,229,732**	**₱13,000,000,000**	**(₱294,840,141)**	**₱19,700,689**	**(₱90,749,044)**	**₱19,480,412,988**
Balance as at January 1, 2018	₱1,000,000,000	₱76,071,752	₱4,261,380,903	₱6,600,000,000	(₱184,767,435)	₱–	₱–	₱11,752,685,220
Total comprehensive income for the year	–	–	4,972,363,545	–	59,158,921	19,700,689	(2,996,372)	5,048,226,783
Net appropriations (Note 16)	–	–	600,000,000	(600,000,000)	–	–	–	–
Dividends (Note 16)	–	–	(1,975,000,000)	–	–	–	–	(1,975,000,000)
Balance at December 31, 2018	₱1,000,000,000	₱76,071,752	₱7,858,744,448	₱6,000,000,000	(₱125,608,514)	₱19,700,689	(₱2,996,372)	₱14,825,912,003

See accompanying Notes to Financial Statements.

METROBANK CARD CORPORATION
(A Finance Company and General Insurance Agency)
(A Wholly Owned Subsidiary of Metropolitan Bank and Trust Company)

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱7,016,403,836**	₱7,103,207,104
Adjustments for:		
Provision for credit losses (Note 7)	**5,153,457,368**	4,548,755,634
Amortization of:		
Intangible assets (Note 10)	**206,280,154**	181,508,945
Debt issuance costs (Notes 12 and 14)	**149,297,957**	114,496,848
Interest expense on lease liabilities (Note 18)	**4,291,929**	–
Retirement expense (Note 19)	**136,604,190**	172,963,847
Depreciation of:		
Property and equipment (Note 9)	**96,166,111**	101,120,953
Right-of-use assets (Note 18)	**27,383,464**	–
Unrealized foreign exchange (gain) loss (Note 17)	**(288,251,446)**	36,653,455
Gain on sale of property and equipment (Note 17)	**(2,709,383)**	(1,804,243)
Loss on retirement of intangible assets (Note 17)	**1,214,671**	–
Changes in operating assets and liabilities:		
Decrease (increase) in the amounts of:		
Accounts receivable	**(21,582,149,072)**	(13,450,120,189)
Prepaid expenses and other assets	**(153,129,075)**	(56,192,257)
Other noncurrent assets	**(579,106)**	7,097,104
Increase (decrease) in the amounts of:		
Bills payable	**13,696,281,499**	(5,116,677,475)
Accounts payable	**610,026,345**	(34,022,336)
Provisions	**(139,896,939)**	–
Deferred revenue	**50,702,671**	(58,492,361)
Accrued interest, taxes and other liabilities	**385,989,752**	260,724,164
Net cash provided by (used in) for operations	**5,367,384,926**	(6,190,780,807)
Income taxes paid	**(2,298,491,300)**	(2,240,393,203)
Contribution to the retirement plan (Note 19)	**(176,900,000)**	(143,600,000)
Net cash provided by (used in) operating activities	**2,891,993,626**	(8,574,774,010)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property and equipment (Note 9)	**80,627,065**	8,395,287
Acquisitions of:		
Intangible assets (Note 10)	**(248,003,244)**	(147,968,149)
Property and equipment (Note 9)	**(241,950,878)**	(94,159,659)
Net cash used in investing activities	**(409,327,057)**	(233,732,521)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from availments of notes payable	**112,976,811,515**	35,927,294,874
Payments of:		
Notes payable	**(121,362,687,515)**	(25,332,448,413)
Principal portion of lease liabilities (Note 18)	**(28,781,973)**	–
Dividends (Note 16)	**–**	(1,975,000,000)
Net cash provided by (used in) financing activities	**(8,414,657,973)**	8,619,846,461

(Forward)

	Years Ended December 31	
	2019	2018
EFFECT OF CHANGE IN FOREIGN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	**₱35,751,447**	(₱59,568,491)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(5,896,239,957)**	(248,228,561)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 6)		
Cash and cash equivalents	**1,082,125,457**	1,809,031,449
Due from Bangko Sentral ng Pilipinas	**9,526,731,502**	10,948,054,071
Interbank loans receivable	**2,200,000,000**	300,000,000
	12,808,856,959	13,057,085,520
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)		
Cash and cash equivalents	**743,566,359**	1,082,125,457
Due from Bangko Sentral ng Pilipinas	**5,994,131,053**	9,526,731,502
Interbank loans receivable	**174,919,590**	2,200,000,000
	₱6,912,617,002	₱12,808,856,959

OPERATING CASH FLOWS FROM INTERESTS		
Interest received	**₱15,715,269,037**	₱13,645,570,678
Interest paid	**(3,065,877,970)**	(2,063,014,660)
	₱12,649,391,067	₱11,582,556,018

See accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Metrobank Card Corporation (*A Finance Company and General Insurance Agency*) (the Company) was initially incorporated in the Philippines as a credit card company on August 6, 1985, as Unibancard Corporation, with a corporate life of fifty (50) years from the date of incorporation. On June 4, 2002, the Company changed its name to Metrobank Card Corporation after its merger with AB Card and Solid Card. On March 27, 2008, the Company received its license from the Securities and Exchange Commission (SEC) to operate as a finance company. On June 5, 2008, the Bangko Sentral ng Pilipinas (BSP) issued a quasi-banking license to the Company, which allows borrowings from more than 19 lenders for the purpose of funding working capital.

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

The Company offers and issues credit cards branded as Metrobank Visa, Metrobank Mastercard, Philippine Savings Bank (PSBank) Credit Mastercard, Toyota Mastercard, and Bistro Group VISA; as well as prepaid cards – branded as YAZZ Reloadable Prepaid Visa, Victory Liner Premiere Prepaid Visa, NWorld Cash Card, and Pisopay.com Prepaid Visa, AXA Prepaid Visa, Ardeur Bonus Card, and JAC Liner My Ride Card. The Company also offers its partner merchants a portfolio of acquiring services and payment solutions, including Internet Payments, Recurring Payments, Mail Order Telephone Orders, Installment Payment Plans for Metrobank credit cards, and Dynamic Currency Conversion for non-domestic issued credit cards; as well as Point-of-Sale (POS) Terminals that process Mastercard, Visa, JCB, UnionPay International, BancNet Debit cards, WeChat Pay and Alipay transactions.

Prior to December 28, 2017, the Company is 60.0%-owned by Metropolitan Bank and Trust Company (Metrobank or the Ultimate Parent Company) and 40.0%-owned by Australia and New Zealand Funds Pty. Ltd. (ANZ). On December 28, 2017, the BSP approved the Ultimate Parent Company's acquisition of the remaining 40.0% ownership interest of the Company from ANZ. With the BSP's approval, and in accordance with the agreement between the Ultimate Parent Company and ANZ, the acquisition of the first half of the 40.0% ownership interest of ANZ in the Company was deemed completed for accounting purposes, thus, increasing the Ultimate Parent Company's ownership interest in the Company to 80.0% as of December 31, 2017. On September 4, 2018, the Parent Company obtained 200,000,000 common shares of ANZ, representing the remaining 20.0% ownership interest of ANZ in the Company. Effective September 4, 2018, the Company became a wholly owned subsidiary of the Ultimate Parent Company.

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

In March 2019, the respective Board of Directors (BOD) of the Company and Metrobank have approved and ratified the merger between the Company and the Ultimate Parent Company.

Last October 2019, the BSP approved the merger of Metrobank with the Company.

On January 3, 2020, the Certificate of Merger was issued by the SEC, which signifies the finality of the merger (Note 25).

The merger will unlock the value of the Company and help realize the following objectives: (1) enhance synergy, (2) increase profitability and improve capital efficiency, and (3) enable the Company to continue to grow and expand its business, thus becoming more competitive in the market.

2. Summary of Significant Accounting Policies

Basis of Preparation

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

Statement of compliance

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

Offsetting of financial instruments

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

Income and expenses are not offset in the statement of income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Company.

Changes in Accounting Policies and Disclosures

The following are the new standards, amendments and interpretation effective as of January 1, 2019 adopted by the Company. The Company did not early adopt any other standard, amendment or interpretation that has been issued but is not yet effective.

The Company applies, for the first time, PFRS 16, *Leases,* and Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*, effective January 1, 2019. The nature and effect of these changes are discussed below.

- PFRS 16, *Leases*
  PFRS 16 supersedes PAS 17, *Leases*, IFRIC 4, *Determining whether an Arrangement Contains a Lease*, SIC-15, *Operating Leases-Incentives*, and SIC-27, *Evaluating the Substance of Transactions involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

  Lessor accounting under PFRS 16 is substantially unchanged from PAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in PAS 17.

  The Company adopted PFRS 16 using the modified retrospective approach with the date of initial application of January 1, 2019, specifically where the right-of-use assets are recognized as an amount equal to their corresponding liability. Accordingly, comparative information for prior period has not been restated and does not reflect the requirements of PFRS 16. The Company elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying PAS 17 at the date of initial application. The Company also elected to use the recognition exemptions for lease contracts, that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (‘short-term leases’), and lease contracts for which the underlying asset is of low value (‘low-value assets’).

  The effect of the adoption of PFRS 16 as at January 1, 2019 is as follows:

	Increase (Decrease)
Total assets	
Right-of-use assets (Note 18)	₱73,105,988
Total liabilities	
Lease liability (Note 18)	₱73,105,988

  Nature of the effect of the adoption of PFRS 16
  The Company recognized right-of-use assets and lease liabilities for leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognized based on the amount equal to the lease liability, adjusted for any related prepaid and accrued lease payments previously recognized. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

  The lease liability as at January 1, 2019 can be reconciled to the operating lease commitments as of December 31, 2018, as follows:

Operating lease commitments as at December 31, 2018 (Note 18)	₱225,163,424
Weighted average incremental borrowing rate as at January 1, 2019	6.14%
Discounted operating lease commitments as at January 1, 2019	192,679,261
Commitments relating to short-term and low-value assets leases	(119,573,273)
Lease liability as at January 1, 2019	₱73,105,988

Summary of new accounting policies
Summarized below are the new accounting policies of the Company upon adoption of PFRS 16, which have been applied from the date of initial application:

Right-of-Use Assets
The Company recognized right-of-use assets at the commencement date of the lease (that is, the date the underlying asset is available for use). Right-of-use assets are measured at cost, less accumulated depreciation, 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. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the lease term. Right-of-use assets are subject to impairment.

Lease Liabilities
At the commencement date of the lease, the Company recognized the lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments, if any) 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, if any. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company, if any, and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate.

In calculating the present value of lease payments, the Company 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.

Leases previously classified as operating leases
The Company recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognized based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments recognized. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Company also applied practical expedient wherein it applied the short-term leases exemptions to leases with lease term that ends within 12 months from the date of initial application.

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

After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that are within its control and affects its liability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

Short-Term Leases and Leases of Low-Value Assets
The Company applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is, those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered low value (that is below ₱250,000). Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*
  The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, *Income Taxes*. It does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatment. The interpretation specifically addresses the following:
  - Whether an entity considers uncertain tax treatments separately
  - The assumptions an entity makes about the examination of tax treatments by the tax authority
  - How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
  - How an entity considers changes in facts and circumstances

  An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty needs to be followed. The entity shall assume that the taxation authority will examine the amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, it shall reflect the effect of the uncertainty for each uncertain tax treatment using the method the entity expects to better predict the resolution of the uncertainty.

  Upon the adoption of the interpretation, the Company considered whether it has any uncertain tax positions. The Company applies significant judgment in identifying uncertainties over its income treatments. The interpretation did not have an impact on the financial statements of the Company as it has determined that its current tax treatments are in accordance with the rules and regulations of the taxation authorities.

The adoption of the following pronouncements did not have any significant impact on the Company's financial position or performance:
- Amendments to PFRS 9, *Financial Instruments, Prepayment Features with Negative Compensation*
- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*
- Amendments to PAS 28, *Investment in Associates and Joint Ventures, Long-term Interests in Associates and Joint Ventures*
- *Annual Improvements to PFRSs* 2015-2017 Cycle
  - Amendments to PFRS 3, *Business Combinations*, and PFRS 11, *Joint Arrangements, Previously Held Interest in a Joint Operation*
  - Amendments to PAS 12, *Income Taxes, Income Tax Consequences of Payments on Financial Instruments Classified as Equity*
  - Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

Significant Accounting Policies

Current and Noncurrent Classification
The Company presents assets and liabilities in the statement of financial position based on current and noncurrent classification.

An asset or liability is current when it is:
- expected to be realized or intended to be sold or consumed or settled in the normal operating cycle;
- held primarily for the purpose of trading; and
- expected to be realized or due to be settled within twelve (12) months after the statement of financial position date.

An asset is also current when it is cash or cash equivalent, unless restricted from being exchanged or used to settle a liability for at least twelve (12) months after the statement of financial position date. A liability is also current when there is no unconditional right to defer the settlement of the liability for at least twelve (12) months after the statement of financial position date.

All other assets or liabilities are classified as noncurrent. Deferred tax assets and liabilities are classified as noncurrent assets and liabilities.

Foreign Currency Translations
Transactions and balances
Transactions in foreign currency-denominated are initially recorded at the functional currency rate of exchange ruling at the date of the transaction.

The Company translates its foreign currency-denominated monetary assets and liabilities using the Bankers Association of the Philippines (BAP) closing rate, provided by Bloomberg, prevailing at the statement of financial position date; income and expenses are translated at BAP weighted average rates prevailing at transaction dates.

Exchange differences arising from reporting foreign currency monetary items at rates different from those at which they were previously recorded, as well as foreign exchange gains or losses arising from foreign currency transactions are credited to or charged against current statement of income in the year on which the rates changed.

Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Fair Value Measurement
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:
- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

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

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

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

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each statement of financial position date.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy (Note 5).

<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 marketplace are recognized in the settlement date - the date that an asset is delivered to or by the Company. Derivatives are recognized on trade date basis. Amounts due to banks and customers and loans are recognized when cash is received by the Company or advanced to the borrowers.

Initial recognition of financial instruments

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

'Day 1' profit or loss

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

In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the 'Day 1' profit or loss amount.

<u>Financial Instruments - Classification and Subsequent Measurement</u>
The Company classifies its financial assets in the following categories: financial assets at FVTPL, financial assets at FVOCI, and financial assets at amortized cost while financial liabilities are classified as financial liabilities at FVTPL and financial liabilities at amortized cost. The classification of financial instruments depends on the contractual terms and the business model for managing the instruments.

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

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

Financial assets at FVTPL

a. *Derivatives recorded at FVTPL*

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

   <u>Hedge accounting</u>
   For the purpose of hedge accounting, hedges are classified as:

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

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

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

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

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

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

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

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

The Company has designated its equity instruments as at FVOCI.

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

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

This accounting policy relates to the Company's 'Cash and cash equivalents' (excluding cash on hand), 'Due from BSP', 'Interbank loans receivable', 'Accounts receivable' and refundable deposits under 'Other assets'.

Accounts receivable include purchases made by the Company's cardholders which are collected on installments and are recorded at the cost of the items purchased plus interest covering the installment period which is initially credited to unearned interest income, shown as a deduction from 'Accounts receivable'.

Deferred acquisition cost, which is presented as part of 'Accounts receivable', represents capitalized expenses related to incremental direct cost associated with the successful origination of credit card facilities, which are amortized over two (2) years, the average relationship life with customers, on a straight-line basis.

After initial measurement, these financial assets at amortized cost are subsequently measured at amortized cost using the effective interest rate (EIR) method, less allowance for expected credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in 'Interest and penalties' in the statement of income. The expected credit losses are recognized in the statement of income under 'Provision for credit losses'.

Impairment of Financial Assets

The Company recognizes the allowance for expected credit losses (ECL) for all loans and other receivables, including unused credit lines.

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 credit risk (SICR) of the financial asset since initial recognition. Otherwise, if a SICR is observed, then, expected credit loss estimation is extended until the end of the life of the financial asset.

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

Both lifetime ECL and 12-month ECL are calculated on an account-level.

Definition of 'default'

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

Definition of 'write-off'

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

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

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

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

In order to determine if an account is subject to 12-month ECL or lifetime ECL, the Company evaluates whether there has been a SICR since initial recognition. The Company uses the credit score to determine whether the loan has significant increase in credit risk and to estimate the ECL. In 2018, an exposure is considered to have SICR when it has entered the lowest scoreband. In 2019, due to model enhancements, an exposure is considered to also have SICR when it has reached at least 30 days past due.

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

The PD represents the likelihood that a credit exposure will not be repaid and will go into default within either a 12-month horizon for Stage 1 or lifetime horizon for Stage 2. The PD for each individual instrument is modelled based on historical data and is estimated based on current market conditions and reasonable and supportable information about future economic conditions. The Company segmented its credit exposures based on homogenous risk characteristics and developed a corresponding PD methodology.

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

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

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

The Company used EIR in discounting the costs and recoveries on its credit card receivables.

Forward-looking information
The Company incorporates forward-looking information in both of its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. A broad range of forward-looking information are considered as economic inputs. Correlations among variables are evaluated and the final list of variables for the model are then determined.

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.

Probability-weighted scenarios
ECLs are probability-weighted estimate of credit losses over the expected life of the asset. Under the ECL model, the Company estimates possible defaults over three (3) various scenarios namely: baseline scenario, upside scenario, and downside scenario, where each scenario would have its own set of economic forecasts for the ECL components. The Company's probability-weighted ECL reflects management's estimate of 70% as the weight for the base case scenario and 15% chance of occurrence for both the upside and downside scenarios.

<u>Derecognition of financial instruments</u>
Financial asset
A financial asset (or, when applicable, a part of a financial asset or part of a group of financial assets) is derecognized (that is, removed from the Company's statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
  a. the Company has transferred substantially all the risks and rewards of the asset; or
  b. the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control over the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

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

Cash and cash equivalents
For purposes of reporting cash flows, cash and cash equivalents include cash on hand and in banks, amounts due from BSP and interbank loans receivable with original maturities of three (3) months or less from dates of placements and that are subject to insignificant risk of changes in value. Due from BSP includes statutory reserves required by the BSP for debt obligations considered as deposit substitutes.

Property and equipment
Depreciable properties such as building, furniture, fixtures and equipment, transportation equipment, building and leasehold improvements are carried at cost less accumulated depreciation and amortization and accumulated impairment in value, if any. Land is carried at cost less any impairment loss.

The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance, are normally charged against statement of income in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

When property and equipment are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and accumulated impairment in value, if any, are removed from the accounts and any resulting gain or loss is credited to or charged against current statement of income.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The annual depreciation and amortization rates follow:

Building	3.3%
Furniture, fixtures and equipment	20.0% to 33.0%
Transportation equipment	20.0%
Building improvements	20.0% or the life of the building, whichever is shorter
Leasehold improvements	20.0% or the term of the lease, whichever is shorter

An item of property and equipment, and any significant part initially recognized, is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income when the asset is derecognized.

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

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

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

Intangible assets
Intangible assets acquired separately, such as license fees and capitalized software, are initially recognized at cost. Following initial recognition, these assets are carried at cost less accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and the expenditure is reflected in the statement of income in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. As of December 31, 2019 and 2018, the Company does not have intangible assets with indefinite useful lives.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of income.

The useful lives of the Company's intangible assets are summarized as follows:

	License fees	Capitalized software
Useful lives	3 to 5 years	2 to 5 years
Amortization method	Amortized on a straight-line basis over the related terms of the contracts	Amortized on a straight-line basis over its useful economic life

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

Project in progress
Research costs are expensed as incurred. Development expenditures on an individual project are recognized when the Company can demonstrate:
a. the technical feasibility of completing the intangible asset so that the asset will be available for use or sale;
b. its intention to complete and its ability and intention to use or sell the asset;
c. how the asset will generate future economic benefits;
d. the availability of resources to complete the asset; and
e. the ability to measure reliably the expenditure during development.

Upon completion of development, the project cost is reclassified to 'Capitalized software'. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit.

Impairment of nonfinancial assets
Property and equipment and intangible assets
At statement of financial position date, or more frequently if events or changes in circumstances indicate that the carrying values may not be recoverable, the carrying values of property and equipment and intangible assets are reviewed for impairment. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets or cash-generating units (CGUs) are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs of disposal and value in use. In assessing value in use, the estimated

future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs. Impairment losses are recognized in the statement of income. A previously recognized impairment loss is reversed by a credit to current statement of income to the extent that it does not restate the asset to a carrying amount in excess of what would have been determined (net of any accumulated depreciation and amortization) had no impairment loss been recognized for the asset in prior years.

Equity

Capital stock is measured at par value for all shares issued and outstanding. When the shares are sold at a premium, the difference between the proceeds and the par value is credited to 'Additional paid-in capital'.

Retained earnings represent all current and prior period results of operations as reported in the statements of income, reduced by the amounts of dividends declared.

Dividends on common shares

Dividends on common shares are recognized as liability and deducted from equity when they are approved by the Company's BOD. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Company.

Dividends for the year that are approved by the Company's BOD after the statement of financial position date are disclosed as events after the statement of financial position date.

Debt issuance costs

Issuance and other related expenses incurred in connection with the issuance of debt instruments (other than debt instruments designated at FVTPL) are deferred and amortized over the terms of the instruments using the EIR method. Unamortized debt issuance costs are included in the measurement of the related carrying value of the debt instruments in the statement of financial position.

Revenue recognition

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

Discounts earned

Discounts are charges arising from credit availments by the Company's cardholders and other credit companies' cardholders when the Company is acting as an acquirer. These discounts are computed based on certain agreed rates. This account also includes interchange income from transactions processed by other acquirers through VISA Inc. (Visa) and MasterCard Incorporated (MasterCard) and fees from cash advance transactions of cardholders. Discounts/interchange fees are recognized as revenue point-in-time when services related to credit card use are being provided.

Membership fees and dues

Membership fees are periodically charged to cardholders upfront. Membership fees are deferred and recorded under 'Deferred revenue' and recognized on a straight-line basis over the period the fee entitles the cardholders to use the card.

Awards revenue
The Company operates a loyalty points program, which allows a customers to accumulate points when they purchase from member establishments using the issued card of the Company. The points accumulate and do not expire. The Company allocates a portion of the consideration received from interchange fees from credit cards to the reward points. This allocation is based on the estimated stand-alone selling prices. The amount allocated to the customer loyalty program is deferred, and is recognized as revenue when loyalty points are redeemed or the likelihood of the customer redeeming the loyalty points becomes remote. The contract liability is included in 'Deferred revenue'.

Miscellaneous income
Miscellaneous income mainly relates to service fees and transaction processing fees. Invoices for these services are issued on a monthly basis and are usually payable within 30 days. These are recognized as revenue over time as the services are provided.

<u>Expense recognition</u>
Expenses are recognized when it is probable that a decrease in future economic benefit related to a decrease in an asset or an increase in liability has occurred and the decrease in economic benefits can be measured reliably. Revenues and expenses that relate to the same transaction or other event are recognized simultaneously.

Operating expenses
Operating expenses constitute costs which arise in the normal course of business and are recognized when incurred.

Loyalty expense
Costs of rewards are recognized as expense and recorded under 'Loyalty expense' when the related loyalty points are redeemed by the cardholder.

Taxes, duties and license fees
This includes all other taxes, local and national, including gross receipt taxes (GRT), documentary stamp taxes (DST), fringe benefit taxes (FBT), license and permit fees that are recognized when incurred.

<u>Leases</u>
<u>*Policies applicable beginning January 1, 2019*</u>
The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Company as a lessee
The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

i. *Right-of-use assets*
The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). 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 commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the

asset. The right-of-use assets of the Company include office spaces, which have estimated useful lives ranging from 2 to 3 years.

ii. *Lease liabilities*
At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed 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 Company and payment of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expense (unless they are incurred to produce inventories) in the period which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest 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 lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

iii. *Short-term leases and leases of low-value assets*
The Company applies the short-term lease recognition exemption to its short-term leases of office equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of Point-of-Sale (POS) terminals that are considered low-value (i.e. ₱250,000 and below). Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

In an operating lease, the lease property was not capitalized and the lease payments were recognized as rent expense under ‘Rent, light and water’ in the statement of income on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognized under ‘Prepayments and other current assets’ and ‘Accrued interest, taxes and other expenses’, respectively.

Company as a lessor
Leases in which the Company does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income is accounted for on a straight-line basis over the lease terms and is included in ‘Miscellaneous income’ in the statement of income. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Policies applicable prior to January 1, 2019
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

a. there is a change in contractual terms, other than a renewal or extension of the arrangement;
b. a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
c. there is a change in the determination of whether fulfillment is dependent on a specified asset; or
d. there is a substantial change to the asset.

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

Company as lessee
Leases which do not transfer to the Company substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognized as an expense in the statement of income on a straight-line basis over the lease term. Contingent rental payable is recognized as an expense in the period in which these are incurred.

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

Retirement benefits
The Company operates a defined benefit retirement plan, which requires contributions to be made to a separately administered fund. The cost of providing benefits under the defined benefit retirement plan is actuarially determined using the projected unit credit method.

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

Retirement expense comprise of service cost and net interest on the net retirement liability.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in statement of income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by an independent qualified actuary.

Net interest on the net retirement liability or asset is the change during the year in the net retirement liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net retirement liability or asset. Net interest on the net retirement liability or asset is recognized as expense or income in the statement of income.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to statement of income in subsequent years.

Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Company, nor can they be paid directly to the Company. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting retirement asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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

Employee leave entitlement
Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before twelve (12) months after the end of the annual statement of financial position date is recognized for services rendered by employees up to the end of the statement of financial position date.

<u>Provisions and contingencies</u>
Provisions are recognized when the Company has a present obligation (legal or constructive) where, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

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

<u>Income taxes</u>
Income tax on profit and loss for the year comprises current and deferred taxes. Income tax is determined in accordance with tax laws and is recognized in the statement of income, except to the extent that it relates to items directly recognized in OCI.

Current tax
Current tax assets and liabilities for the current year are measured at the amount expected to be recovered from or paid to the tax authority. The tax rates and tax laws used to compute the amount are those that have been enacted or substantially enacted at the statement of financial position date.

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

Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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

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

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

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

Events after the statement of financial position date
Post year-end events that provide additional information about the Company's position at the statement of financial position date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the financial statements in compliance with PFRS requires the Company to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and the disclosures of contingent assets and contingent liabilities. Future events may occur which will cause the judgments and assumptions used in arriving at the estimates to change. The effects of any change in judgments and estimates are reflected in the financial statements as these become reasonably determinable.

Judgments, estimates and assumptions are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The following are the critical judgments and key assumptions that have a significant risk of material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Judgments

a. *Contingencies*
The Company is currently involved in various legal proceedings. The estimate of the probable cost for the resolution of claims has been developed in consultation with the outside legal counsel handling the Company's legal proceedings and is based upon an analysis of potential results. Management does not believe that the outcome of these matters will significantly affect the financial performance of the Company (Note 23).

b. *Fair values of financial instruments*
When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Judgments include considerations of inputs such as liquidity risk, credit risk and volatility for longer-dated derivatives and discount rates, prepayments and default rates assumptions. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

The fair values of the Company's financial instruments are disclosed in Note 5.

c. *Uncertainty over income tax treatment*
The Company applies significant judgment in identifying uncertainties over income tax treatments. Since the Company operates in a highly regulated environment, it assessed whether the interpretation had an impact on its financial statements.

The Company applies significant judgment whether it is probable that a particular uncertain income treatment will be acceptable to the taxation authority. The Company considers the following:

- Past experience related to similar tax treatments
- Legal advice or case law related to other entities
- Practice guidelines published by the taxation authority that are applicable to the case

The interpretation did not have an impact on the financial statements of the Company as it has determined that its current tax treatments are in accordance with the rules and regulations of the taxation authorities.

Estimates and Assumptions

a. *Estimation of allowance for credit losses on loans and other receivables, including loan commitments*
The Company's ECL calculations are outputs of complex models with a number of underlying assumptions that are considered accounting judgments and estimates include the following:

- The internal scorecards, which assigns PD to the different scorebands;
- The criteria for assessing if there is a SICR and therefore, allowances for these financial assets should be measured on a lifetime ECL;
- The expected life used for revolving credit facilities;
- The development of the ECL models, including the various formulas and the choice of inputs;
- The selection of forward-looking macroeconomic scenarios to derive the economic inputs into the ECL models;
- The use of five-year historical data in determining the recoveries in computing for LGD; and

- The probability weights used to consider three (3) various scenarios namely: baseline scenario, upside scenario, and downside scenario.

The provision for credit losses on accounts receivable is disclosed in more detail in Note 7.

b. *Revenue recognition for customer loyalty program*
The Company estimates the stand-alone price as the fair value of the points awarded under the customer loyalty program. This is derived by getting the discount that the credit cardholder will obtain when points are used, adjusted for both other discount/benefit that the customer will receive without using the points, and the likelihood that usage will be exercised.

As points issued under the program do not expire, such estimates are subject to significant uncertainty. The estimated liability for unredeemed points is disclosed in Note 13.

c. *Estimation of retirement liability*
The cost of the Company's defined benefit retirement plan is determined using an actuarial valuation, which involve various assumptions. These assumptions include the determination of discount rates and future salary increase rates. The defined benefit obligation is highly sensitive to changes in underlying assumptions due to the complexity of the valuation and its long-term nature.

In determining the appropriate discount rate, management considers the market yields on Philippine government bonds with terms consistent with the expected employee benefit payouts as of the statement of financial position date.

Future salary increases are based on expected future inflation rates in the Philippines.

All assumptions are reviewed at each statement of financial position date. The details of assumptions used in the actuarial valuation and amounts of retirement liability as of December 31, 2019 and 2018 are disclosed in Note 19.

d. *Estimation of incremental borrowing rate for leases*
The Company 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 Company 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 Company 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Company estimates the IBR using observable inputs when available and is required to make certain entity-specific estimates.

4. **Financial Risk and Capital Management**

Risk is inherent in the Company's operations but is managed through a process of ongoing identification, measurement and monitoring of various risk management parameters, limits and other controls. This process of risk management is critical to the Company's going concern and the Company's management is aware and responsible for the risk exposures relating to the Company's business activities that include, but are not limited to, the following areas:

- Credit risk
- Market risk
- Liquidity risk

- Operational risk
- Information security risk

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Company's strategic planning process.

Risk Management Framework

The Company's BOD has overall responsibility for the oversight of the Company's risk management process. Supporting the BOD in this function are BOD-level committees such as the Audit Committee, Risk Oversight Committee (ROC), EXECOM and Management Committee.
The Audit Committee and the ROC are responsible for monitoring the Company's compliance with regulatory requirements, risk management policies and procedures, and for reviewing the adequacy of these policies and procedures in regard to the risks faced by the Company. Both Committees are supported in these functions by the Risk Management, Finance, Compliance and Internal Audit, through the Executive and Management Committees.

The Audit Committee and the ROC are each composed of at least three (3) members of the BOD, at least two (2) of whom are independent directors, including the Chairman, with accounting, auditing or related financial management expertise or experience.

The principal responsibilities of the Audit Committee include annual review and reporting to the BOD on its own performance and to provide oversight of internal, compliance and external audit functions. The ROC is required to identify major credit, operating, liquidity, market risks and other risk issues and shall assess the probability of each risk becoming a reality, estimate its possible effect and cost, and prioritize areas of concern where those risks will most likely occur. Moreover, the ROC ensures that all risk management strategies and policies for all types of risk are developed, properly documented, implemented and effectively communicated to the Company.

The ROC oversees the Risk Management Division (RMD) in strengthening the Company's policies and procedures.

The RMD of the Company is composed of the Head of Acquisition Risk and Strategy Management, Head of Portfolio Risk, Head of Risk Management Analytics (RMA), Head of Operating Risk, Head of Liquidity Risk, and the Business Information Security Officer (BISO), all of whom report to the Head of Risk Management, who then reports directly to the ROC.

The risk management process involves the following:

Chief Financial Officer (CFO)

The CFO oversees all financial aspects of the business operation, which includes directing and overseeing all financial activities of the Company, including preparation of current financial reports, as well as summaries and forecasts for future business growth and general economic outlook. The CFO provides leadership and coordination in the accounting, business planning, management information and budgeting efforts of the Company.

Risk Management Head

The Risk Management Head is accountable for ensuring the efficient and effective governance of significant risks and related opportunities of the business. The Risk Management Head manages and develops a comprehensive process for assessing, identifying, monitoring and reducing pertinent business risks such as credit, market, liquidity and operations that could interfere with the Company's objectives and goals. It is usually the Risk Management Head's responsibility to ensure that the

Company is in substantial compliance with its internal operating policies and procedures and any external legal, regulatory or contractual requirements.

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company manages credit risk by setting limits for individual borrowers, and groups of borrowers and industry segments. The Company also monitors credit exposures, and continuously assesses the creditworthiness of counterparties.

The Company has established the Credit Risk Unit (CRU), composed of Acquisitions Risk and Portfolio Risk, which continues to modernize and streamline the Company's Credit Risk Management practices and processes. The CRU is responsible for establishing credit policies and processes to minimize losses while ensuring the sustainability of the business.

The Credit Risk team is responsible for managing the portfolio through regular monitoring of acquisition, line management and usage programs with the goal of limiting exposure to bad accounts while maximizing revenue. The Credit Risk team is also involved in monitoring and managing the quality of the credit card portfolio through its oversight functions over Fraud, Authorizations, and Collections.

Management Information Systems (MIS) play an integral part in credit risk management. Regular MIS from Credit Risk help the business identify possible sources of risks. Credit policies, which should always be in consultation with business unit, must be supported by MIS reports.

The Company manages credit risk guided by the following principles:

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

a. *Credit risk exposure*
Maximum exposure to credit risk after collateral held or other credit enhancements
The tables below provide the analysis of the maximum exposure to credit risk of the Company's financial instruments, excluding those where the carrying values as reflected in the statements of financial position and related notes already represent the financial instrument's maximum exposure to credit risk, before and after taking into account collateral held or other credit enhancements:

	2019			
	Gross Maximum Exposure	**Fair Value of Collateral or Credit Enhancement**	**Net Exposure**	**Financial Effect of Collateral or Credit Enhancement**
Accounts receivable:				
Fully secured cardholders' receivables	**₱173,796,551**	**₱173,796,551**	**₱–**	**₱173,796,551**

	2018			
	Gross Maximum Exposure	Fair Value of Collateral or Credit Enhancement	Net Exposure	Financial Effect of Collateral or Credit Enhancement
Accounts receivable:				
Fully secured cardholders' receivables	₱175,667,078	₱175,667,078	₱–	₱175,667,078

Collateral and other credit enhancements
The fair value of hold-out cash deposits, that serve as collateral for certain customers, approximate their carrying value due to their short-term maturities.

Offsetting of financial instruments
The Company does not have financial instruments that can be offset under enforceable master netting agreement or similar agreements.

b. *Concentration risk*
Concentrations arise when a number of counterparties belong to a group controlled by a family or a conglomerate or are engaged in similar business activities or activities in the same geographical region, or have some similar economic, political, or other conditions. Concentrations indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographical location.

While concentration of credit risks are inherent in the Company's business and cannot be totally eliminated, they are limited and reduced through the Company's risk control and diversification strategies. Safeguarding against credit risk concentrations is an important component of the Company's risk management system.

The BOD is responsible for establishing and monitoring compliance with policies governing large exposures and credit risk concentrations of the Company. The BOD reviews these policies regularly (at least annually) to ensure that they remain adequate and appropriate for the Company. Subsequent changes to the established policies are approved by the BOD.

Concentration of risks of financial assets with credit risk exposure

An analysis of concentration of risk at the statement of financial position date based on the carrying amount of financial instruments is shown below:

	2019			
	Loans and Receivables	**Loans and Advances to Banks***	**Others****	**Total**
Concentration by industry:				
Personal activities	**₱93,937,786,634**	**₱–**	**₱209,765,892,623**	**₱303,703,679,257**
Philippine government	**–**	**6,169,050,643**	**–**	**6,169,050,643**
Financial intermediaries	**12,962,269**	**743,553,859**	**211,658,525**	**968,174,653**
	93,950,748,903	**6,912,604,502**	**209,977,551,148**	**310,840,904,553**
Unearned interest and other deferred income	**(6,119,735,171)**	**–**	**–**	**(6,119,735,171)**
Allowance for ECL	**(4,608,794,900)**	**–**	**–**	**(4,608,794,900)**
	₱83,222,218,832	**₱6,912,604,502**	**₱209,977,551,148**	**₱300,112,374,482**
Concentration by location:				
Metro Manila	**₱42,403,159,160**	**₱6,912,604,502**	**₱92,677,353,309**	**₱141,993,116,971**
Luzon (except Metro Manila)	**31,323,681,031**	**–**	**71,279,258,646**	**102,602,939,677**
Visayas	**10,387,965,778**	**–**	**23,638,553,168**	**34,026,518,946**
Mindanao	**9,835,942,934**	**–**	**22,382,386,025**	**32,218,328,959**
	93,950,748,903	**6,912,604,502**	**209,977,551,148**	**310,840,904,553**
Unearned interest and other deferred income	**(6,119,735,171)**	**–**	**–**	**(6,119,735,171)**
Allowance for ECL	**(4,608,794,900)**	**–**	**–**	**(4,608,794,900)**
	₱83,222,218,832	**₱6,912,604,502**	**₱209,977,551,148**	**₱300,112,374,482**

**Comprised of Cash in banks, Due from BSP and Interbank loans receivable*
***Comprised of Commitments and contingencies, FVOCI investments, Variation marginal deposit and Refundable deposits*

	2018			
	Loans and Receivables	Loans and Advances to Banks*	Others**	Total
Concentration by industry:				
Personal activities	₱75,199,438,156	₱–	₱185,595,765,004	₱260,795,203,160
Philippine government	–	11,726,731,502	–	11,726,731,502
Financial intermediaries	26,004,304	1,082,259,131	14,307,109	1,122,570,544
	75,225,442,460	12,808,990,633	185,610,072,113	273,644,505,206
Unearned interest and other deferred income	(4,330,117,097)	–	–	(4,330,117,097)
Allowance for ECL	(4,101,798,235)	(146,174)	–	(4,101,944,409)
	₱66,793,527,128	₱12,808,844,459	₱185,610,072,113	₱265,212,443,700
Concentration by location:				
Metro Manila	₱34,471,059,510	₱12,808,990,633	₱83,695,355,373	₱130,975,405,516
Luzon (except Metro Manila)	25,108,778,259	–	62,789,664,294	87,898,442,553
Visayas	8,142,466,156	–	20,361,911,328	28,504,377,484
Mindanao	7,503,138,535	–	18,763,141,118	26,266,279,653
	75,225,442,460	12,808,990,633	185,610,072,113	273,644,505,206
Unearned interest and other deferred income	(4,330,117,097)	–	–	(4,330,117,097)
Allowance for ECL	(4,101,798,235)	(146,174)	–	(4,101,944,409)
	₱66,793,527,128	₱12,808,844,459	₱185,610,072,113	₱265,212,443,700

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

c. *Credit quality of financial assets*
<u>*Accounts receivable*</u>
Receivables of the Company include those due from cardholders and other receivables.

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

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

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

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

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

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

<u>*Loans and advances to banks and other assets*</u>
Financial instruments other than credit card receivables for which the Company has not yet established a credit rating system are classified as unrated. These financial assets include:

a) Cash and cash equivalents
Cash and cash equivalents include deposits with various banks and interbank loans receivable, and deposit accounts with the BSP. There is a high assurance of timely payment of interest and principal. The Company classifies and measures the quality of its cash and cash equivalents by the internal credit rating grade as follows:

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

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

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

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

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

b) Other assets
This account consists of FVOCI investments, variation marginal deposit and refundable deposits.

The following tables show the credit quality of the Company's financial assets as of December 31, 2019 and 2018 (amounts in thousands):

	2019			
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Accounts receivable				
Excellent	₱53,187,058	₱–	₱–	₱53,187,058
Very satisfactory	15,592,245	–	–	15,592,245
Satisfactory	7,066,160	–	–	7,066,160
Poor	6,051,160	6,397,733	–	12,448,893
Default	–	–	4,162,476	4,162,476
	₱81,896,623	**₱6,397,733**	**₱4,162,476**	**₱92,456,832**

	2019			
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Allowance for credit losses				
Excellent	₱234,810	₱–	₱–	₱234,810
Very satisfactory	286,310	–	–	286,310
Satisfactory	324,667	–	–	324,667
Poor	546,634	1,682,556	–	2,229,190
Default	–	–	1,505,931	1,505,931
	₱1,392,421	**₱1,682,556**	**₱1,505,931**	**₱4,580,908**

	2019			
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Unused credit lines				
Excellent	₱171,744,375	₱–	₱–	₱171,744,375
Very satisfactory	19,900,189	–	–	19,900,189
Satisfactory	7,534,496	–	–	7,534,496
Poor	6,068,434	2,846,928	–	8,915,362
Default	–	–	1,671,471	1,671,471
	₱205,247,494	**₱2,846,928**	**₱1,671,471**	**₱209,765,893**

Internal rating grade	**2019** **Stage 1**	**Stage 2**	**Stage 3**	**Total**
Provisions				
Excellent	₱171,036	₱–	₱–	₱171,036
Very satisfactory	99,909	–	–	99,909
Satisfactory	124,880	–	–	124,880
Poor	184,009	195,945	–	379,954
Default	–	–	–	–
	₱579,834	**₱195,945**	**₱–**	**₱775,779**

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

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

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

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

d. Impairment assessment

Internal scorecards and PD estimation process

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

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

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

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

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

The Company uses the EIR as discounting factor to obtain the present value of recoveries and cost, which are used to consider the time value of money in determining the LGD per account.

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

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

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

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

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

In determining the appropriate macroeconomic variables used as forward-looking information, the Company used Single Factor Analysis (SFA). Further, the Company also used Multi-Factor Analysis (MFA) to further identify the macroeconomic variable with the most significant impact on PD. 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 address this, quantitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

In 2018, the Company incorporated forward-looking information to its ECL estimation using the following economic inputs:

- Gross Domestic Product (GDP) (current) growth
- London Interbank Offered Rate (LIBOR)
- PHP / United States Dollar (USD) exchange rate

In 2019, after model reviews and validation, the Company relies on the following as economic inputs in measuring ECL:

- Treasury bill rates
- Philippine Stock Exchange (PSE) All Shares Index
- GDP growth
- External Debt
- PSE Financials Index
- GDP Financial Intermediation
- Government expenditure

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

Probability-weighted scenarios
ECLs are probability-weighted estimate of credit losses over the expected life of the asset. Under the ECL model, the Company estimates possible defaults over three (3) various scenarios namely: baseline scenario, upside scenario, and downside scenario, where each scenario would have its own set of economic forecasts for the ECL components. The Company's probability-weighted ECL reflects management's estimate of 70% as the weight for the base case scenario and 15% chance of occurrence for both the upside and downside scenarios.

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

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

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

- the maximum contractual period (including extensions) over which the entity is exposed to credit risk; and

- the entire period that it is expected to be exposed to credit risk and the credit risk management actions that an entity expects to take once the credit risk on the financial instrument has increased.

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

In 2018, an account is said to enter Stage 2 or Stage 3, if account has a B-Score of 345 and below or is tagged as default (see SICR), respectively.

In 2019, due to model enhancements, an additional criterion for an account to enter stage 2 is when it has reached at least 30 days past due (see SICR).

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

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

The inputs and models used for calculating ECL may not always capture all characteristics of the economy, the market, or other factors not addressed by the models. To reflect this, post-modelling qualitative adjustments or overlays may be made which may increase or decrease the ECL.

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

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

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

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

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

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

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

Market Risk
Market risk is the risk to earnings or capital arising from adverse movements in factors that affect the market value of financial instruments. The Company focuses on two market risk areas, which are interest rate risk and foreign currency risk.

a. *Interest rate risk*
Interest rate risk is the risk that changes in market interest rates will reduce current or future earnings and/or the economic value. The Company's borrowings consist of a mix of fixed rate notes and monthly repriceable loans, in order to ensure that any adverse effects of interest rate fluctuations are minimized.

The Treasury Unit is primarily responsible in managing the liquidity, as well as the interest rate risk of the Company. The Treasury Unit ensures borrowings from various sources of funds are availed at the cheapest possible cost at acceptable terms. In measuring interest rate risk, the Company employs gap analysis wherein an interest rate gap report is prepared by breaking down the statements of financial position accounts according to their contractual maturities or repricing dates, whichever is applicable. The difference in the amount of assets and liabilities maturing or being repriced in any pre-specified time band would be treated as an indicator of the Company's exposure to the risk of potential changes in net interest income.

A funding policy guides the Company's management in determining appropriate levels of term funding that addresses, among other things, interest rate risk, maturity concentration and funding diversification.

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

	2019			
	Changes in interest rates (in basis points)			
	(100)	**(50)**	**100**	**50**
Change in income before income tax	**₱654.0**	**₱327.0**	**(₱654.0)**	**(₱327.0)**
As percentage of the Company's income before income tax	**9.3%**	**4.7%**	**(9.3%)**	**(4.7%)**

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

This sensitivity analysis is performed for risk management purposes and assumes no other changes in the repricing structure and loan volumes. Actual changes in net income will vary from the model.

Other than the potential impact on the Company's income before income tax, there is no other effect in equity.

The RMD prepares a quantitative risk model on interest rate risk called the Earnings-at-Risk (EaR). The EaR is used to measure any mismatch between assets and liabilities in terms of interest rate repricing. The RMD developed EaR limit over a 1-year period. The limit is established to reduce the potential exposure of earnings and/or capital from changes in interest rates. Such method of measuring and controlling interest rate risk is applied during the year. The BOD approved EaR limit for 2019 as the difference between the 2019 budgeted net interest income and 2018 actual net interest income which amounts to ₱1.0 billion.

b. *Foreign currency risk*
Foreign currency risk arises on financial instruments that are denominated in a foreign currency, which is the currency other than the functional currency in which the Company is measured.

Information on the Company's USD-denominated monetary assets and liabilities as of December 31, 2019 and 2018 and their PHP equivalents are as follows (amounts in thousands):

	2019		2018	
	USD	**PHP Equivalent**	USD	PHP Equivalent
Financial assets				
Cash in banks	**US$1,203**	**₱60,914**	US$2,618	₱137,658
Accounts receivable	**7,143**	**361,688**	6,473	340,350
	8,346	**422,602**	9,091	478,008
Financial liabilities				
Notes payable	**18,000**	**911,430**	5,700	299,706
Accrued interest payable	**8**	**405**	13	706
	18,008	**911,835**	5,713	300,412
Net foreign currency-denominated assets (liabilities)	**(US$9,662)**	**(₱489,233)**	US$3,378	₱177,596

Financial liabilities above do not include the dollar-denominated floating rate loans hedged into peso fixed rate loans since the cash flow hedge manages the Company's exposure to foreign currency risk (Note 8).

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

	2019			
	Changes in foreign exchange rates			
	(1.0%)	**(0.5%)**	**1.0%**	**0.5%**
Change in income before income tax	**₱489.2**	**₱244.6**	**(₱489.2)**	**(₱244.6)**
As percentage of the Company's net income before income tax	**7.0%**	**3.5%**	**(7.0%)**	**(3.5%)**

	2018			
	Changes in foreign exchange rates			
	(1.0%)	(0.5%)	1.0%	0.5%
Change in income before income tax	(₱177.6)	(₱88.8)	₱177.6	₱88.8
As percentage of the Company's net income before income tax	(2.5%)	(1.3%)	2.5%	1.3%

Liquidity Risk and Funding Management
Liquidity risk and funding management is the ability of the Company to meet financial obligations as they fall due. Liquidity risk is the current and prospective risk to earnings or capital arising from the Company's inability to meet its financial obligations as they fall due.

Liquidity risk and funding management involves setting a strategy, ensuring effective board and senior management oversight, as well as operating under a sound process for measuring, monitoring and controlling liquidity risk. It requires the Company not only to measure its liquidity position on an ongoing basis but also to examine how funding requirements are likely to evolve under various scenarios, including adverse conditions.

A strong liquidity management system in particular is characterized by an effective analysis of net funding requirements under alternative scenarios and diversification of funding sources.

The Company is continuously working on developing diversified funding sources to support its asset growth, as well as to minimize liquidity and interest rate risks.

The Treasury Unit, on a daily basis, monitors the cash position of the Company. The Treasury Unit ensures that the Company has ample liquidity to settle financial obligations that are due as of a given period. The Treasury Unit employs various liquidity or funding tools to determine the expected funding requirements for a particular period.

The RMD prepares the monthly Maximum Cumulative Outflow (MCO) report to measure the liquidity mismatch risk as of a given period. The MCO report provides quantitative information on the potential liquidity risk exposure based on pre-specified time bands. The Company has established MCO limit to aid in controlling liquidity risk. Effective June 2018, the MCO limit is equal to the funding capacity which is equal to total available bank lines. Prior to this change, the MCO limit is equal to the total wholesale borrowing limit less utilized borrowing limit. As of December 31, 2019 and 2018, the Company reported positive MCO limit of ₱31.9 billion and ₱35.2 billion corresponding to the total funding and ₱21.0 billion and ₱10.8 billion corresponding to 80.0% of the total wholesale borrowing limit less utilized borrowing limit, respectively.

Aside from the MCO report, the RMD also prepares monthly Liquidity Stress testing to augment in measuring potential liquidity risk exposures under different stress scenarios.

The tables below show the MCO report of the Company as of December 31, 2019 and 2018 (amounts in millions):

				2019			
	Up to 1 Month	**1 to 2 Months**	**2 to 3 Months**	**3 to 6 Months**	**6 to 12 Months**	**Beyond 1 Year**	**Total**
Assets	**₱10,359**	**₱7,569**	**₱6,786**	**₱14,823**	**₱16,183**	**₱34,654**	**₱90,374**
Liabilities	**16,957**	**18,678**	**2,784**	**5,351**	**7,998**	**21,072**	**72,840**
Periodic Gap	**(₱6,598)**	**(₱11,109)**	**₱4,002**	**₱9,472**	**₱8,185**	**₱13,582**	**₱17,534**
Cumulative Gap	**(₱6,598)**	**(₱17,707)**	**(₱13,705)**	**(₱4,233)**	**₱3,952**	**₱17,534**	
				2018			
	Up to 1 Month	1 to 2 Months	2 to 3 Months	3 to 6 Months	6 to 12 Months	Beyond 1 Year	Total
Assets	₱10,662	₱6,227	₱5,636	₱12,072	₱12,713	₱32,166	₱79,476
Liabilities	13,928	6,646	2,485	9,560	5,949	27,423	65,991
Periodic Gap	(₱3,266)	(₱419)	₱3,151	₱2,512	₱6,764	₱4,743	₱13,485
Cumulative Gap	(₱3,266)	(₱3,685)	(₱534)	₱1,978	₱8,742	₱13,485	

The Company includes committed credit line and net cash flows from cross-currency swap interest rate swaps amounting to ₱1.0 billion and ₱126.1 million, respectively, in determining the periodic gap during the year.

The tables below summarize the maturity profile of the undiscounted remaining contractual maturities of the Company's financial assets and liabilities as of December 31, 2019 and 2018 (amounts in thousands):

	2019					
	Up to 1 Month	**1 to 3 Months**	**3 to 6 Months**	**6 to 12 Months**	**Beyond 1 Year**	**Total**
Financial Assets						
Cash and cash equivalents	**₱743,566**	**₱–**	**₱–**	**₱–**	**₱–**	**₱743,566**
Due from BSP	**5,994,131**	**–**	**–**	**–**	**–**	**5,994,131**
Interbank loans receivable	**174,920**	**–**	**–**	**–**	**–**	**174,920**
Accounts receivable:						
Cardholders	**8,696,409**	**48,215,403**	**6,483,314**	**16,159,679**	**12,902,027**	**92,456,832**
Others	**1,249,234**	**–**	**–**	**–**	**–**	**1,249,234**
Other current assets	**168,615**	**–**	**–**	**–**	**–**	**168,615**
	17,026,875	**48,215,403**	**6,483,314**	**16,159,679**	**12,902,027**	**100,787,298**
Financial Liabilities						
Accounts payable:						
Merchants	**2,134,219**	**–**	**–**	**–**	**–**	**2,134,219**
Others	**921,777**	**–**	**–**	**–**	**–**	**921,777**
	3,055,996	**–**	**–**	**–**	**–**	**3,055,996**
Bills payable	**16,212,353**	**17,292,681**	**5,863,492**	**5,306,199**	**2,289,018**	**46,963,743**
Notes payable	**6,715,126**	**9,231,586**	**–**	**–**	**6,909,702**	**22,856,414**
Derivative liabilities						
Gross contractual receivable	**–**	**3,308,965**	**12,208**	**23,889**	**1,921,498**	**5,266,560**
Gross contractual payable	**–**	**(3,440,284)**	**(33,801)**	**(67,234)**	**(2,083,978)**	**(5,625,297)**
Subordinated debt	**–**	**18,164**	**18,164**	**18,164**	**1,403,855**	**1,458,347**
Lease liabilities	**2,217**	**2,885**	**7,523**	**14,808**	**31,636**	**59,069**
Accrued interest and other expenses:						
Accrued interest payable	**118,714**	**270,711**	**48,152**	**35,368**	**33,491**	**506,436**
Accrued advertising	**239,504**	**–**	**–**	**–**	**–**	**239,504**
Accrued other expenses	**731,746**	**–**	**–**	**–**	**–**	**731,746**
	27,075,656	**26,684,708**	**5,915,738**	**5,331,194**	**10,505,222**	**75,512,518**
Net undiscounted financial assets (liabilities)	**(₱10,048,781)**	**₱21,530,695**	**₱567,576**	**₱10,828,485**	**₱2,396,805**	**₱25,274,780**

	2018					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Beyond 1 Year	Total
Financial Assets						
Cash and cash equivalents	₱1,082,272	₱–	₱–	₱–	₱–	₱1,082,272
Due from BSP	9,526,732	–	–	–	–	9,526,732
Interbank loans receivable	2,200,000	–	–	–	–	2,200,000
Accounts receivable:						
Cardholders	14,397,970	33,615,864	7,885,348	9,359,121	9,407,020	74,665,323
Others	392,222	–	–	–	–	392,222
	27,599,196	33,615,864	7,885,348	9,359,121	9,407,020	87,866,549
Financial Liabilities						
Accounts payable:						
Merchants	1,525,460	–	–	–	–	1,525,460
Others	599,282	–	–	–	–	599,282
	2,124,742	–	–	–	–	2,124,742
Bills payable	9,736,726	5,537,080	2,842,998	3,081,933	8,661,079	29,859,816
Notes payable	6,827,983	4,309,551	7,810,679	1,748,599	10,836,180	31,532,992
Derivative liabilities						
Gross contractual receivable	–	67,283	73,470	5,401,276	2,072,927	7,614,956
Gross contractual payable	–	(123,305)	(130,936)	(5,575,392)	(2,218,625)	(8,048,258)
Subordinated debt	–	18,164	18,164	18,164	1,476,431	1,530,923
Accrued interest and other expenses:						
Accrued interest payable	187,983	136,786	50,998	20,740	25,770	422,277
Accrued advertising	115,999	–	–	–	–	115,999
Accrued other expenses	553,420	–	–	–	–	553,420
	19,546,853	9,945,559	10,665,373	4,695,320	20,853,762	65,706,867
Net undiscounted financial assets (liabilities)	₱8,052,343	₱23,670,305	(₱2,780,025)	₱4,663,801	(₱11,446,742)	₱22,159,682

Basel III Leverage Ratio
BSP Circular Nos. 881 and 990 cover the implementing guidelines on the Basel III Leverage Ratio (BLR) framework designed to act as a supplementary measure to the risk-based capital requirements and shall not be less than 5.0%. The monitoring period has been set every quarter starting December 31, 2014 and extended until June 30, 2018. Effective July 1, 2018, the monitoring of the leverage ratio was implemented as a Pillar I minimum requirement.

The details of the BLR, as reported to the BSP, as of December 31, 2019 and 2018 follow:

	2019	2018
Tier 1 Capital	**₱16,808,528,939**	₱12,412,865,801
Exposure Measure	**116,371,606,794**	100,743,378,831
BLR	**14.4%**	12.3%

Liquidity Coverage Ratio
On March 10, 2016, the BSP continued its operation of Basel III reforms in its issuance of Circular No. 905 requiring banks to comply with the Liquidity Coverage Ratio (LCR). In 2019, the BSP extended the observation period to December 31, 2019 with a minimum requirement of 70% for subsidiary banks and quasi-banks and 100% effective January 1, 2020. As of December 2019, the Company's LCR dropped to 93.4% as it has been keeping its borrowings short-term in preparation for the merger with the Parent Company. In BOD Resolution No. 1480, the Company requested from the BSP to be exempted from complying with the LCR of 70% floor limit and to maintain at least 50% floor limit instead until the effectivity of the merger. The BSP approved the Resolution on September 27, 2019.

The details of the LCR, as reported to BSP, as of December 31, 2019 and 2018 follow:

	2019	2018
High Quality Liquid Assets (HQLA)	**₱6,169,143,029**	₱9,526,731,503
Total Net Cash Outflows	**₱6,606,839,730**	₱5,646,633,507
LCR	**93.4%**	168.7%

As of December 31, 2019 and 2018, the Company met and complied with the LCR requirements set by the BSP

Net Stable Funding Ratio
On June 6, 2018, the BSP issued Circular No. 1007, Implementing Guidelines on the adoption of the Basel III Framework on Liquidity Standards - Net Stable Funding Ratio (NSFR). The NSFR limits overreliance on short-term wholesale funding and promotes enhanced assessment of funding risk across all on and off-balance sheet accounts. The NSFR complements the LCR, which promotes short term resilience of the Company's liquidity profile. The covered supervised financial institution shall maintain an NSFR of at least 100% at all times. Compliance with this requirement was phased-in effectively July 1, 2018, with full implementation of the minimum NSFR on January 1, 2019. In BOD Resolution No. 1480, the Company requested from the BSP to be exempted from complying with the NSFR of 100% floor limit and to maintain at least 50% floor limit instead until the effectivity of the merger. The BSP approved the Resolution on September 27, 2019.

The details of the NSFR, as reported to BSP, as of December 31, 2019 and 2018 follow:

	2019	2018
Available Stable Funding	**₱38,529,087,577**	₱40,362,769,921
Required Stable Funding	**57,948,412,457**	38,083,312,599
NSFR	**66.5%**	106.0%

As of December 31, 2019 and 2018, the Company met and complied with the NSFR requirements set by the BSP.

a. *Liquidity risk management and control*
As part of a sound liquidity risk management process and at the same time, to adhere to its policy that is, to maintain adequate liquidity at all times, the Company has established liquidity risk limits. These limits are used to control the risk emanating from the funding activities of the Company. These limits are recommended by the RMD, in coordination with Treasury Unit, reviewed and approved by ALCO and BOD through ROC.

These limits are reviewed periodically, at least annually, to assess its suitability and reasonableness given the current market and economic conditions.

Below are the current Liquidity Risk Limits utilized by the Company in 2019:

MCO Limit	80.0% of aggregate Wholesale Borrowing Limit (WBL) net of unutilized WBL
Current Ratio	1:1
Debt-to-Equity Ratio	7.5:1
Commitment Guidelines	Less than or equal to 10.0% of the aggregate available credit limits granted to its cardholder
Reserve Requirements mandated by the BSP	18.0% of total deposit substitutes (liabilities)/16.0% (implemented in tranches beginning May 2019)/ 14.0% (effective December 2019)

Actual figures are compared with the above liquidity risk limits and any breaches are immediately escalated or reported to the head of Treasury and CFO, as well as, to the ALCO. The Treasury Unit will explain or justify any breaches and likewise recommend corrective measures within a specified period.

Aside from the established limits mentioned above, the Company has adopted a Contingency Funding Plan (CFP) for handling liquidity crisis. The CFP outlines the policies and procedures that shall be followed at the onset, during and after the liquidity crisis. It also provides information on the types of events that may trigger to activate the plan, the roles and responsibilities of members of the crisis management team and critical business units, sources of contingency funds, and communication plan.

The CFP helps the Company to ensure sufficient liquidity is maintained even in times of liquidity crisis. The CFP is reviewed and, if necessary, updated annually.

The Company has various credit line and interbank call loan (IBCL) facilities that it can access to meet liquidity needs. Access to sources of funding is sufficiently available and debt maturing within 12 months may be rolled over with existing lenders. As of December 31, 2019 and 2018, the Company has available credit and IBCL lines amounting to ₱43.8 billion and ₱35.2 billion, respectively.

Liquidity stress testing
The Company also employs different stress scenarios in evaluating the liquidity position as of a given cut-off date. Stress scenarios applied involves the following stress assumptions and parameters:

a. Level of pre-termination of retail promissory notes;
b. Significant decrease in the payment levels of cardholders due to increase in delinquencies; and
c. Decrease in the level of funding access from wholesale market.

Analysis of the resulting gaps serves as an additional tool in managing exposure in case a liquidity stress scenario should happen.

Stress testing report is also prepared monthly by RMD in addition to the MCO reports and liquidity ratios.

Below are the Stress Scenarios currently being employed by Risk Management:

a. 25.0% of Retail PN holders (MD> 30 days) pre-terminates; 25.0% of WBL from other banks not accessible. PDR increases to 12.0% at end of one year, resulting to decrease in monthly collections
b. 50.0% of Retail PN holders (MD> 30 days) pre-terminates; 50.0% of WBL from other banks not accessible. PDR increases to 16.0% at end of one year, resulting to decrease in monthly collections
c. 75.0% of Retail PN holders (MD> 30 days) pre-terminates; 75.0% of WBL from other banks not accessible. PDR increases to > 16.0% at end of one year, resulting to decrease in monthly collections

<u>Capital Management</u>
Capital management pertains to utilizing efficient processes and/or measures to ensure adequate capital is maintained at all times.

The Company's capital management objectives are:

- to maintain sufficient capital, at all times, to meet the minimum regulatory capital requirements set by the BSP;
- to maintain adequate capital that will support the Company's business growth;
- to maintain an adequate capital buffer, at all times, to cover for risk from potential stress events and to attain the desired internal capital adequacy ratio; and
- to ensure that the Company meets the debt to equity ratio as required in the Omnibus Notes Facility Agreement.

As a financial institution, the Company is required to meet the minimum capital adequacy ratio and maintain adequate capital commensurate to the risk of its business and operations.

Accordingly, the Company should likewise be adequately capitalized to enable it to effectively discharge its functions and withstand any foreseeable problems. In addition, as one of the principal objectives of supervision is the protection of cardholders and creditors, banking regulators monitor the adequacy of capital of the Company to ensure that capital recognized in capital adequacy measures is readily available for those creditors.

The BOD ensures that the above objectives are met by the Company in any given time while the management ensures BOD-approved capital management policies are adhered to.

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

In addition, the risk-based capital adequacy ratio (CAR) of the Company with quasi-banking operations, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.0%. Qualifying capital and risk-weighted assets are computed based on BSP regulations.

Risk-weighted assets consist of total assets less cash on hand, amounts due from BSP, loans covered by hold-out or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the Monetary Board (MB) of the BSP. Under BSP Circular No. 360, effective July 1, 2003, the CAR is to be inclusive of a market risk charge.

On January 15, 2013, the BSP issued Circular No. 781, Basel III Implementing Guidelines on Minimum Capital Requirements. The guidelines revised the risk-based capital adequacy framework and introduced other minimum capital ratios such as CET1 ratio and Tier 1 Capital ratio of 6.0% and 7.5%, respectively. A capital conservation buffer of 2.5% comprised of CET1 shall also be imposed. BSP Circular No. 781 took effect on January 1, 2014. On November 29, 2018, the BSP released a circular implementing the Basel III Counter Cyclical Capital Buffer (CCyB). Current CCyB is zero percent (0%) subject to upward adjustment as determined by the Monetary Board when systemic conditions warrant up to a maximum of 2.5%.

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

	2019	2018
CET1 capital	**₱16,809**	₱12,413
Tier 1 capital	**₱16,809**	₱12,413
Tier 2 capital	**1,599**	1,911
Gross qualifying capital	**₱18,408**	₱14,324
Credit risk-weighted assets	**₱87,343**	₱74,622
Operational risk-weighted assets	**27,741**	24,328
Total risk weighted assets	**₱115,084**	₱98,950
CET1 ratio	**14.6%**	12.5%
Capital conservation buffer	**8.6%**	–
Tier 1 ratio	**14.6%**	12.5%
Risk-based CAR	**16.0%**	14.5%

The regulatory qualifying capital of the Company consists of Tier 1 (core) and Tier 2 (supplementary) capital. Tier 1 capital comprise paid-up common stock, unappropriated retained earnings including current year profit, appropriated retained earnings less required deductions such as unsecured credit accommodations to DOSRI. Tier 2 is composed of Fixed-Rate Unsecured Subordinated Notes (Note 14).

As of December 31, 2019 and 2018, the Company met and complied with the CAR requirements set by the BSP.

The issuance of BSP Circular No. 639 covering the Internal Capital Adequacy Assessment Process (ICAAP) in 2009 supplements the BSP's risk-based capital adequacy framework under BSP Circular No. 538. In compliance with this new circular, the Group has adopted and developed its ICAAP framework to ensure that appropriate level and quality of capital are maintained by the Group. Under this framework, the assessment of risks extends beyond the Pillar 1 set of credit, market and operational risks and onto other risks deemed material by the Group. The level and structure of capital are assessed and determined in light of the Group's business environment, plans, performance, risks and budget; as well as regulatory pronouncements. The Company follows the Group's ICAAP framework and submits the result of its assessment to the Ultimate Parent Company. The BSP requires submission of an ICAAP document on a group-wide basis every March 31.

The Company maintains strong credit standings and capital ratios in order to support its business and maximize stockholder value. The Company is required to maintain a maximum debt-to-equity ratio (total liabilities over equity) of 7.5 times based on the audited financial statements as required in the Company's Omnibus Notes Facility Agreement with various banks. Debt-to-equity ratio of the Company as of December 31, 2019 and 2018 is computed as follows (in millions, except for ratios):

	2019	2018
Total Liabilities (TL)	**₱74,329**	₱67,976
Total Equity (TE)	**₱19,480**	₱14,826
Debt-to-Equity Ratio (TL/TE)	**3.8**	4.6

The Company, as a finance company, is also subject to the capital requirement under Sections 2(b) and 6(c) of Republic Act (RA) No. 8556 (The Financing Company Act of 1998). RA No. 8556 prescribes finance companies that at least forty percent (40.0%) of the voting stock of the corporation shall be owned by citizens of the Philippines and should maintain a minimum paid up capital of ₱10.0 million for financing companies located in Metro Manila.

In case the finance company has a branch, agency extension office or unit, additional paid up capital will be required as follows:

Location of a Branch, Agency Extension Office or Unit	Additional Capital Requirement
Metro Manila and other 1st class cities	₱1,000,000
Other classes of cities	500,000
Municipalities	250,000

As of December 31, 2019 and 2018, the Company is one hundred percent (100.0%) owned by Metrobank, a wholly owned Filipino company. For both years, the Company has a paid-up capital of ₱1.0 billion, which already covers the additional capital requirement for its extension office in Cebu City, Davao City and Pasay City. As of December 31, 2019 and 2018, the Company is in full compliance with the capital requirements of RA No. 8556.

Operational Risk

Operational risk is the risk arising from day-to-day operational activities which may result from inadequate or failed internal processes, people and systems or from external events, including legal and reputational risks but excludes strategic risks.

The Operating Risk Head is responsible for:

a. The overall management of operational risk that may pose threat to the Company's business, profitability, reputation, customers, and staff;
b. The effective operational risk management of all business initiatives, inter and intra department processes;
c. The development of an appropriate risk management environment and structure for the Company; and
d. The effectiveness of the areas of business continuity management.

The operational risk management process consists of a staged approach involving establishing the context, risk identification, risk analysis, risk management and mitigation strategies and risk monitoring and review.

Establishing the context provides the Company strategic organizational context of the local business environment. This will assist in determining the appropriate resources for risk management activities, ensuring compliance with the law and enable alignment of the Company's strategies, so the risks that present the greatest risk or impact to the Company are identified and managed effectively.

Risk identification allows the Company to identify the end-to-end risks facing the business. It is important to understand operational risks relative to the area, process, business initiative, product, service or project being examined. Risks identified need to be analyzed in terms of likelihood and consequence of their occurrence.

Where risks are acceptable, the Company records risk acceptance and indicates requirements for testing and monitoring of controls. Where the outcome of the risk analysis step reveals an unacceptable risk, the Company implements risk mitigation and control strategies to eliminate or minimize the risk within acceptable limits.

Risk monitoring and review is the final stage of the risk assessment process where ongoing monitoring, review and reporting are done to ensure changing circumstances are managed in line with risk priorities. This includes the ongoing review of the risk management program to ensure its continued suitability, adequacy, and effectiveness.

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

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

5. Fair Value Measurement

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

Cash and Cash Equivalents (includes Cash, Due from BSP and Interbank Loans Receivable)
Carrying amounts approximate fair values in view of the relatively short-term maturities of these instruments.

Accounts Receivable - Cardholders
The fair values of accounts receivable from straight payment transactions and short-term installment approximate carrying amounts, net of allowance, while the fair values of long-term installment receivables are estimated using the discounted cash flow methodology using current incremental lending rates for similar types of receivables.

Accounts Receivable - Others, Other Assets, Accounts Payable and Accrued Interest Payable
The carrying amounts, net of allowance, approximate their fair values due to either the demand feature or the relatively short-term maturities of these receivables and payables. Refundable deposits are carried at cost and are not significant to the Company's portfolio of assets.

Equity Instruments at Fair Value through Other Comprehensive Income
The fair value of the unquoted shares is estimated using the guideline publicly-traded company method, which utilizes publicly available information from publicly-traded comparable companies that are the same or similar to the unlisted company being valued.

Bills Payable, Notes Payable, Lease Liabilities and Subordinated Debt
The carrying value approximates fair value for borrowings with relatively short maturities. For certain borrowings which are long-term in nature, fair values are estimated using the discounted cash flow methodology, using current incremental lending rates for similar types of borrowings.

Derivative Instruments
Fair values are estimated based on discounted cash flow technique. The Company used various observable market inputs including the foreign exchange spot and forward rates, interest rate curves and forward rate curves. As of December 31, 2019 and 2018, the fair value of derivative liability positions is net of a credit valuation adjustment attributable to derivative counterparty default risk.

The following tables summarize the carrying amount and fair values of the financial assets and liabilities, analyzed based on the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique (amounts in thousands):

	2019				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Financial assets for which fair values are disclosed:					
Accounts receivable:					
Cardholders	**₱81,756,188**	**₱–**	**₱–**	**₱86,142,456**	**₱86,142,456**
Financial asset measured at fair value:					
Equity instruments at FVOCI	**28,158**	**–**	**–**	**28,158**	**28,158**
	₱81,784,346	**₱–**	**₱–**	**₱86,170,614**	**₱86,170,614**

	2019				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Financial liabilities for which fair values are disclosed:					
Bills payable	**₱42,705,743**	**₱–**	**₱–**	**₱42,694,232**	**₱42,694,232**
Notes payable	**22,683,484**	**–**	**–**	**22,920,470**	**22,920,470**
Subordinated debt	**1,165,701**	**–**	**–**	**1,194,968**	**1,194,968**
Lease liabilities	**55,487**	**–**	**–**	**54,109**	**54,109**
Financial liabilities measured at fair value:					
Derivative liabilities:					
Cross-currency interest rate swaps	**307,313**	**–**	**307,313**	**–**	**307,313**
	₱66,917,728	**₱–**	**₱307,313**	**₱66,863,779**	**₱67,171,092**

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

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

During the years ended December 31, 2019 and 2018, there were no transfers of financial instruments between Level 1 and Level 2, and no transfer in and out of Level 3.

Significant Unobservable Inputs

As of December 31, 2019 and 2018, quantitative information about the Company's fair value measurements using significant unobservable inputs (Level 3), specifically the unquoted equity instruments at FVOCI, follows:

Fair Value at December 31, 2019	**Valuation Technique(s)**	**Unobservable Input(s)**	**Range**	**Reasonably Possible Alternative Assumption**	**Sensitivity of the Fair Value to the Input**
₱28,157,760	**Guideline publicly-traded company method**	**Price to earnings ratio**	**13.8:1 to 18.4:1**	**+5%**	**₱1,407,823**
				-5%	**(1,407,947)**
		Discount for lack of marketability	**30%**	**+5%**	**(2,011,326)**
				-5%	**2,011,202**

Fair Value at December 31, 2018	Valuation Technique(s)	Unobservable Input(s)	Range	Reasonably Possible Alternative Assumption	Sensitivity of the Fair Value to the Input
₱28,157,760	Guideline publicly-traded company method	Price to earnings ratio	13.8:1 to 18.4:1	+5%	₱1,407,823
				-5%	(1,407,947)
		Discount for lack of marketability	30%	+5%	(2,011,326)
				-5%	2,011,202

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

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

6. Cash and Cash Equivalents

This account consists of:

	2019	2018
Cash on hand	**₱12,500**	₱12,500
Cash in banks (Note 21)	**743,553,859**	1,082,259,131
	743,566,359	1,082,271,631
Due from BSP (Note 12)	**5,994,131,053**	9,526,731,502
Interbank loans receivable	**174,919,590**	2,200,000,000
	6,912,617,002	12,809,003,133
Allowance for credit losses	**–**	(146,174)
	₱6,912,617,002	₱12,808,856,959

Cash in banks include time deposit accounts, current and savings deposit accounts and foreign currency deposits with various counterparties and related parties (Note 21). In 2019 and 2018, time deposit, savings account and foreign currency deposits bear annual interest rates of 0.3% to 1.5%.

Due from BSP is a noninterest-bearing demand deposit account. In compliance with existing BSP regulations, the Company maintains a required statutory reserve for its debt obligations considered as deposit substitutes. As of December 31, 2019 and 2018, the total statutory reserves, as reported to the BSP, amounted to ₱6.0 billion and ₱9.5 billion, respectively (Note 12).

In 2019 and 2018, interbank loans receivable have terms of 1 to 6 days and 1 to 5 days, respectively. In 2019 and 2018, interbank loans receivable bears annual interest rates of 3.5% to 4.0% and 2.5% to 5.0%, respectively.

The allowance for credit losses recognized under 'Cash and cash equivalents' pertain only to 'Cash in banks'. No allowance for credit losses were recognized for 'Due from BSP' and 'Interbank loans receivable' as of December 31, 2019 and 2018.

As of December 31, 2019 and 2018, an analysis of changes in the gross carrying amount and the corresponding allowance for credit losses for cash in bank is as follows:

	2019	2018
Gross carrying amount		
Balance at beginning of year	**₱1,082,259,131**	₱1,809,018,949
Movements in receivable balance (excluding write-offs)	**(338,705,272)**	(726,759,818)
Balances at end of year	**₱743,553,859**	₱1,082,259,131
Allowance for credit losses		
Balance at beginning of year	**₱146,174**	₱–
Provision (reversal) during the year	**(146,174)**	146,174
Balance at end of year	**₱–**	₱146,174

There were no transfers to stages 2 and 3 in 2019 and 2018.

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

	2019	2018
Short-term deposits	**₱8,065,906**	₱14,134,658
Interbank loans receivable	**1,439,603**	3,433,758
Deposits with banks	**112,767**	102,081
	₱9,618,276	₱17,670,497

7. Accounts Receivable

This account consists of receivables from:

	2019	2018
Cardholders	**₱92,456,831,723**	₱74,665,323,027
Others (Note 21)	**1,249,233,797**	392,222,447
	93,706,065,520	75,057,545,474
Deferred acquisition cost	**244,683,383**	167,896,986
Unearned interest and other deferred income	**(6,119,735,171)**	(4,330,117,097)
	87,831,013,732	70,895,325,363
Allowance for credit losses	**(4,608,794,900)**	(4,101,798,235)
	₱83,222,218,832	₱66,793,527,128

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

	2019	2018
Current portion	**₱72,058,281,654**	₱58,455,080,198
Noncurrent portion	**11,163,937,178**	8,338,446,930
	₱83,222,218,832	₱66,793,527,128

As of December 31, 2019 and 2018, the Company has outstanding installment credit card receivables and unearned interest income amounting to ₱47.3 billion and ₱37.0 billion, and ₱6.1 billion and ₱4.3 billion, respectively.

The Company recognized interest income from regular and installment credit card receivables amounting to ₱9.1 billion and ₱6.3 billion in 2019, respectively, and ₱8.7 billion and ₱5.0 billion in 2018, respectively.

Credit card receivables include past due accounts amounting to ₱3.8 billion and ₱3.5 billion as of December 31, 2019 and 2018, respectively.

Deferred acquisition cost represents capitalized commissions paid to third-party brokers for successfully originated credit card accounts. These are amortized over two (2) years, which is the average relationship life with customers, on a straight-line basis. Deferred acquisition costs as at December 31 are as follows:

	2019	2018
Balances at beginning of the year	**₱167,896,986**	₱116,466,325
Acquisition during the year	**285,557,412**	186,921,270
Amortization during the year	**(208,771,015)**	(135,490,609)
Balances at end of year	**₱244,683,383**	₱167,896,986

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

<u>BSP Reporting</u>

The BSP considers that loan concentration of credit risk exists when the total loan exposure to a particular industry or economic sector exceeds 30.0% of total loan portfolio. As of December 31, 2019 and 2018, 100.0% of the Company’s accounts receivable are classified under personal activities.

As of December 31, 2019 and 2018, nonperforming loans (NPLs) not fully covered by allowance for credit losses follow:

	2019	2018
Total NPLs	**₱1,509,286,164**	₱1,186,074,196
Less: NPLs fully covered by allowance for credit losses	**161,731**	161,731
	₱1,509,124,433	₱1,185,912,465

NPLs are classified as impaired and refer to loans or receivables whose principal and/or interest is unpaid for 90 days or more after due date.

Allowance for Credit Losses
As of December 31, 2019 and 2018, an analysis of changes in the gross carrying amount and the corresponding allowance for credit losses for the following exposures is as follows:

	2019			
	Receivables from Cardholders			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount				
Balance at beginning of year	**₱65,628,044,777**	**₱5,519,320,489**	**₱3,517,957,761**	**₱74,665,323,027**
New exposures	**2,092,148,528**	**–**	**–**	**2,092,148,528**
Transfers to Stage 1	**4,221,988,407**	**(4,216,800,877)**	**(5,187,530)**	**–**
Transfers to Stage 2	**(10,693,415,912)**	**10,734,536,701**	**(41,120,789)**	**–**
Transfers to Stage 3	**(838,308,076)**	**(5,871,705,619)**	**6,710,013,695**	**–**
Movements in receivables balance (excluding write-offs)	**21,486,165,050**	**232,382,549**	**(1,261,286,536)**	**20,457,261,063**
Accounts written-off	**–**	**–**	**(4,757,900,895)**	**(4,757,900,895)**
Balance at end of year	**₱81,896,622,774**	**₱6,397,733,243**	**₱4,162,475,706**	**₱92,456,831,723**
Allowance for ECL				
Balance at beginning of year	**₱916,896,431**	**₱1,841,462,415**	**₱1,327,724,238**	**₱4,086,083,084**
New exposures	**58,824,037**	**–**	**–**	**58,824,037**
Transfers to Stage 1	**1,385,685,222**	**(1,383,040,160)**	**(2,645,062)**	**–**
Transfers to Stage 2	**(568,757,397)**	**589,439,399**	**(20,682,002)**	**–**
Transfers to Stage 3	**(69,304,282)**	**(1,994,628,556)**	**2,063,932,838**	**–**
Movements in receivables balance (excluding write-offs)	**(10,107,020)**	**(93,314,242)**	**(107,328,478)**	**(210,749,740)**
Accounts written-off	**–**	**–**	**(4,757,900,895)**	**(4,757,900,895)**
Impact on year-end ECL of exposures transferred during the year	**(320,815,341)**	**2,722,636,973**	**3,002,830,280**	**5,404,651,912**
Balance at end of year	**₱1,392,421,650**	**₱1,682,555,829**	**₱1,505,930,919**	**₱4,580,908,398**

	2018			
	Receivables from Cardholders			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount				
Balance at beginning of year	₱56,276,961,989	₱5,146,054,773	₱2,685,984,514	₱64,109,001,276
New exposures	1,556,803,763	–	–	1,556,803,763
Transfers to Stage 1	4,110,364,625	(4,098,235,789)	(12,128,836)	–
Transfers to Stage 2	(9,324,540,651)	9,392,140,427	(67,599,776)	–
Transfers to Stage 3	(667,511,909)	(5,001,340,980)	5,668,852,889	–
Movements in receivables balance (excluding write-offs)	13,675,966,960	80,702,058	(777,586,377)	12,979,082,641
Accounts written-off	–	–	(3,979,564,653)	(3,979,564,653)
Balance at end of year	₱65,628,044,777	₱5,519,320,489	₱3,517,957,761	₱74,665,323,027
Allowance for ECL				
Balance at beginning of year	₱835,255,803	₱1,738,824,428	₱1,058,771,919	₱3,632,852,150
New exposures	22,474,365	–	–	22,474,365
Transfers to Stage 1	1,407,883,725	(1,401,208,164)	(6,675,561)	–
Transfers to Stage 2	(498,398,744)	532,674,021	(34,275,277)	–
Transfers to Stage 3	(47,874,780)	(1,673,201,194)	1,721,075,974	–
Movements in receivables balance (excluding write-offs)	388,939,557	43,331,258	(90,065,151)	342,205,664
Accounts written-off	–	–	(3,979,564,653)	(3,979,564,653)
Impact on year-end ECL of exposures transferred during the year	(1,191,383,495)	2,601,042,066	2,658,456,987	4,068,115,558
Balance at end of year	₱916,896,431	₱1,841,462,415	₱1,327,724,238	₱4,086,083,084

	2019			
	Other Receivables			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount				
Balance at beginning of year	₱181,740,486	₱–	₱210,481,961	₱392,222,447
New exposures	1,302,969,188	–	–	1,302,969,188
Transfers to Stage 3	(25,719,035)	–	25,719,035	–
Amounts written off	–	–	(28,602,921)	(28,602,921)
Movements in receivables balance (excluding write-offs)	(236,705,151)	–	(180,649,766)	(417,354,917)
Balance at end of year	**₱1,222,285,488**	**₱–**	**₱26,948,309**	**₱1,249,233,797**
Allowance for ECL				
Balance at beginning of year	₱–	₱–	₱15,715,151	₱15,715,151
Movements in receivables balance (excluding write-offs)	–	–	15,055,237	15,055,237
Impact on year-end ECL of exposures transferred during the year	–	–	25,719,035	25,719,035
Amounts written off	–	–	(28,602,921)	(28,602,921)
Balance at end of year	**₱–**	**₱–**	**₱27,886,502**	**₱27,886,502**

	2018			
	Other Receivables			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount				
Balance at beginning of year	₱976,369,804	₱–	₱–	₱976,369,804
New exposures	596,948	–	–	596,948
Transfers to Stage 3	(596,948)	–	596,948	–
Amounts written off	–	–	(29,985,270)	(29,985,270)
Movements in receivables balance (excluding write-offs)	(794,629,318)	–	239,870,283	(554,759,035)
Balance at end of year	₱181,740,486	₱–	₱210,481,961	₱392,222,447
Allowance for ECL				
Balance at beginning of year	₱–	₱–	₱14,380,256	₱14,380,256
Movements in receivables balance (excluding write-offs)	–	–	30,723,217	30,723,217
Impact on year-end ECL of exposures transferred during the year	–	–	596,948	596,948
Amounts written off	–	–	(29,985,270)	(29,985,270)
Balance at end of year	₱–	₱–	₱15,715,151	₱15,715,151

For the year ended December 31, 2019 and 2018, the Company recognized provision for credit losses on accounts receivables from cardholders and other receivables amounting to ₱5.1 billion and ₱40.8 million, and ₱4.4 billion and ₱31.5 million, respectively.

At the current level of allowance for credit losses, management believes that the Company has sufficient allowance to cover any losses that may be incurred from the non-collection or non-realization of its accounts receivable.

Section 9(f) of RA No. 8556 requires that a 100.0% allowance for credit losses should be set up for the following:

a. Clean loans and advances past due for a period of more than six months;
b. Past due loans secured by collateral such as inventories, receivables, equipment and other chattels that have declined in value by more than 50.0%, without the borrower offering additional collateral for the loans;

c. Past due loans secured by real estate mortgage title to which is subject to an adverse claim rendering settlement through foreclosure doubtful;
d. When borrower and his co-maker or guarantor, are insolvent or where their whereabouts are unknown, or their earnings power is permanently impaired;
e. Accrued interest receivable that remain uncollected after six months from the maturity date of such loans to which it accrues; and
f. Accounts receivable past due for 361 days or more.

As of December 31, 2019 and 2018, the Company's allowance for credit losses for accounts receivable is in compliance with the requirements of RA No. 8556.

8. Hedging Activities and Hedging Instruments

In 2018, the Company entered into cross-currency interest rate swaps with the Ultimate Parent Company and other various foreign counterparty banks (syndicated) to hedge the interest rate and foreign currency risks arising from its dollar-denominated loans. In 2019, an additional hedging agreement was established with ANZ for the new dollar-denominated loan (syndicated) obtained. Under the cross-currency interest rate swap agreements, the Company hedged its dollar-denominated floating rate loans into peso fixed rate loans.

The fair value of cross-currency interest rate swaps recorded as 'Derivative liabilities' and its notional amount amounted to ₱307.3 million and ₱5.4 billion and ₱99.3 million and ₱7.3 billion, respectively, as of December 31, 2019 and 2018. The notional amount, recorded at a gross, is the amount of the derivative's underlying liability, reference rate of index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the end of the year. The cross-currency interest rate swaps outstanding as of December 31, 2019 and 2018 has inception, effective and maturity dates as follow:

	2019		2018	
	Inception / Effective Date	**Maturity Date**	Inception / Effective Date	Maturity Date
Cross-currency interest rate swap 1	June 19, 2018	June 18, 2021	June 19, 2018	June 18, 2021
Cross-currency interest rate swap 2	September 17, 2018	September 17, 2021	September 17, 2018	September 17, 2021
Cross-currency interest rate swap 3	–	–	December 28, 2018	December 27, 2019
Cross-currency interest rate swap 4	January 18, 2019	January 23, 2020	–	–

The Company designated the cross-currency interest rate swaps at inception dates as effective hedging instruments under cash flow hedge. Based on the respective deals above, the Company, on a quarterly basis, paid fixed annual interest rates ranging from 6.6% to 6.9%, on the peso principals and received floating annual interest at three-month LIBOR plus 0.8% to 1.0% interest spread on the USD principals.

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

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

- the timing of the interest payments wherein actual interest payments for the underlying loan and the swap does not match; and
- the maturity date of the underlying loan does not coincide with the maturity date of the cross-currency interest rate swaps or non-renewal of the cross-currency interest rate swaps.

The Company does neither foresee nor intend to change the timing of the interest payments. Also, non-renewal of cross-currency interest rate swaps shall only transpire if and only if the market conditions on renewal date becomes favorable to the Company. There were no other sources of ineffectiveness in these hedge relationships as of December 31, 2019 and 2018.

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

Hedge effectiveness is assessed at inception of the hedge, at each reporting date, and upon a significant change in the circumstances affecting the hedge effectiveness. At reporting date, hedge ratio is calculated for the hedging instrument. As of the inception and reporting date, the hedge ratio is 1:1 or 100.0%.

As of December 31, 2019 and 2018, the Company has the following instruments with maturities of 1 to 5 years to hedge exposures to changes in interest rates and foreign exchange currency rates:

Cross-currency interest rate swaps	**2019**	2018
Nominal amount	**₱5,396,900,000**	₱7,316,000,000
Average foreign exchange rate	**50.6**	53.0
Average fixed interest rate	**6.8%**	6.9%

The Company has pre-terminated its CCS (cross-currency interest rate swap 3) with ANZ last December 27, 2019, with the following details:

	USD	PHP
Calculation period	September 30 to December 27, 2019 (88 days)	
Fixed rate	–	7.2%
Floating rate	2.1%	–
Spread	1.0%	–
Notional amount	100,000,000	5,316,000,000
Interest payment amount	758,848	92,911,867
Net amount	100,758,848	5,408,911,867

The amounts relating to items designated as hedging instruments and hedge ineffectiveness in as of and for the year ending December 31, 2019 and 2018 were as follows:

2019						
Cross-currency interest rate swaps	Nominal Amount	Carrying Amount	Changes in Fair Values	Changes in the Value of the Hedging Instrument Recognized in OCI	Hedge Ineffectiveness Recognized in Statement of Income	Amount Reclassified from the 'Cash flow reserve' to Statement of Income
December 31, 2019	**₱5,396,900,000**	**(₱307,312,884)**	**(₱497,165,681)**	**(₱87,752,672)**	**₱–**	**₱409,413,009**

Cross-currency interest rate swaps	2018 Nominal Amount	Carrying Amount	Changes in Fair Values	Changes in the Value of the Hedging Instrument Recognized in OCI	Hedge Ineffectiveness Recognized in Statement of Income	Amount Reclassified from the 'Cash flow reserve' to Statement of Income
December 31, 2018	₱7,316,000,000	(₱99,372,282)	(₱99,372,282)	(₱2,996,372)	₱–	₱96,375,910

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

	2019		2018	
	Change in Value used for Calculating Hedge Ineffectiveness	**Cash Flow Hedge Reserve**	Change in Value used for Calculating Hedge Ineffectiveness	Cash Flow Hedge Reserve
Floating rate dollar-denominated notes	**(₱409,413,009)**	**(₱90,749,044)**	(₱96,375,910)	(₱2,996,372)

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

9. Property and Equipment

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

	2019						
	Land	**Building**	**Building Improvements**	**Furniture, Fixtures and Equipment**	**Transportation Equipment**	**Leasehold Improvements**	**Total**
Cost							
Balances at beginning of year	**₱283,410,974**	**₱222,745,925**	**₱138,251,039**	**₱424,506,612**	**₱242,590,256**	**₱75,045,088**	**₱1,386,549,894**
Acquisitions	**–**	**–**	**40,054,083**	**78,625,781**	**122,993,640**	**277,374**	**241,950,878**
Disposals	**–**	**–**	**(12,167,895)**	**(244,494,912)**	**(54,380,245)**	**(819,101)**	**(311,862,153)**
Balances at end of year	**283,410,974**	**222,745,925**	**166,137,227**	**258,637,481**	**311,203,651**	**74,503,361**	**1,316,638,619**
Accumulated depreciation and amortization							
Balances at beginning of year	**–**	**81,004,578**	**123,030,035**	**332,287,946**	**131,665,478**	**73,226,846**	**741,214,883**
Depreciation and amortization	**–**	**7,424,864**	**6,088,181**	**33,435,453**	**48,366,685**	**850,928**	**96,166,111**
Disposals	**–**	**–**	**(11,487,848)**	**(176,920,278)**	**(44,912,728)**	**(623,617)**	**(233,944,471)**
Balances at end of year	**–**	**88,429,442**	**117,630,368**	**188,803,121**	**135,119,435**	**73,454,157**	**603,436,523**
Net book value at end of year	**₱283,410,974**	**₱134,316,483**	**₱48,506,859**	**₱69,834,360**	**₱176,084,216**	**₱1,049,204**	**₱713,202,096**

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

As of December 31, 2019 and 2018, the Company has fully depreciated property and equipment that are still in use with original cost amounting to ₱380.5 million and ₱463.5 million, respectively. Gain on sale of property and equipment amounted to ₱2.7 million and ₱1.8 million in 2019 and 2018, respectively (Note 17).

10. **Intangibles, Equity Instrument at FVOCI and Other Assets**

This account consists of:

	2019	2018
Intangible assets	**₱475,749,793**	₱435,241,375
Refundable deposits	**14,886,215**	14,307,109
Miscellaneous	**11,168,213**	11,168,212
	₱501,804,221	₱460,716,696

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

	2019		
	Capitalized Software and License Fees	**Project in Progress**	**Total**
Cost			
Balances at beginning of year	**₱995,869,111**	**₱54,948,222**	**₱1,050,817,333**
Acquisitions	**138,410,112**	**109,593,132**	**248,003,244**
Reclassifications	**159,815,751**	**(159,815,751)**	**–**
Write-offs	**(3,137,344)**	–	**(3,137,344)**
Balance at end of year	**1,290,957,630**	**4,725,603**	**1,295,683,233**
Accumulated amortization			
Balances at beginning of year	**615,575,958**	**–**	**615,575,958**
Amortization	**206,280,154**	**–**	**206,280,154**
Write-offs	**(1,922,672)**	–	**(1,922,672)**
Balances at end of year	**819,933,440**	–	**819,933,440**
Net book value at end of year	**₱471,024,190**	**₱4,725,603**	**₱475,749,793**

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

Capitalized Software and License Fees
Capitalized software includes costs related to software purchased by the Company for use in operations. License fees represent the amount paid for the privilege to use software modules and manuals.

Project in Progress
As of December 31, 2019 and 2018, the Company reclassified cost of individual projects, which were completed and available-for-use, amounting to ₱159.8 million and ₱61.7 million, respectively, to capitalized software and license fees.

Equity Instrument at FVOCI
Equity instrument at FVOCI pertains to the Company's investment in external credit collection agency, which amounted to ₱28.2 million as of December 31, 2019 and 2018.

Variation Margin Deposit
Variation Margin Credit Support Annex (VM CSA) with Australia and New Zealand Banking Group Limited for its derivative transactions. The variation margin is a current financial instrument which serves as collateral for its derivative transactions and shall be set aside to meet any losses from exposure of PHP against USD. MCC and ANZ exchange variation margins based on the daily mark-to-market valuation starting 2019. As of December 31, 2019, the marginal deposit recognized under 'Other current assets' amounted to ₱168.6 million.

11. Accounts Payable

This account consists of:

	2019	2018
Payable to merchants	**₱2,134,218,822**	₱1,525,460,186
Others:		
Financial:		
Advance payments from cardholders	**242,321,758**	202,726,727
Payable to suppliers and service providers (Note 21)	**160,614,746**	195,184,830
Payable to Visa/MasterCard	**129,682,110**	191,033,191
Collection fees	**1,395,847**	1,684,408
Miscellaneous	**2,066,457**	8,652,859
	536,080,918	599,282,015
Nonfinancial:		
Withholding taxes payable	**181,812,094**	157,881,970
GRT payable	**198,378,551**	89,805,830
DST payable	**2,856,127**	71,286,626
Payable to SSS/Pag-ibig	**2,649,584**	2,253,124
	385,696,356	321,227,550
	₱3,055,996,096	₱2,445,969,751

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

Miscellaneous payable consists of stale checks.

12. Bills and Notes Payable

Bills Payable
Bills payable consists of deposit substitutes amounting to ₱42.7 billion and ₱29.0 billion as of December 31, 2019 and 2018, respectively.

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

	2019	2018
Current portion of promissory notes issued to:		
Consumers	**₱25,191,320,174**	₱14,169,804,813
Corporates	**15,603,134,216**	6,776,021,938
	40,794,454,390	20,945,826,751
Interbank loans payable	–	52,583,451
	40,794,454,390	20,998,410,202
Noncurrent portion of promissory notes issued to:		
Consumers	**1,683,967,055**	3,942,279,863
Corporates	**227,321,579**	4,045,185,598
	1,911,288,634	7,987,465,461
	₱42,705,743,024	₱28,985,875,663

As of December 31, 2019 and 2018, deposit substitutes have maturities of 3 days to 3 years, and 2 days to 7 years, respectively. Deposit substitutes bear annual interest rates ranging from 0.9% to 6.5% and 0.9% to 7.0% in 2019 and 2018, respectively.

Under the existing BSP regulations, the Company's deposit substitutes are subject to statutory reserves of 14.0% in 2019 and 18.0% 2018, respectively. The total statutory reserves maintained by the Company, as reported to the BSP, are disclosed in Note 6.

Interbank loans payable bear annual interest rates ranging from 2.5% to 5.3% and 0.9% to 7.0% in 2019 and 2018, respectively.

As of December 31, 2019 and 2018, the unamortized issuance costs on bills payable amounted to ₱47.0 million and ₱70.6 million, respectively.

Amortization of issuance costs amounting to ₱23.6 million and ₱57.6 million in 2019 and 2018, respectively, were charged to 'Interest expense' in the statements of income.

Notes Payable
This account consists of:

	Maturities	Interest Rates	2019	2018
Current interest-bearing notes (net of unamortized issuance costs):				
Peso-denominated notes:				
Omnibus notes from local banks:				
₱12.9 billion loan facility	**2020**	**4.0% to 5.5%**	**₱12,891,080,136**	₱–
₱16.9 billion loan facility	**2019**	**3.9% to 5.8%**	–	16,870,278,329
₱1.4 billion loan facility	**2019**	**5.3% to 5.3%**	–	1,432,618,316
₱1.9 billion loan facility	**2019**	**6.3%**	–	1,879,270,382

(Forward)

	Maturities	Interest Rates	2019	2018
Loans from local banks:				
5Y bilateral loans	**2020**	**4.8%**	**₱499,682,713**	₱–
5Y bilateral loans	**2020**	**4.8%**	**599,144,031**	–
5Y bilateral loans	**2020**	**5.0%**	**997,749,179**	–
Dollar-denominated notes:				
Loans from ANZ:				
US$13.6 million credit facility agreement	**2020**	**3.0%**	**688,471,790**	–
US$5.0 million credit facility agreement	**2019**	**3.3%**	**–**	184,030,000
Loans from MUFG:				
US$4.4 million short-term loan	**2020**	**2.5%**	**222,738,854**	–
US$2.2 million short-term loan	**2019**	**3.3%**	**–**	115,676,000
			15,898,866,703	20,481,873,027
Noncurrent interest-bearing notes (net of unamortized issuance costs):				
Peso-denominated notes:				
Loans from local banks:				
5Y bilateral loans	**2020**	**4.8%**	**–**	500,000,000
5Y bilateral loans	**2021**	**4.8%**	**698,982,202**	1,300,000,000
5Y bilateral loans	**2021**	**5.5%**	**947,290,411**	960,000,000
7Y bilateral loans	**2022**	**5.0%**	**–**	1,000,000,000
Dollar-denominated notes:				
Loans from MBTC:				
US$37.3.0 million credit facility agreement	**2021**	**6.6% to 6.9%**	**1,881,108,219**	1,948,661,826
Syndicated loans from ANZ:				
US$65.0 million credit facility agreement	**2021**	**3.8%**	**3,257,236,756**	–
US$100.0 million credit facility agreement	**2021**	**7.2%**	**–**	5,126,891,214
			6,784,617,588	10,835,553,040
			₱22,683,484,291	₱31,317,426,067

Unamortized issuance costs amounted to ₱58.3 million and ₱182.9 million as of December 31, 2019 and 2018, respectively. In 2019 and 2018, amortization of issuance costs amounting to ₱124.6 million and ₱165.3 million, respectively, were charged to 'Interest expense' in the statements of income.

Following are the significant terms and conditions of the Company's peso- and dollar-denominated notes payable:

Bilateral loans
Interests are due upon maturity and monthly for short-term notes and quarterly to semi-annually for long-term notes, respectively. The principal is due upon maturity of the notes. All loans are unsecured and subject to the following standard default provisions that would make the loan due and demandable upon:
- technical defaults, subject to curing period; or
- default in payment, loan is immediately due and demandable.

Loans from Metrobank
Unsecured loans with quarterly interest payments subject to the following standard default provisions that would make the loan due and demandable upon:
- use of proceeds other than purpose; or
- default in payment.

Loans from ANZ
These are composed of unsecured loans with interest payable upon maturity for short-term notes. These are usually revolving short-term working capital facility and subject to the following undertakings and provisions:
- these loans may be rolled-over wherein the prior terms and conditions will still be in force but availment date will change and new contract will arise;
- other general undertakings such as compliance of laws and payment of taxes; and
- acceleration clause, the loan becomes due and demandable upon occurrence of an event of default.

Loans syndication arranged by ANZ
These represent unsecured loans with interest payable quarterly, from fifteen (15) Singaporean, Japanese and Taiwanese banks. The loans are subject to the following undertaking and provisions:
- information undertakings, the Company must provide its financial statement and notify events with material adverse effect on Company, through ANZ, acting as agent;
- negative pledge provision with permitted applications;
- the loans may be prepaid on any interest payment date with prior notice, without penalty;
- provision on merger or corporate reconstruction only with the Company or its parent is surviving entity, and will not result in material adverse effect;
- other general undertakings such as compliance of laws and payment of taxes; and
- acceleration clause, the loan becomes due and demandable upon occurrence of an event of default.

Loans from MUFG
These are unsecured loans with the sole purpose of increasing short-term working funds. The loans are subject to the following undertakings and provisions:
- acceleration clause, the loan becomes due and demandable upon occurrence of an event of default;
- if not fully paid within the agreed timeline, interest will be re-priced on a monthly/quarterly/semi-annual basis until fully paid; and
- other general undertakings such as compliance of laws and payments of taxes.

Omnibus agreements
The Omnibus Agreements with various local banks include a cross-default clause wherein it provides that if the Company fails to pay any amount due under any other agreement of document evidencing, guaranteeing or relating to the indebtedness of the Company or other occurrence of event of default or material breach on the part of the Company under any agreement or document, the liability shall be declared due and payable. The loans are unsecured and are obtained to finance credit card receivables.

Interest expense on the Company's borrowings consists of:

	2019	2018
Bills payable	**₱1,489,998,807**	₱1,113,961,787
Notes payable	**949,975,063**	965,551,914
Cross-currency interest rate swap cost (Note 8)	**782,088,912**	56,906,855
Subordinated debt (Note 14)	**72,979,834**	74,377,365
	₱3,295,042,616	₱2,210,797,921

13. **Revenue from Contracts with Customers**

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

	2019			2018		
	Point-in-time	**Over time**	**Total**	Point-in-time	Over time	Total
Discounts earned	**₱2,877,594,157**	**₱–**	**₱2,877,594,157**	₱2,411,581,701	₱–	₱2,411,581,701
Membership fees and dues	**–**	**907,180,596**	**907,180,596**	–	882,661,306	882,661,306
Awards revenue	**81,003,543**	**–**	**81,003,543**	67,890,112	–	67,890,112
Miscellaneous income	**1,063,983,795**	**–**	**1,063,983,795**	932,110,429	–	932,110,429
	₱4,022,581,495	**₱907,180,596**	**₱4,929,762,091**	₱3,411,582,242	₱882,661,306	₱4,294,243,548

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at December 31, 2019 and 2018 are as follows:

	2019	2018
Within one year	**₱287,503,403**	₱346,661,795
More than a year	**831,999,369**	722,138,306
	₱1,119,502,772	₱1,068,800,101

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

In 2019 and 2018, the cost of redemption of loyalty points, recognized under 'Loyalty expense', amounted to ₱220.3 million and ₱180.2 million, respectively.

The changes and movements in contract liabilities are as follows:

	2019				
	Awards Revenue	**Membership Fees and Dues**	**Recoveries from Debt Sale**	**Others**	**Total**
Balance at beginning of year	**₱722,138,306**	**₱346,149,365**	**₱–**	**₱512,430**	**₱1,068,800,101**
Deferred during the year	**190,864,606**	**841,480,634**	**–**	**7,315,156**	**1,039,660,396**
Recognized to income during the year	**(81,003,543)**	**(907,180,596)**	**–**	**(773,586)**	**(988,957,725)**
Balances at end of year	**₱831,999,369**	**₱280,449,403**	**₱–**	**₱7,054,000**	**₱1,119,502,772**

	2018				
	Awards Revenue	Membership Fees and Dues	Recoveries from Debt Sale	Others	Total
Balance at beginning of year	₱627,520,074	₱381,453,995	₱118,318,393	₱–	₱1,127,292,462
Deferred during the year	162,508,344	847,356,676	–	512,430	1,010,377,450
Recognized to income during the year	(67,890,112)	(882,661,306)	(118,318,393)	–	(1,068,869,811)
Balances at end of year	₱722,138,306	₱346,149,365	₱–	₱512,430	₱1,068,800,101

On October 1, 2017, the Company entered into a Debt Sale Agreement with Collectius AG c/o Stena (Switzerland) AG (Collectius) to sell its written-off receivables for ₱394.4 million. The agreement includes a provision for buy-back period until December 31, 2018 in an amount not exceeding 30% of the selling price as a result of certain conditions as enumerated in the agreement.

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

14. **Subordinated Debt**

On February 28, 2013, the Company's BOD approved the issuance of ₱1.17 billion worth of Fixed-Rate Unsecured Subordinated Notes Eligible as Tier 2 Capital due 2023, callable in 2018 (the Notes) pursuant to the BSP Circular No. 280 and No. 781, Series of 2001 and 2013, as amended.

Among the significant terms and conditions of the issuance of the Notes pursuant to the authority granted by the BSP to the Company on October 22, 2013 follow:

a. Issue price at 100.0% of face value.

b. The Notes bear interest at 6.21% per annum from and including December 20, 2013 and thereafter. Interest will be payable quarterly in arrears at the end of each interest period on March 20, June 20, September 20 and December 20 in each year, except for the last interest period which will end on the maturity date.

   Unless previously redeemed, the Notes will be redeemed at their principal amount on the maturity date of December 20, 2023.

c. The Notes will constitute direct, unsecured and subordinated obligations of the Company, and will, at all times, rank *pari passu* and without any preference among themselves and at least equally with all other present and future unsecured and subordinated obligations of the Company, except obligations mandatorily preferred by law.

d. Noteholders are prohibited by the BSP from having the Notes redeemed at their option prior to its maturity. Noteholders, may sell their Notes in the secondary market, however, this is subject to the limitation that the Notes shall be sold only to qualified buyers. Any sale or transfer of the Notes in the secondary market is then subject to market prices and the limitation on the number of allowable holders.

e. The Notes contain provisions relating to loss absorption upon the occurrence of a non-viability trigger event of the Company or Metrobank as determined by the BSP, pursuant to which the Company may be required immediately and irrevocably (without the need for the consent of the holders of the Notes) to effect a write-off in whole or in part of the outstanding principal and accrued and unpaid interest in respect of the Notes or, in the case of non-viability of Metrobank, the Notes may be converted to such number of common shares of the Company.

f. If a non-viability trigger event occurs, a Noteholder will have no claim against the Company at all in respect of any Notes or any portion of the Notes that have been written down and/or terminated.

The Notes shall not be used as collateral for any loan made by the Company or any of its affiliates.

As of December 31, 2019 and 2018, the unamortized issuance costs on the subordinated debt amounted to ₱4.3 million and ₱5.4 million, respectively.

Amortization of issuance costs amounting to ₱1.1 million in 2019 and 2018 were charged to 'Interest expense' in the statements of income (Note 12).

15. Accrued Interest, Taxes and Other Expenses

This account consists of:

	2019	2018
Accrued interest (Note 21)	**₱506,435,756**	₱422,277,137
Accrued advertising	**239,503,593**	115,998,622
Accrued taxes	**80,127,762**	20,939,322
Accrued rewards	**23,185,035**	12,194,405
Accrued other expenses	**628,433,488**	520,286,396
	₱1,477,685,634	₱1,091,695,882

The table below shows the breakdown of accrued other expenses:

	2019	2018
Compensation and fringe benefits (Note 21)	**₱238,339,899**	₱202,306,607
Service fee	**185,954,688**	119,442,437
Communications expense (Note 21)	**110,386,143**	84,268,993
Rental and office-related expenses (Note 21)	**49,250,518**	61,673,662
Computer-related expenses (Note 21)	**27,717,481**	21,997,322
Management and professional fees (Note 21)	**8,180,589**	8,174,377
Maintenance cost	**7,293,041**	8,229,332
Membership fees	**30,000**	6,941,681
Miscellaneous expenses	**1,281,129**	7,251,985
	₱628,433,488	₱520,286,396

16. Equity

The details of the Company's capital stock as of December 31, 2019 and 2018 are as follows:

	Shares	Amount
Capital stock - ₱1.0 par value		
Authorized	2,000,000,000	₱2,000,000,000
Issued and outstanding		
Balance at beginning and end of year	1,000,000,000	1,000,000,000

Retained Earnings

Under the Corporation Code of the Philippines (the Code), a stock corporation is prohibited from retaining surplus profits in excess of 100.0% of its paid-in capital stock, except when:

a. Justified by definite corporate expansion projects or programs approved by the BOD; or
b. The corporation is prohibited under any loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without its or his consent, and such consent has not yet been secured; or
c. It can be clearly shown that such retention is necessary under special circumstances obtaining in the corporation, such as when there is need for special reserve for probable contingencies.

The Company retains profit in line with its capital management policy (see Note 4).

Appropriations
On March 1, 2018, the BOD approved the net appropriation of retained earnings in the amount of ₱11.6 billion for the following:
- Appropriation of retained earnings as capital reserves amounting to ₱3.8 billion. The appropriation, in line with the capital management policy (Note 4), is aimed at strengthening the Company's capital to comply with the debt to equity ratio of 7.5:1 per loan covenants and to meet the CAR with due consideration of the impact of adopting the ECL model under PFRS 9.
- Appropriation of retained earnings for the issuance of cash dividends in 2018 amounting to ₱1.8 billion.
- Appropriation of retained earnings for the issuance of stock dividends in 2018 amounting to ₱6.0 billion.

On December 14, 2018, the BOD approved the re-appropriation of retained earnings in the amount of ₱6.0 billion for the planned issuance of stock dividends in 2019, meet the requirements set by SEC on capital retention in excess of paid-up capital, the BSP on capital ratios set under Basel III rules, and existing creditors on maintaining debt-to-equity ratio of 7.5:1 per loan covenant.

The issuance of stock dividends did not transpire in 2019 as planned and disclosed in 2018. This is due to the planned merger of the Company with MBTC which took effect on January 3, 2020.

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

- Appropriation of retained earnings for capital retention on the Tier 2 notes in compliance with BSP's capital adequacy ratio amounting to ₱1.0 billion.
- Appropriation of retained earnings for compliance with BASEL III net stable funding ratio amounting to ₱5.5 billion.
- Appropriation of retained earnings for capital expenditure projects amounting to ₱500.0 million, which are expected to be completed within the next two (2) years.

Capital ratios set under BASEL III and debt-to-equity ratio required by existing creditor-banks were complied during the year.

Metrobank has acquired the Company in a merger transaction with effective date on January 3, 2020 (Note 25). As a result of this merger, no further appropriations were made by the Company on its retained earnings as the Company's assets and liabilities will be absorbed by the Ultimate Parent Company.

Cash dividends
No cash dividends were declared and paid in 2019.

The following cash dividends were declared and paid in 2018.

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

The computation of retained earnings available for dividend declaration in accordance with SEC Memorandum Circular No. 11, issued in December 2008, differs to a certain extent as compared with the computation per BSP guidelines.

17. Miscellaneous Income and Expenses

Miscellaneous income consists of:

	2019	2018
Gross international fees	**₱435,403,283**	₱374,980,756
Over credit limit fees	**302,321,809**	245,278,028
Service fees	**184,245,439**	145,249,363
Transaction processing fees	**71,998,739**	62,633,175
Foreign exchange gain	**35,751,447**	59,568,491
Rental income (Notes 18 and 21)	**19,551,117**	30,285,556
Business process outsourcing fees	**3,032,100**	2,565,459
Gain on sale of fixed assets (Notes 9 and 10)	**1,494,712**	1,804,243
Others	**10,185,149**	9,745,358
	₱1,063,983,795	₱932,110,429

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

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

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

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

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

Miscellaneous expenses consist of:

	2019	2018
Maintenance costs (Note 21)	**₱200,743,619**	₱151,958,296
Collection fees	**185,579,004**	168,006,078
Verification costs	**72,346,262**	78,707,883
Membership fees (Note 21)	**6,102,491**	5,032,435
Insurance (Note 21)	**6,094,582**	4,946,400
Recruitment costs	**4,526,532**	4,627,707
Employee relations expenses	**3,054,783**	3,149,213
Others	**37,222,656**	55,702,837
	₱515,669,929	₱472,130,849

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

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

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

18. **Leases**

Company as Lessee

The Company entered into three (3) lease agreements with its Ultimate Parent Company. These leases cover the use of office premises in three strategic locations:

- Metropolitan Park in Pasay City – lease contract for five (5) years which will end on December 31, 2021 (with annual escalation of 5.0%)
- Metrobank-Cebu – lease contract for three (3) years which will end on September 15, 2020 (with annual escalation of 5.0%)
- Metrobank-Davao – lease contract three (3) years which will end on December 31, 2021 (with annual escalation of 5.0%)

The Company also entered into lease agreements for photocopiers and cars, both with terms of three (3) years, which will end on April 25, 2021 and September 30, 2021, respectively.

Set out below are the Company's right-of-use assets and lease liabilities and the movements during the period:

	Right-of-Use Assets	Lease Liabilities
As at January 1, 2019	₱73,105,988	₱73,105,988
Additions	6,871,022	6,871,022
Depreciation expense	(27,383,464)	–
Interest expense	–	4,291,929
Payments	–	(28,781,973)
As at December 31, 2019	₱52,593,546	₱55,486,966

Set out below are the amounts recognized in the statement of income for the period ended:

	2019
Depreciation expense of right-of-use assets	₱27,383,464
Interest expense on lease liabilities	4,291,929
Rent expense – leases of low-value assets	211,929,234
Rent expense – short-term leases	7,084,773
	₱250,689,400

The Company also entered into lease agreements to lease units of point-of-sale terminals for minimum period of three (3) to five (5) years. These are cancellable and can be terminated after the specified period stated in the lease agreements.

The future minimum lease commitments under operating lease are as follows as of December 31, 2019 and 2018:

	2019	2018
Within one year	**₱127,309,903**	₱104,803,766
After one year but not more than five years	**124,959,796**	120,359,658
	₱252,269,699	₱225,163,424

For the year ended December 31, 2019 and 2018, rental expense amounted to ₱219.0 million and ₱234.1 million which is included under ‘Rent, light and water’ in the statement of income. There were no direct costs incurred in relation to these leases.

Company as Lessor
For the year ended December 31, 2019 and 2018, rental income from the lease agreement were included under ‘Miscellaneous income’ amounted to ₱19.6 million and ₱12.7 million, respectively. There were no direct costs incurred in relation to these leases.

19. **Retirement Liability**

The Company has a funded noncontributory defined benefit retirement plan covering all of its officers and regular employees. The funds are being administered by the Trust Banking Group (TBG) of Metrobank under the supervision of the Retirement Committee.

The Retirement Committee is responsible for giving direction to the Trustee on the investment of the assets of the fund. The Retirement Committee defines the investment strategy as often as necessary, at least annually, especially in the case of significant market developments or changes to the structure of the plan participants.

When defining the investment strategy, the Retirement Committee takes into account the plans’ objectives, benefit obligations and risk capacity. The investment strategy is defined in the form of a long-term target structure or investment policy.

The Retirement Committee delegates the implementation of the investment policy in accordance with the investment strategy, as well as various principles and objectives to an Investment Committee, which also consists of members of the Board of Trustees, a Director and a Controller. The Controller oversees the entire investment process.

Under the existing regulatory framework, Republic Act No. 7641, *Retirement Pay Law*, requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however, that the employee’s retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

The principal actuarial assumptions used in determining the retirement liability for the Company’s retirement plan as of December 31, 2019 and 2018 are as follow:

	2019	2018
Discount rate	**4.9%**	7.3%
Future salary increases:		
For officers	**8.0%**	8.0%
For staff	**₱1,993**	₱1,993
Average years of service	**8.3 years**	8.0 years
Average remaining working life	**10.0 years**	10.0 years
Retirement age	**55.0 years**	55.0 years

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

2019

		Retirement Expense				Remeasurement Losses on Retirement Plan						
	January 1, 2019	Current Service Cost	Past Service Cost	Net Interest	Subtotal*	Return on Plan Assets (Excluding Amount Included in Net Interest)	Actuarial Changes Arising from Experience Adjustments	Actuarial Changes Arising from Changes in Financial Assumptions	Subtotal	Benefits Paid	Contribution by Employer	December 31, 2019
Present value of defined benefit obligation	**₱974,112,485**	**₱123,214,746**	**₱–**	**₱68,793,777**	**₱192,008,523**	**₱–**	**₱21,989,920**	**₱275,986,954**	**₱297,976,874**	**(₱22,953,397)**	**₱–**	**₱1,441,144,485**
Fair value of plan assets	**(801,175,876)**	**–**	**–**	**(55,404,333)**	**(55,404,333)**	**(56,217,407)**	**–**	**–**	**(56,217,407)**	**22,953,397**	**(176,900,000)**	**(1,066,744,219)**
Net defined benefit liability	**₱172,936,609**	**₱123,214,746**	**₱–**	**₱13,389,444**	**₱136,604,190**	**(₱56,217,407)**	**₱21,989,920**	**₱275,986,954**	**₱241,759,467**	**₱–**	**(₱176,900,000)**	**₱374,400,266**

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

2018

		Retirement Expense				Remeasurement Losses on Retirement Plan						
	January 1, 2018	Current Service Cost	Past Service Cost	Net Interest	Subtotal*	Return on Plan Assets (Excluding Amount Included in Net Interest)	Actuarial Changes Arising from Experience Adjustments	Actuarial Changes Arising from Changes in Financial Assumptions	Subtotal	Benefits Paid	Contribution by Employer	December 31, 2018
Present value of defined benefit obligation	₱939,757,441	₱106,213,767	₱54,692,329	₱52,991,556	₱213,897,652	₱–	₱19,188,291	(₱171,765,333)	(₱152,577,042)	(₱26,965,566)	₱–	₱974,112,485
Fair value of plan assets	(711,671,934)	–	–	(44,020,765)	(44,020,765)	68,064,298	–	–	68,064,298	30,052,525	(143,600,000)	(801,175,876)
Net defined benefit liability	₱228,085,507	₱106,213,767	₱54,692,329	₱8,970,791	₱169,876,887	₱68,064,298	₱19,188,291	(₱171,765,333)	(₱84,512,744)	₱3,086,959	(₱143,600,000)	₱172,936,609

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

The Company expects to contribute ₱178.8 million to its defined benefit retirement plan in 2020.

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

	2019		2018	
	Amount	**%**	Amount	%
Deposits in bank	**₱168,499,119**	**15.8**	₱122,163,234	15.3
Equity securities	**150,000**	**–**	147,000	–
Debt securities:				
Government	**676,613,177**	**63.4**	519,091,547	64.8
Private	**118,060,180**	**11.1**	85,900,075	10.7
Unit investment trust funds	**93,790,669**	**8.8**	61,672,810	7.7
Loans	**–**	**–**	5,940,000	0.7
Others	**9,631,074**	**0.9**	6,261,210	0.8
	₱1,066,744,219	**100.0**	₱801,175,876	100.0

All equity and debt securities held have quoted prices in active market while the fair value of unit investment trust funds is based on its corresponding published Net Asset Value (NAV). The fair value of other assets and liabilities, which include accrued interest receivable and trust fee payables, approximate their carrying amount due to the short-term nature of these accounts.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of the end of the statement of financial position date, assuming all other assumptions were held constant:

		Increase (Decrease)	
	Possible fluctuations	**2019**	2018
Discount rate			
	1.0%	**(₱132,218,205)**	(₱83,172,299)
	(1.0%)	**151,671,248**	94,964,781
Future salary increase rate			
	1.0%	**121,182,562**	77,708,444
	(1.0%)	**(113,514,226)**	(73,331,371)
Turnover rate			
	2.2%	**(39,594,003)**	(14,403,185)
	(2.2%)	**43,057,311**	15,605,650

Shown below is the maturity analysis of undiscounted benefits payments:

	2019	2018
Less than one year	**₱57,608,376**	₱32,572,855
More than one year to five years	**354,478,292**	273,547,226
More than five years to 10 years	**1,025,313,868**	866,995,714
More than 10 years to 15 years	**1,432,023,672**	1,204,121,916
More than 15 years to 20 years	**1,933,624,308**	1,918,362,854
More than 20 years	**1,122,795,882**	1,123,523,559

The average duration of the defined benefit obligation as of December 31, 2019 and 2018 is 14.3 years and 14.8 years, respectively.

20. **Income Taxes**

Income taxes include corporate income tax, as discussed below, and final taxes paid at the rate of 20.0% and 7.5% on peso-denominated and foreign currency-denominated cash in banks, respectively, which is a final withholding tax on gross interest income.

The Regular Corporate Income Tax (RCIT) rate is 30.0% and interest allowed as deductible expense is reduced by 33.0% of interest income subjected to final tax.

The National Internal Revenue Code (NIRC) of 1997 also provides for rules on the imposition of Minimum Corporate Income Tax (MCIT) of 2.0% on the gross income as of the end of the taxable year beginning on the fourth (4th) taxable year immediately following the taxable year in which the Company commenced its business operations. Any excess MCIT over the RCIT can be carried forward on an annual basis and credited against the RCIT for the three immediately succeeding taxable years.

In addition, the NIRC of 1997 allows the Company to deduct from its taxable income for the current year its accumulated net operating losses for the immediately preceding three consecutive taxable years.

Current tax regulations also provide for the ceiling on the amount of entertainment, amusement and recreation (EAR) expense that can be claimed as a deduction against taxable income. Under the regulation, EAR expense allowed as a deductible expense for a service company is limited to the actual EAR paid or incurred but not to exceed 1.0% of net revenue. In 2019 and 2018, EAR expenses amounted to ₱1.3 million and ₱1.6 million, respectively.

Deferred Tax Assets - Net

The components of net deferred tax assets follow:

	2019	2018
Deferred tax assets on:		
Allowance for credit losses (Note 7)	**₱1,382,638,470**	₱1,226,363,991
Provision for credit losses (Note 23)	**232,733,602**	274,702,684
Deferred revenue (Note 13)	**335,850,831**	320,500,410
Retirement liability (Note 19)	**112,320,080**	51,880,983
Accrued expenses	**33,477,632**	47,970,510
Unamortized past service cost	**61,001,005**	49,003,927
Unrealized foreign exchange loss	**6,709,954**	10,996,036
	2,164,731,574	1,981,418,541
Deferred tax liabilities on:		
Unrealized gain from equity instruments	**(3,476,592)**	(3,476,592)
Deferred acquisition cost (Note 7)	**(73,405,015)**	(50,369,096)
	(76,881,607)	(53,845,688)
	₱2,087,849,967	₱1,927,572,853

Management believes that the current level of deferred tax assets will be utilized in the future.

A reconciliation of the Company's statutory income tax to effective income tax follows:

	2019	2018
Statutory income tax	**₱2,104,921,151**	₱2,130,962,131
Tax effects of:		
Nondeductible expenses	**257,250**	135,959
Income subjected to final tax	**(259,849)**	(254,531)
Effective income tax	**₱2,104,918,552**	₱2,130,843,559

21. **Related Party Transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Company's related parties include:

- Ultimate Parent Company:
  - Metropolitan Bank and Trust Company

- Affiliates or other related parties, which are associates, subsidiaries, and joint ventures of the Parent Company. Affiliates with which the Company has related party transactions in 2019 and 2018 follow:
  - Charter Ping An Insurance Corporation
  - Federal Land, Inc.
  - First Metro Investment Corporation
  - Metro Remittance Center, Inc.
  - Metro Remittance (Hongkong) Ltd.
  - Metro Remittance (Italia), S.p.A.
  - Metro Remittance (Japan) Co. Ltd.
  - Metro Remittance (Singapore) Pte. Ltd.
  - Metro Remittance (UK) Ltd.
  - Metro Remittance (USA), Inc.
  - ORIX Metro Leasing and Finance Corporation
  - Philippine AXA Life Insurance Corporation
  - Philbancor Venture Capital Corporation
  - Philippine Savings Bank
  - SMBC Metro Investment Corporation
  - Taal Land, Inc.
  - Toyota Cubao, Inc.
  - Toyota Financial Services Philippines Corporation
  - Toyota Manila Bay Corporation
  - Toyota Motor Philippines Corporation

- Post-employment benefit plans for the benefit of the Company's employees.

- Key management personnel, close family members of key management personnel and entities which are controlled, significantly influenced by or for which significant voting power is held by key management personnel or their close family members.

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

The Company has a Related Party Committee (RPC) which is created to assist the BOD in ensuring that transactions with related parties are reviewed to assess risks and are subjected to appropriate restrictions to ensure that these are conducted at arm's-length terms and that business resources of the Company are not misappropriated or misapplied. After appropriate review, the RPC discloses all information and endorses to the BOD with recommendations, the proposed related party transactions. The members of the RPC are appointed annually by the BOD. Currently, the RPC is composed of two (2) independent directors (including the Chairman of the Committee); two (2) regular directors; and the head of Compliance and Internal Audit (as Secretary). The RPC meets on a quarterly basis or as the need arises.

The RPC's review of proposed related party transactions covers the following:
a. Identity of the parties involved in the transaction or relationship;
b. Terms of the transaction or relationship and whether these are no less favorable than terms generally available to an unrelated third party under the same circumstances;
c. Business purpose, timing, rationale and benefits of the transaction or relationship;
d. Approximate monetary value of the transaction and the approximate monetary value of the related party's interest in the transaction;
e. Valuation methodology used and alternative approaches to valuation of the transaction;
f. Information concerning potential counterparties in the transaction;
g. Whether the proposed transaction includes any potential reputational risk issues that may arise as a result of or in connection with the transaction;
h. Impact to a director's independence; and
i. Extent that such transaction or relationship would present an improper conflict of interest.

In the ordinary course of business, the Company has transactions with Metrobank and other related companies. The major transactions include availments of loans, short-term cash placements and other regular banking transactions. The branch network of Metrobank and PSBank also acts as servicing units of the Company for the acceptance of payments from cardholders. Metrobank and PSBank charge the Company for every payment and processing of transaction which are recorded under 'Distribution costs' and 'Computer-related expenses' in the statements of income, respectively.

The following table presents the balances of material intercompany transactions of the Company as of and for the years ended December 31, 2019 and 2018 (amounts in thousands):

	December 31, 2019		
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Ultimate Parent Company			
Cash and cash equivalents		**₱427,635**	Current and savings account, and foreign currency deposits with annual interest rates of 0.5% and 0.1%, respectively.
Deposits	**₱884,719,443**		
Withdrawals	**(884,760,043)**		
Short-term placements		**278,873**	
Placements	**227,704,266**		Short-term deposits with annual interest rate of 1.5% and term of 5 days
Maturities	**(227,425,393)**		
Interbank loans receivables		–	Various overnight placements with terms of 1 to 15 days and bear annual interest rates ranging from 2.0% to 4.0%
Placements	**25,700,000**		
Maturities	**(25,700,000)**		

Category	December 31, 2019 Amount/ Volume	 Outstanding Balance	Nature, Terms and Conditions
Accounts receivable	**(₱13,042,035)**	**₱12,962**	Billings on merchant discount subsidy, outsourcing fees, Point-of-Sale (POS) rentals and charges for use of Visa Banking Identification Number (BIN)
Accounts payable	**4,189**	**4,189**	Service fees on availments of bills payable
Right-of-use assets		**44,636**	Capitalized leases on the Company's office spaces with lease contract term ranging from 3 to 5 years and with annual escalation of 5%
Accrued expense payable	**50,362**	**5,587**	Accrual of expenses from rentals, membership fees, distribution cost, utilities and other maintenance costs
Accrued interest payable	**15,339**	**15,339**	Accrued interest payable on interest-bearing notes
Bills payable		**–**	Overnight borrowings with annual interest rates ranging from 2.5% to 5.3% and terms of 1 to 5 days.
Availments	**18,460,000**		
Maturities	**(18,460,000)**		
Notes payable		**–**	
Availments	**47,395,000**		Interest-bearing note with an annual interest rate of 3.9% to 5.7% and term of 1 to 3 years.
Maturities	**(47,395,000)**		
Derivative liabilities	**(167,266)**	**(167,266)**	Cross-currency interest rate swaps with annual fixed interest rates ranging from 6.6% to 6.9% and terms of 3 years.
Lease liabilities		**52,849**	Obligation from capitalized leases with term ranging from 3 to 5 years and interest rates ranging from 6.9% to 7.0%
Interest income	**4,479**		Interest earned on bank deposits and overnight lending
Merchant discount	**4,544**		Income earned on merchant discount subsidy
Miscellaneous income	**3,032**		Income earned on outsourcing fees, overlimit fees, transaction processing fees, gross international fees
Interest expense	**401,765**		Interest expense, service fees and facility agent fees on interbank loans payable, interest-bearing notes and lease liabilities
Rent, light and water	**12,378**		Rentals and utility expenses from leased premises at Metropolitan Park and Metrobank Plaza
Computer-related expense	**24,493**		Transaction processing charges
Communications	**–**		Telephone and courier card delivery charges
Depreciation of right-of-use assets	**24,664**		Depreciation expense of capitalized right-of-use assets
Distribution cost	**3,836**		Over-the-counter charges for the accommodation of cardholder payments
Security, messengerial and janitorial	**39**		Administrative expenses
Miscellaneous expense	**69,249**		Other membership and maintenance fees, collection and maintenance fees, recruitment and verification cost and employee relations expense
Affiliates			
Cash and cash equivalents		**(10,071)**	Current and savings account, and foreign currency deposits with annual interest rates of 0.5% and 0.1%, respectively.
Deposits	**5,838,963**		
Withdrawals	**(5,894,034)**		
Short-term placements		**–**	Short-term deposits and various overnight placements with terms of 1 to 3 days and bear annual interest rates ranging from 4.6% to 5.2%.
Placements	**132,973,000**		
Maturities	**(132,973,000)**		
Accounts receivable	**6,206**	**5,400**	Accounts receivable from corporate credit card transactions
Prepaid expenses and other current assets	**5,275**	**804**	Advance payment for insurance premiums
Bills payable		**229,601**	Overnight borrowings with annual interest rate ranging from 1.9% to 6.3% and terms of 1 to 6 days.
Availments	**135,460,000**		
Maturities	**(135,230,399)**		
Notes payable		**–**	Interest-bearing note with an interest ranging from 1.6% to 6.3% and term of 5 years (gross of unamortized issuance cost)
Availments	**–**		
Maturities	**–**		
Accrued interest payable	**3,254**	**3,254**	Accrued interest payable on deposit substitutes and interest-bearing notes

Category	December 31, 2019 Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Accrued expense payable	**₱1,569**	**₱–**	Over-the-counter charges for the accommodation of cardholder payments and other accrued expenses
Interest income	**1,569**		Interest earned on bank deposits and overnight lending
Membership fees and dues	**–**		Annual membership fee for corporate credit cards
Interest expense	**35,102**		Interest expense on interbank loans payable, deposit substitutes and interest-bearing notes
Distribution cost	**3,254**		Over-the-counter charges for the accommodation of cardholder payments
Rent, light and water	**–**		Rentals and utility expenses
Insurance expense	**6,094**		Insurance expenses
Miscellaneous expenses	**371**		Donations and other expenses

Category	December 31, 2018 Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Ultimate Parent Company			
Cash and cash equivalents		₱468,235	Current and savings account, and foreign currency deposits with annual interest rates of 0.5% and 0.1%, respectively.
Deposits	₱927,566,357		
Withdrawals	(928,493,406)		
Short-term placements		–	
Placements	15,538,000		Short-term deposits with annual interest rate of 1.5% and term of 5 days
Maturities	(15,538,000)		
Interbank loans receivable		–	Various overnight placements with terms of 1 to 3 days and bear annual interest rates ranging from 3.0% to 4.9%
Placements	–		
Maturities	–		
Accounts receivable	(70,419,748)	26,004	Billings on merchant discount subsidy, outsourcing fees, Point-of-Sale (POS) rentals and charges for use of Visa Banking Identification Number (BIN)
Accounts payable	–	–	Service fees on availments of bills payable
Accrued expense payable	1,820	2,375	Accrual of expenses from rentals, membership fees, distribution cost, utilities and other maintenance costs
Accrued interest payable	(20,524)	22,633	Accrued interest payable on interest-bearing notes
Bills payable		–	Overnight borrowings with annual interest rates ranging from 2.6% to 5.1% and terms of 1 to 5 days.
Availments	6,711,000		
Maturities	(6,711,000)		
Notes payable		(6,860,624)	
Availments	5,461,624		Interest-bearing note with an annual interest rate of 3.4% to 4.3% and term of 1 to 3 years.
Maturities	(8,399,000)		
Derivative liabilities	(28,510)	(28,510)	Cross-currency interest rate swaps with annual fixed interest rates ranging from 6.6% to 6.9% and terms of 3 years.
Interest income	4,229		Interest earned on bank deposits and overnight lending
Merchant discount	10,621		Income earned on merchant discount subsidy
Miscellaneous income	12,775		Income earned on outsourcing fees
Interest expense	186,929		Interest expense, service fees and facility agent fees on interbank loans payable and interest-bearing notes
Rent, light and water	39,889		Rentals and utility expenses from leased premises at Metropolitan Park and Metrobank Plaza
Computer-related expense	28,433		Transaction processing charges
Communications	–		Telephone and courier card delivery charges
Distribution cost	56,785		Over-the-counter charges for the accommodation of cardholder payments
Security, messengerial and janitorial	37		Administrative expenses
Miscellaneous expense	8,358		Other membership and maintenance fees
Affiliates			
Cash and cash equivalents		48,895	Current and savings account, and foreign currency deposits with annual interest rates of 0.5% and 0.1%, respectively.
Deposits	5,693,432		
Withdrawals	(5,696,852)		
Short-term placements		–	Short-term deposits and various overnight placements with terms of 1 to 3 days and bear annual interest rates ranging from 2.5% to 3.0%.
Placements	–		
Maturities	–		

Category	December 31, 2018 Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Accounts receivable	₱1,950	₱4,717	Accounts receivable from corporate credit card transactions
Prepaid expenses and other current assets	131,400	82,176	Advance payment for insurance premiums
Bills payable		346,632	Overnight borrowings with annual interest rate ranging from 3.0% to 5.0% and terms of 1 to 6 days.
Availments	10,392,111		
Maturities	(39,562,000)		
Notes payable		–	Interest-bearing note with an interest of 8.5% and term of 5 years (gross of unamortized issuance cost)
Availments	39,562,000		
Maturities	(39,562,000)		
Accrued interest payable	801	1,434	Accrued interest payable on deposit substitutes and interest-bearing notes
Accrued expense payable	(418)	873	Over-the-counter charges for the accommodation of cardholder payments and other accrued expenses
Interest income	11,166		Interest earned on bank deposits and overnight lending
Membership fees and dues	1,635		Annual membership fee for corporate credit cards
Interest expense	30,216		Interest expense on interbank loans payable, deposit substitutes and interest-bearing notes
Distribution cost			Over-the-counter charges for the accommodation of cardholder payments
Rent, light and water	835		Rentals and utility expenses
Insurance expense	5,388		Insurance expenses

Terms and Conditions of Transactions with Related Parties

Outstanding balances as of December 31, 2019 and 2018 are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. An impairment assessment is undertaken each financial year through a review of the financial position of the related party and the market in which the related party operates.

In 2019 and 2018, no provisions for credit losses were provided for receivables from related parties.

Transactions with Post-Employment Benefit Plan

Included in the Company's retirement plan assets are time deposits with Metrobank and investments in unit investment trust fund that are being managed by the TBG of Metrobank.

The total carrying value and fair value of the retirement plan assets as of December 31, 2019 and 2018 are disclosed in Note 19.

Remuneration of Directors and Other Key Management Personnel

The remuneration of directors and key management personnel (included under 'Compensation and fringe benefits' in the statements of income) are as follow:

	2019	2018
Salaries and wages and other short-term benefits	**₱224,822,441**	₱205,416,623
Retirement benefits	**22,896,922**	26,965,566
Directors fees	**10,252,000**	6,140,000
	₱257,971,363	₱238,522,189

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

There is no agreement between the Company and any of its directors and key officers providing for benefits upon termination of employment, except for such benefits to which they may be entitled under the Company's retirement plan.

BSP Regulatory Reporting
In the ordinary course of business, the Company has various transactions with its affiliates and with certain DOSRI. These transactions usually arise from normal banking activities such as lending, borrowing, deposit arrangements and trading of securities, among others. Under existing policies of the Company, these transactions are made substantially on the same terms as with other individuals and businesses of comparable risks.

Under current banking regulations, the amount of individual loans to DOSRI, of which 70.0% must be secured, should not exceed the amount of their respective unencumbered deposits and book value of their respective investments in the Company. In the aggregate, loans to DOSRI generally should not exceed the lower of the Company's total regulatory capital or 15.0% of the total loan portfolio.

On March 15, 2004, the BSP issued BSP Circular No. 423 which provides for the amended definition of DOSRI accounts. The following table shows information relating to DOSRI loans as reported to the BSP:

	2019	2018
Total outstanding DOSRI loans	**₱103,387,552**	₱101,242,492
Percent of DOSRI loans to total loans	**0.12%**	0.14%
Percent of unsecured DOSRI loans to total DOSRI loans	**0.16%**	0.16%
Percent of past due DOSRI loans to total DOSRI loans	**0.16%**	0.16%
Percent of nonperforming DOSRI loans to total DOSRI loans	**0.16%**	0.16%

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

BSP Circular No. 560 provides that the total outstanding loans, other credit accommodation and guarantees to each of the bank's/quasi-bank's subsidiaries and affiliates shall not exceed 10.0% of the net worth of the lending bank/quasi-bank, provided that the unsecured portion of which shall not exceed 5.0% of such net worth. Further, the total outstanding loans, credit accommodations and guarantees to all subsidiaries and affiliates shall not exceed 20.0% of the net worth of the lending bank/quasi-bank; and the subsidiaries and affiliates of the lending bank/quasi-bank are not related interest of any director, officer and/or stockholder of the lending institution, except where such director, officer or stockholder sits in the BOD or is appointed officer of such corporation as representative of the bank/quasi-bank. As of December 31, 2019 and 2018, the total outstanding loans, other credit accommodations and guarantees to each of the Company's affiliates and certain DOSRI did not exceed 10.0% of the net worth of the Company, and the unsecured portion of which did not exceed 5.0% of such net worth.

22. Financial Performance

As of December 31, 2019 and 2018, the basic ratios which measure the financial performance of the Company are as follows:

	2019	2018
Return on average equity	**28.6%**	34.9%
Net interest margin on average earning assets	**13.5%**	14.0%
Return on average assets	**5.6%**	6.3%

23. Commitments and Contingencies

In the normal course of operations, the Company has outstanding commitments to extend credit to credit cardholders, which are not reflected in the financial statements. Even though these obligations are not recognized on the statement of financial position, they contain credit risk and, therefore, formed part of the overall risk of the Company.

As of December 31, 2019 and 2018, credit cardholders' unused credit lines amounted to ₱209.8 billion and ₱185.6 billion, respectively.

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

	2019			
	Unused Credit Lines			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Outstanding exposure				
Exposure at beginning of year	₱182,788,470,469	₱2,660,689,690	₱146,604,845	₱185,595,765,004
New exposures	21,683,554,741	–	–	21,683,554,741
Transfers to Stage 1	4,059,721,655	(4,044,516,985)	(15,204,670)	–
Transfers to Stage 2	(5,739,015,893)	5,754,138,680	(15,122,787)	–
Transfers to Stage 3	(2,038,792,411)	(367,599,009)	2,406,391,420	–
Movements in unused credit lines	4,493,555,417	(1,155,784,201)	(851,198,338)	2,486,572,878
Exposure at end of year	**₱205,247,493,978**	**₱2,846,928,175**	**₱1,671,470,470**	**₱209,765,892,623**
Provisions				
Exposure at beginning of year	₱589,618,682	₱326,056,930	₱–	₱915,675,612
New exposures	229,553,710	–	–	229,553,710
Transfers to Stage 1	547,193,417	(547,193,417)	–	–
Transfers to Stage 2	(82,627,505)	82,627,505	–	–
Movements in unused credit lines	(51,853,559)	(74,758,236)	–	(126,611,795)
Impact on year-end ECL of exposures transferred during the year	(652,051,430)	409,212,576	–	(242,838,854)
Exposure at end of year	**₱579,833,315**	**₱195,945,358**	**₱–**	**₱775,778,673**

	2018			
	Unused Credit Lines			
	Stage 1	Stage 2	Stage 3	Total
Outstanding exposure				
Exposure at beginning of year	₱155,104,351,896	₱2,524,664,180	₱342,568,701	₱157,971,584,777
New exposures	19,503,230,867	–	–	19,503,230,867
Transfers to Stage 1	4,033,736,864	(3,995,637,301)	(38,099,563)	–
Transfers to Stage 2	(5,321,847,427)	5,353,297,952	(31,450,525)	–
Transfers to Stage 3	(559,610,336)	(315,998,815)	875,609,151	–
Movements in unused credit lines	10,028,608,605	(905,636,326)	(1,002,022,919)	8,120,949,360
Exposure at end of year	₱182,788,470,469	₱2,660,689,690	₱146,604,845	₱185,595,765,004
Provisions				
Exposure at beginning of year	₱522,949,780	₱308,232,125	₱–	₱831,181,905
New exposures	181,609,089	–	–	181,609,089
Transfers to Stage 1	508,647,214	(508,647,214)	–	–
Transfers to Stage 2	(87,551,710)	87,551,710	–	–
Movements in unused credit lines	(59,313,524)	68,478,643	–	9,165,119
Impact on year-end ECL of exposures transferred during the year	(476,722,167)	370,441,666	–	(106,280,501)
Exposure at end of year	₱589,618,682	₱326,056,930	₱–	₱915,675,612

Various suits and claims by the Company against cardholders, and vice-versa remain unsettled as of December 31, 2019 and 2018. The estimates of the probable cost for the resolution of claims have been developed in consultation with the aid of the outside legal counsel handling the Company's defense in these matters and are based upon analysis of potential results. Management does not believe that the outcome of these matters will affect the results of operations. It is probable, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings.

24. Standards Issued but Not Yet Effective

Pronouncements issued but not yet effective are listed below. The Company intends to adopt the following pronouncements when they become effective. The adoption of these pronouncements is not expected to have a significant impact on the Company's financial statements unless otherwise indicated.

<u>Effective beginning on or after January 1, 2020</u>

- Amendments to PFRS 3, *Definition of a Business*
- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors; Definition of Material*

<u>Effective beginning on or after January 1, 2021</u>

- PFRS 17, *Insurance Contracts*

<u>Deferred Effectivity</u>

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

25. Subsequent Event

<u>Merger with Metrobank</u>
On January 3, 2020, the Certificate of Merger was issued by SEC to the Company. This represents the approval of the plan of merger, which was unanimously approved by the respective BOD and ratified by the respective stockholders of the Company and Metrobank, last March 2019. Subsequent to the effective date of merger, all liabilities, transactions, and obligations of the Company shall be transferred to and become liabilities and obligations of Metrobank.

26. Approval of Release of Financial Statements

The accompanying comparative financial statements of the Company were authorized and approved for issuance by the BOD on February 19, 2020.

27. Notes to the Statements of Cash Flows

The changes in liabilities arising from financing activities in 2019 and 2018 are as follows:

			Non-cash changes		
	January 1, 2019	**Cash flows**	**Amortization**	**Foreign exchange movement/ Acquisition**	**December 31, 2019**
Notes payable	**₱31,317,426,067**	**(₱8,385,876,000)**	**₱124,622,153**	**(₱372,687,929)**	**₱22,683,484,291**
Subordinated debt	**1,164,611,135**	**–**	**1,089,942**	**–**	**1,165,701,077**
Lease liabilities	**73,105,988**	**(28,781,973)**	**4,291,929**	**6,871,022**	**55,486,966**

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

28. Supplementary Information Required Under Revenue Regulations 15-2010

In 2019, the Company reported and/or paid the following taxes which are included under 'Taxes, duties and license fees' in the statement of income:

GRT	₱1,069,769,980
DST	335,295,784
Local taxes	33,062,124
Fringe benefit tax	19,728,456
License fee	9,902,750
Others	85,139,931
	₱1,552,899,025

Withholding Taxes

As of December 31, 2019, total remittances and balance of withholding taxes are as follows:

	Total Remittances	Balance
Expanded withholding tax	₱634,616,346	₱79,143,216
Withholding tax on compensation and benefits	210,384,171	11,115,935
Withholding value-added tax	4,559,429	290,059
Final withholding tax	284,345,875	91,262,884
	₱1,133,905,821	**₱181,812,094**

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