

November 10, 2015

**Ms. Janet A. Encarnacion**  
Head, Disclosure Department  
Philippine Stock Exchange, Inc.  
3/F Philippine Stock Exchange Plaza  
Ayala Triangle, Ayala Avenue  
Makati City

**Dear Ms. Encarnacion:**

We hereby submit a copy of our SEC Form 17-Q for the period ended September 30, 2015.

Very truly yours,

  
**Mabilou C. Bartolome**  
Senior Vice President/Controller

cc: Philippine Dealing Exchange Corp.  
37/F, Tower 1, The Enterprise Center  
6766 Ayala Avenue corner Paseo de Roxas  
1226 Makati City, Philippines

# COVER SHEET

SEC Registration Number

2 0 5 7 3

METROPOLITAN BANK & TRUST COMPANY  
AND SUBSIDIARIES

(Company's Full Name)

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

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

Marilou C. Bartolome

(Contact Person)

898-8805

(Company Telephone Number)

1 2 3 1

Month Day  
(Fiscal Year)

1 7 - Q

(Form Type)

Month Day

(Annual Meeting)

NONE

(Secondary License Type, If Applicable)

Corporate Finance Department

Dept. Requiring this Doc.

Amended Articles Number/Section

As of 09.30.15

3,156

Total No. of Stockholders

Total Amount of Borrowings

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

Remarks: Please use BLACK ink for scanning purposes.

**SEC Number 20573**  
*File Number* \_\_\_\_\_

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**METROPOLITAN BANK & TRUST COMPANY**

(Company's Full Name)

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

(Company's Address)

**898-8805**

(Telephone Number)

**December 31**

(Fiscal year ending)

**17-Q**

(Form Type)

(Amendment Designation, if applicable)

**September 30, 2015**

(Period Ended Date)

**None**

(Secondary License Type and File Number)

**SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM 17-Q**

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

1. For the quarterly period ended : **September 30, 2015**
2. Commission Identification Number : **20573**
3. BIR Tax Identification No. : **000-477-863**
4. Exact name of issuer as specified in its charter : **METROPOLITAN BANK & TRUST COMPANY**
5. Province, country or other jurisdiction of incorporation or organization : **Metro Manila, Philippines**
6. Industry Classification Code :  (SEC Use Only)
7. Address of issuer's principal office : Metrobank Plaza, Sen. Gil Puyat Avenue, Urdaneta Village, Makati City, Metro Manila
8. Issuer's telephone number, including area code : **(632) 898-8805**
9. Former name, former address and former fiscal year, if changed since last report: **N/A**
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

<u>Title of Each Class</u>	<u>No. of Shares of Common Stock Outstanding</u>	<u>Amount of Debt Outstanding (Unpaid Subscriptions)</u>
<b>Common Shares</b>	<b>3,180,172,786 shares</b>	<b>None</b>

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

**Yes [ x ]    No [ ]**

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

12. Indicate by check mark whether the registrant:

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

**Yes [ x ]    No [ ]**

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

**Yes [ x ]    No [ ]**

## PART I - FINANCIAL INFORMATION

### Item 1. Financial Statements

Attached are the following:

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

### Item 2. Management's Discussion and Analysis of Consolidated Financial Position and Results of Operations

- Annex 7

## PART II - OTHER INFORMATION

### I. Control of Registrant

The following stockholders own more than 5% of the total outstanding number of shares issued as of September 30, 2015:

NAME OF STOCKHOLDER	TOTAL NUMBER OF SHARES HELD	PERCENT TO TOTAL NUMBER OF SHARES ISSUED
PCD Nominee Corporation (Non-Filipino)*	1,102,028,582	34.653%
GT Capital Holdings, Inc.	801,906,235**	25.216%
PCD Nominee Corporation (Filipino) *	421,143,735***	13.243%

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

\*\* Inclusive of 112,644,844 shares lodged with PCD Nominee Corporation

\*\*\* Net of 112,644,844 shares owned by GT Capital Holdings, Inc.

As of September 30, 2015, public ownership on the Bank was at 49.105%. Of the total shares issued, 34.709% represents foreign ownership.

### II. Pending Legal Proceedings

The registrant is a party to the following pending legal proceedings as of September 30, 2015:

1. On October 17, 2011, a consortium of eight banks including the Bank filed a Petition for Certiorari, Prohibition and/or Mandamus (with Urgent Application for a Temporary Restraining Order (TRO) and/or Writ of preliminary Injunction) with the Supreme Court (SC) against respondents the Republic of the Philippines, Bureau of Internal Revenue (BIR) and its Commissioner, the Department of Finance and its Secretary and the Bureau of Treasury (BTr) and the National Treasurer, asking the Court to annul BIR Ruling No. 370-2011 which imposes a 20-percent final withholding tax on the 10-year Zero-Coupon Government Bonds (also known as the PEACe bonds) that matured on October 18, 2011 and command the respondents to pay the full amount of the face value of the PEACe bonds. On October 18, 2011, the SC issued the TRO enjoining the implementation of the said BIR ruling on the condition that the 20-percent final withholding tax be withheld by the petitioner banks and placed in escrow pending resolution of the Petition. However, to date, the respondents have not complied with the said TRO, i.e., they have not

credited the banks' escrow accounts with the amount corresponding to the questioned 20-percent final tax. The case is still pending resolution with the SC.

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

### III. Board Resolutions

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


### SIGNATURES

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

#### **METROPOLITAN BANK & TRUST COMPANY**

By:

  
**MARILOU C. BARTOLOME**  
Senior Vice President/Controller

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

November 10, 2015

**METROPOLITAN BANK & TRUST COMPANY  
AND SUBSIDIARIES**

**Interim Condensed Consolidated Financial Statements**

As of September 30, 2015 (Unaudited) and December 31, 2014 (Audited)  
and for the nine months ended September 30, 2015 and 2014 (Unaudited)

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

	(Unaudited)	(Audited)
	September 30, 2015	December 31, 2014
<b>ASSETS</b>		
Cash and Other Cash Items	P 20,933	P 34,943
Due from Bangko Sentral ng Pilipinas	208,041	215,253
Due from Other Banks	26,237	38,200
Interbank Loans Receivable and Securities Purchased Under Resale Agreements	73,056	119,839
Financial Assets at Fair Value Through Profit or Loss	64,722	45,935
Available-for-Sale Investments	232,319	207,711
Held-to-Maturity Investments	208,254	129,076
Loans and Receivables	768,917	759,481
Investments in Associates and a Joint Venture	5,157	2,589
Property and Equipment	17,094	16,231
Investment Properties	8,325	10,037
Deferred Tax Assets	7,194	6,831
Goodwill	5,202	5,201
Other Assets	12,365	13,213
	<b>P 1,657,816</b>	<b>P 1,604,540</b>
<b>LIABILITIES AND EQUITY</b>		
<b>LIABILITIES</b>		
<b>Deposit Liabilities</b>		
Demand	P 209,727	P 187,285
Savings	443,018	406,767
Time	508,926	576,152
Long-Term Negotiable Certificates	14,250	14,250
	<b>1,175,921</b>	<b>1,184,454</b>
Bills Payable and Securities Sold Under Repurchase Agreements	168,300	140,399
Derivative Liabilities	5,024	3,071
Manager's Checks and Demand Drafts Outstanding	4,383	4,653
Income Taxes Payable	1,038	1,191
Accrued Interest and Other Expenses	8,782	9,874
Bonds Payable	11,514	11,444
Subordinated Debts	29,478	29,452
Deferred Tax Liabilities	482	457
Other Liabilities	51,254	60,760
	<b>1,456,176</b>	<b>1,445,755</b>
<b>EQUITY</b>		
Equity Attributable to Equity Holders of the Parent Company	192,429	150,129
Non-controlling Interest	9,211	8,656
	<b>201,640</b>	<b>158,785</b>
	<b>P 1,657,816</b>	<b>P 1,604,540</b>



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

<b>(Unaudited)</b>								
	<b>Quarter Ended September 30</b>				<b>Nine Months Ended September 30</b>			
	<b>2015</b>		<b>2014</b>		<b>2015</b>		<b>2014</b>	
<b>INTEREST INCOME ON</b>								
Loans and receivables	<b>P</b>	<b>11,613</b>	<b>P</b>	11,170	<b>P</b>	<b>35,307</b>	<b>P</b>	32,351
Trading and investment securities		<b>4,843</b>		3,864		<b>12,968</b>		11,154
Deposits with banks and others		<b>66</b>		60		<b>400</b>		224
		<b>16,522</b>		15,094		<b>48,675</b>		43,729
<b>INTEREST AND FINANCE CHARGES</b>								
Deposit liabilities		<b>2,753</b>		2,317		<b>8,509</b>		6,721
Bills payable and securities sold under repurchase agreements, bonds payable, subordinated debt and others		<b>1,392</b>		1,121		<b>3,910</b>		2,993
		<b>4,145</b>		3,438		<b>12,419</b>		9,714
<b>NET INTEREST INCOME</b>		<b>12,377</b>		11,656		<b>36,256</b>		34,015
<b>PROVISION FOR CREDIT AND IMPAIRMENT LOSSES</b>		<b>29</b>		1,368		<b>1,979</b>		3,300
<b>NET INTEREST INCOME AFTER PROVISION FOR CREDIT AND IMPAIRMENT LOSSES</b>								
		<b>12,348</b>		10,288		<b>34,277</b>		30,715
<b>OTHER INCOME</b>								
Service charges, fees and commissions		<b>2,399</b>		2,198		<b>7,351</b>		6,647
Trading and securities and foreign exchange gain (loss) - net		<b>(791)</b>		410		<b>1,109</b>		1,505
Miscellaneous		<b>1,631</b>		2,812		<b>5,680</b>		10,878
		<b>3,239</b>		5,420		<b>14,140</b>		19,030
<b>OTHER EXPENSES</b>								
Compensation and fringe benefits		<b>3,973</b>		4,066		<b>11,266</b>		12,385
Occupancy and equipment-related cost		<b>664</b>		627		<b>1,991</b>		1,818
Miscellaneous		<b>5,367</b>		5,285		<b>16,097</b>		15,540
		<b>10,004</b>		9,978		<b>29,354</b>		29,743
<b>INCOME BEFORE INCOME TAX</b>		<b>5,583</b>		5,730		<b>19,063</b>		20,002
<b>PROVISION FOR INCOME TAX</b>		<b>1,625</b>		1,002		<b>4,652</b>		4,468
<b>NET INCOME</b>	<b>P</b>	<b>3,958</b>	<b>P</b>	4,728	<b>P</b>	<b>14,411</b>	<b>P</b>	15,534
<b>Attributable to :</b>								
Equity holders of the Parent Company	<b>P</b>	<b>3,966</b>	<b>P</b>	4,002	<b>P</b>	<b>13,253</b>	<b>P</b>	13,077
Non-controlling interest		<b>(8)</b>		726		<b>1,158</b>		2,457
	<b>P</b>	<b>3,958</b>	<b>P</b>	4,728	<b>P</b>	<b>14,411</b>	<b>P</b>	15,534
<b>Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 13)</b>								
				<b>P</b>	<b>4.16</b>	<b>P</b>	<b>4.42</b>	*

\* Restated to show the effect of stock rights granted and exercised in 2015

**Metropolitan Bank & Trust Company**  
**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
( In millions )

	Quarter Ended September 30		Nine Months Ended September 30	
	2015	2014	2015	2014
<b>NET INCOME</b>	<b>₱ 3,958</b>	<b>₱ 4,728</b>	<b>₱ 14,411</b>	<b>₱ 15,534</b>
<b>OTHER COMPREHENSIVE INCOME</b>				
Items that will not be reclassified to profit or loss:				
Change in remeasurement loss on retirement plan	-	(13)	(10)	(12)
Items that may be reclassified to profit or loss:				
Change in net unrealized gain (loss) on available-for-sale investments	(244)	(1,291)	357	(2,576)
Change in other comprehensive loss of associates	(76)	(15)	(53)	(121)
Translation adjustment and others	962	395	958	(869)
Total items that may be reclassified to profit or loss	642	(911)	1,262	(3,566)
<b>OTHER COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD, NET OF TAX</b>	<b>642</b>	<b>(924)</b>	<b>1,252</b>	<b>(3,578)</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>₱ 4,600</b>	<b>₱ 3,804</b>	<b>₱ 15,663</b>	<b>₱ 11,956</b>
<b>Total Comprehensive Income attributable to :</b>				
Equity holders of the Parent Company	₱ 4,107	₱ 3,340	₱ 14,175	₱ 10,570
Non-controlling interest	493	464	1,488	1,386
	<b>₱ 4,600</b>	<b>₱ 3,804</b>	<b>₱ 15,663</b>	<b>₱ 11,956</b>

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

**Nine Months Ended September 30, 2015 and 2014**  
(In Million Pesos, Except Par Value and Number of Shares)  
(Unaudited)

**Equity Attributable to Equity Holders of the Parent Company**

	Common Stock*	Hybrid Capital Securities	Capital Paid in Excess of Par Value	Surplus	Surplus Reserves	Treasury Stock	Net Unrealized Loss on Available-for-Sale Investments	Equity in Other Comprehensive Income of Associates	Remeasurement Losses on Retirement Plan	Translation Adjustment and Others	TOTAL	Non-Controlling Interest	Total Equity
<b>Balance, January 1, 2015</b>	<b>₱54,896</b>	<b>₱6,351</b>	<b>₱19,312</b>	<b>₱72,258</b>	<b>₱1,371</b>	<b>(₱30)</b>	<b>(₱2,394)</b>	<b>₱260</b>	<b>(₱2,440)</b>	<b>₱545</b>	<b>₱150,129</b>	<b>₱8,656</b>	<b>₱158,785</b>
Total comprehensive income for the period	-	-	-	13,253	-	-	343	(52)	(10)	641	14,175	1,488	15,663
Transfer to surplus reserves	-	-	-	(54)	54	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	(2,745)	-	-	-	-	-	-	(2,745)	(933)	(3,678)
Coupon payment of hybrid capital securities	-	-	-	(506)	-	-	-	-	-	-	(506)	-	(506)
Issuance of shares of stock	8,707	-	22,827	-	-	-	-	-	-	-	31,534	-	31,534
Parent Company shares held by mutual fund subsidiaries	-	-	-	-	-	(158)	-	-	-	-	(158)	-	(158)
<b>Balance, September 30, 2015</b>	<b>₱63,603</b>	<b>₱6,351</b>	<b>₱42,139</b>	<b>₱82,206</b>	<b>₱1,425</b>	<b>(₱188)</b>	<b>(₱2,051)</b>	<b>₱208</b>	<b>(₱2,450)</b>	<b>₱1,186</b>	<b>₱192,429</b>	<b>₱9,211</b>	<b>₱201,640</b>
<b>Balance, January 1, 2014</b>	<b>₱54,896</b>	<b>₱6,351</b>	<b>₱19,312</b>	<b>₱55,525</b>	<b>₱1,235</b>	<b>₱-</b>	<b>(₱481)</b>	<b>₱272</b>	<b>(₱2,870)</b>	<b>₱647</b>	<b>₱134,887</b>	<b>₱7,818</b>	<b>₱142,705</b>
Total comprehensive income for the period	-	-	-	13,077	-	-	(2,483)	(120)	(4)	100	10,570	1,386	11,956
Transfer to surplus reserves	-	-	-	(58)	58	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	(2,745)	-	-	-	-	-	-	(2,745)	(861)	(3,606)
Coupon payment of hybrid capital securities	-	-	-	(499)	-	-	-	-	-	-	(499)	-	(499)
Parent Company shares held by a mutual fund subsidiary	-	-	-	-	-	(30)	-	-	-	-	(30)	-	(30)
<b>Balance, September 30, 2014</b>	<b>₱54,896</b>	<b>₱6,351</b>	<b>₱19,312</b>	<b>₱65,300</b>	<b>₱1,293</b>	<b>(₱30)</b>	<b>(₱2,964)</b>	<b>₱152</b>	<b>(₱2,874)</b>	<b>₱747</b>	<b>₱142,183</b>	<b>₱8,343</b>	<b>₱150,526</b>

Capital Stock of the Parent Company consists of (Note 10 of Annex 5):

\* **COMMON STOCK** at ₱20 par value

Authorized - 4,000,000,000 shares as of September 30, 2015 and 2014

Issued - 3,180,172,786 and 2,744,801,066 shares as of September 30, 2015 and 2014, respectively

**PREFERRED STOCK** at ₱20 par value

Authorized - 1,000,000,000 shares

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

	(Unaudited)	
	For the Nine Months Ended September 30	
	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Income before income tax	P 19,063	P 20,002
Adjustments for :		
Provision for credit and impairment losses	1,979	3,300
Trading and securities gain on available-for-sale investments	(1,151)	(770)
Depreciation and amortization	2,098	1,920
Share in net income of associates and a joint venture	(335)	(329)
Profits from assets sold	(1,134)	(4,900)
Net unrealized market valuation loss (gain) on financial assets at FVPL	(1,240)	137
Gain on foreclosure of real estate and chattel	(561)	(555)
Amortization of software cost	279	240
Accretion of discount on subordinated debt and bonds payable	33	16
Dividends	(298)	(215)
Net gain on sale of investment in an associate	-	(1,225)
Changes in operating assets and liabilities:		
Decrease (increase) in the amounts of :		
Financial assets at fair value through profit or loss	(15,653)	3,906
Loans and receivables	(11,246)	(90,040)
Other assets	(146)	(1,950)
Increase (decrease) in the amounts of:		
Deposit liabilities	(8,533)	90,548
Manager's checks and demand drafts outstanding	(270)	170
Accrued interest and other expenses	(1,092)	595
Other liabilities	(9,453)	1,517
Net cash generated from (used in) operations	(27,660)	22,367
Dividends received	305	221
Income taxes paid	(5,143)	(4,446)
Net cash provided by (used in) operating activities	(32,498)	18,142
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisitions of:		
Available-for-sale investments	(219,286)	(98,416)
Held-to-maturity investments	(79,353)	(81,103)
Property and equipment	(3,384)	(2,210)
Proceeds from sale of:		
Available-for-sale investments	194,913	115,404
Property and equipment	729	1,131
Investment in associates	-	2,812
Investment properties	3,643	6,512
Decrease (increase) in interbank loans receivable and securities purchased under resale agreements	3,022	(3,411)
Proceeds from maturities of held-to-maturity investments	175	15,033
Net cash used in investing activities	(99,541)	(44,248)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Settlements of bills payable	(944,678)	(1,853,786)
Availments of bills payable and securities sold under repurchase agreement	972,579	1,860,832
Proceeds from issuance of shares of stock	31,534	-
Proceeds from issuance of subordinated debts	-	25,308
Repayments of subordinated debts	-	(4,500)
Cash dividends paid	(3,678)	(3,606)
Coupon payment of hybrid capital securities	(506)	(499)
Acquisition of Parent Company shares by mutual fund subsidiaries	(158)	(30)
Net cash provided by financing activities	55,093	23,719
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(76,946)</b>	<b>(2,387)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>		
Cash and other cash items	34,943	29,742
Due from Bangko Sentral ng Pilipinas	215,253	166,774
Due from other banks	38,200	26,275
Interbank loans receivable and securities purchased under resale agreements	112,188	117,175
	400,584	339,966
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>		
Cash and other cash items	20,933	19,470
Due from Bangko Sentral ng Pilipinas	208,041	197,370
Due from other banks	26,237	19,336
Interbank loans receivable and securities purchased under resale agreements	68,427	101,403
	P 323,638	P 337,579

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

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**1. Corporate Information**

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

In November 1980, the SEC approved and certified the listing of its shares and on February 26, 1981, the listing and trading took effect in Makati Stock Exchange, Inc. and Manila Stock Exchange which unified and now, The Philippine Stock Exchange, Inc. (PSE). The universal banking license was granted by the Philippine Central Bank, now Bangko Sentral ng Pilipinas (BSP) on August 21, 1981.

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

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**2. Summary of Significant Accounting Policies**

Basis of Preparation

The accompanying condensed consolidated financial statements have been prepared in accordance with Philippine Accounting Standard (PAS) 34 *Interim Financial Reporting*. Accordingly, the condensed consolidated financial statements do not include all of the information and disclosures required in the annual audited financial statements and should be read in conjunction with the Groups’ annual audited financial statements as at December 31, 2014.

The condensed financial statements have been prepared on a historical cost basis except for financial assets and financial liabilities at fair value through profit or loss (FVPL) and available-for-sale (AFS) investments that have been measured at fair value.

The condensed consolidated financial statements are presented in Philippine Peso (PHP) and all values are rounded to the nearest million pesos (P000,000) except when otherwise indicated.

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The respective functional currencies of the subsidiaries are presented under Basis of Consolidation.

Statement of Compliance

The financial statements of the Group have been prepared in compliance with the accounting principles generally accepted in the Philippines for banks or Philippine GAAP for banks. As discussed in Note 6, in 2011, First Metro Investment Corporation (FMIC), a majority-owned subsidiary of the Parent Company, participated in a bond exchange transaction under the liability management exercise of the Philippine Government. The SEC granted an exemptive relief from the existing tainting rule on held-to-maturity (HTM) investments under PAS 39, *Financial Instruments: Recognition and Measurement*, while the BSP also provided the same exemption for prudential reporting to the participants. Following this exemption, the basis of preparation of the financial statements of the availing entities shall not be Philippine Financial Reporting Standards (PFRS) but should be the prescribed financial reporting framework for entities which are given relief from certain requirements of the full PFRS. Except for the aforementioned exemption which is applied starting 2011, the financial statements of the Group have been prepared in compliance with the PFRS.

Presentation of Financial Statements

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense are not offset in the statement of income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

Basis of Consolidation

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

The following are the wholly and majority-owned foreign and domestic subsidiaries of the Bank as of September 30, 2015:

Subsidiary	Effective Percentage of Ownership	Country of Incorporation	Functional Currency
<b>Financial Markets:</b>			
<b>Domestic:</b>			
First Metro Investment Corporation (FMIC) and Subsidiaries	99.23	Philippines	PHP
Philippine Savings Bank (PSBank)	75.98	Philippines	PHP
Metrobank Card Corporation (A Finance Company) (MCC)	60.00	Philippines	PHP
ORIX Metro Leasing and Finance Corporation (ORIX Metro) and Subsidiaries	59.85	Philippines	PHP
<b>Foreign:</b>			
Metropolitan Bank (China) Ltd.	100.00	China	Chinese Yuan
Metropolitan Bank (Bahamas) Limited	100.00	The Bahamas	United States Dollar (USD)
First Metro International Investment Company Limited and Subsidiary	99.85	Hong Kong	Hong Kong Dollar (HKD)
<b>Remittances:</b>			
Metro Remittance (Hong Kong) Limited	100.00	Hong Kong	HKD
Metro Remittance (Singapore) Pte. Ltd.	100.00	Singapore	Singapore Dollar
Metro Remittance (UK) Limited	100.00	United Kingdom	Great Britain Pound
Metro Remittance (USA), Inc.	100.00	United States of America (USA)	USD
Metro Remittance Center, Inc.	100.00	USA	USD
Metro Remittance (Japan) Co., Ltd.	100.00	Japan	Japanese Yen
Metro Remittance (Italia), S.p.A. *	100.00	Italy	Euro
<b>Real Estate:</b>			
Circa 2000 Homes, Inc. *	100.00	Philippines	PHP
<b>Others:</b>			
Philbancor Venture Capital Corporation *	60.00	Philippines	PHP
MBTC Technology, Inc. **	100.00	Philippines	PHP

\* In process of dissolution.

\*\* In process of liquidation.

On January 31, 2013, the BSP approved the Parent Company's request to establish a remittance company in Yokohama, Japan with an initial capital infusion of USD2.5 million. The first tranche amounting to JPY 100.0 or USD1.0 million and the second tranche amounting to JPY75.0 million or USD0.7 million were contributed in May 2013 and in September 2014, respectively. On September 24, 2015, the Parent Company remitted the third tranche amounting to JPY 75.0 million or USD0.7 million.

In July 2015, FMIC entered into a 5-year agreement with Philex Mining Corporation to jointly vote their 18.6% ownership in Lepanto Consolidated Mining Company (LCMC). As such, FMIC's 14.33% ownership amounting to ₱1.3 billion was reclassified from AFS investment to equity investment in associate without any gain or loss recognized in the books.

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

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

When a change in ownership interest in a subsidiary occurs which results in a loss of control over the subsidiary, the Parent Company:

- derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- derecognizes the carrying amount of any non-controlling interest;
- derecognizes the related other comprehensive income recorded in equity and recycles the same to statement of income or retained earnings;
- recognizes the fair value of the consideration received;
- recognizes the fair value of any investment retained;
- recognizes any surplus or deficit in statement of income; and
- reclassifies the Parent Company's share of components previously recognized in other comprehensive income (OCI) to profit or loss or surplus, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

#### Entity with significant influence over the Group

GT Capital Holdings, Inc. (GT Capital) holds 25.216% and 25.112% of the total shares of the Bank as of September 30, 2015 and December 31, 2014, respectively.

#### Non-Controlling Interest

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

#### Changes in Accounting Policies

The accounting policies adopted in the preparation of the unaudited interim condensed consolidated financial statements are consistent with those followed in the preparation of the audited annual consolidated financial statements as of and for the year ended December 31, 2014, except for the adoption of the following applicable PAS and PFRS by the Group effective beginning January 1, 2015:

#### *Annual Improvements to PFRSs (2011 - 2013 cycle)*

The Annual Improvements to PFRSs (2011 - 2013 cycle) which took effect on July 1, 2014 contain non-urgent but necessary amendments to the following standards:

#### *PFRS 3, Business Combinations - Scope Exceptions for Joint Arrangements*

The amendment clarifies that PFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. The amendment is applied prospectively. The Group will consider this amendment for future joint arrangements.

*PFRS 13, Fair Value Measurement - Portfolio Exception*

The amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts.

*PAS 40, Investment Property*

The amendment clarifies the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property. The amendment stated that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of PFRS 3. This judgment is based on the guidance of PFRS 3.

The Group will consider the amendments to the following standards as applicable to future transactions:

*PAS 19, Employee Benefits - Defined Benefit Plans: Employee Contributions (Amendments)*

The amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans. The amendments to PAS 19 are applied retrospectively.

*Annual Improvements to PFRSs (2010 - 2012 cycle)*

The Annual Improvements to PFRSs (2010 - 2012 cycle) which took effect on January 1, 2015, contain non-urgent but necessary amendments to the following standards:

*PFRS 2, Share-based Payment - Definition of Vesting Condition*

The amendment revised the definitions of vesting and market conditions and added the definitions of performance and service conditions to clarify various issues. This amendment shall be prospectively applied to share-based payment transactions for which the grant date is on or after January 1, 2015.

*PFRS 3, Business Combinations - Accounting for Contingent Consideration in a Business Combination*

The amendment clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. Contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PFRS 9 (or PAS 39, if PFRS 9 is not yet adopted). The amendment shall be prospectively applied to business combinations for which the acquisition date is on or after January 1, 2015.

*PFRS 8, Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*

The amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are applied retrospectively and affect disclosures only.

*PAS 24, Related Party Disclosures - Key Management Personnel*

The amendments clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The amendments are applied retrospectively and affect disclosures only.

Except as otherwise indicated above, the adoption of the amended and revised standards has no significant impact on the Group's financial statements.



## **Significant Accounting Policies – Financial Instruments**

### Fair Value Measurement

The Group measures financial instruments, such as, derivatives, and non-financial assets such as investment properties, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 4.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., an exit price). The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

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

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

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

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

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

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

The Group determines the policies and procedures for both recurring fair value measurement, such as financial assets at FVPL and for non-recurring measurement, such as investment properties.

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

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

## Financial Instruments - Initial Recognition and Subsequent Measurement

### *Date of recognition*

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

### *Initial recognition of financial instruments*

All financial instruments are initially measured at fair value. Except for financial assets and financial liabilities valued at FVPL, the initial measurement of financial instruments includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, HTM investments, AFS investments, and loans and receivables while financial liabilities are classified as financial liabilities at FVPL and financial liabilities carried at amortized cost. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

### *Determination of fair value*

The fair value for financial instruments traded in active markets at the statement of financial position date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and ask prices are not available, the price of the most recent transaction is used since it provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models, and other relevant valuation models.

### *'Day 1' difference*

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

### *Derivatives recorded at FVPL*

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

### *Hedge accounting*

For the purpose of hedge accounting, hedges are classified primarily as either: (a) a hedge of the fair value of an asset, liability or a firm commitment (fair value hedge); or (b) a hedge of the exposure to variability in cash flows attributable to an asset or liability or a forecasted transaction (cash flow hedge); or (c) a hedge of a net investment in a foreign operation (net investment hedge). Hedge accounting is applied to derivatives designated as hedging instruments in a fair value, cash flow, or net investment hedge provided certain criteria are met.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

#### *Cash flow hedge*

The effective portion of the gain or loss on the hedging instrument is recognized directly as 'Translation adjustment and others' in the statement of comprehensive income. Any gain or loss in fair value relating to an ineffective portion is recognized immediately in the statement of income.

Amounts recognized as other comprehensive income are transferred to the statement of income when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs. Where the hedged item is the cost of a nonfinancial asset or liability, the amounts taken to other comprehensive income are transferred to the initial carrying amount of the nonfinancial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognized in the statement of comprehensive income are transferred to the statement of income. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognized in other comprehensive income remains in other comprehensive income until the forecast transaction or firm commitment affects profit or loss. If the related transaction is no longer expected to occur, the amount is recognized in the statement of income.

#### *Hedge effectiveness testing*

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

For prospective effectiveness, the hedging instrument must be expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated. The Group applies the dollar-offset method using hypothetical derivatives in performing hedge effectiveness testing. For actual effectiveness to be achieved, the changes in fair value or cash flows must offset each other in the range of 80.0% to 125.0%. Any hedge ineffectiveness is recognized in the statement of income.

#### *Embedded derivatives*

The Group has certain derivatives that are embedded in host financial (such as structured notes and debt instruments) and nonfinancial (such as lease and service agreements) contracts. These embedded derivatives include interest rate derivatives in debt instruments which include structured notes and foreign currency derivatives in debt instruments and lease agreements.

Embedded derivatives are bifurcated from their host contracts and carried at fair value with fair value changes being reported through profit or loss, when the entire hybrid contracts (composed of both the host contract and the embedded derivative) are not accounted for as financial assets or liabilities at FVPL, when their economic risks and characteristics are not clearly and closely related to those of their respective host contracts, and when a separate instrument with the same terms as the embedded derivatives would meet the definition of a derivative. The Group assesses whether embedded derivatives are required to be separated from the host contracts when the Group first becomes a party to the contract. Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modifies the contractual cash flows.

*Financial assets or financial liabilities held for trading*

Financial assets or financial liabilities held for trading are recorded in the statement of financial position at fair value. Changes in fair value relating to the held for trading positions are recognized in 'Trading and securities gain - net'. Interest earned or incurred is recorded in 'Interest income' or 'Interest expense' respectively, while dividend income is recorded in 'Dividends' when the right to receive payment has been established. Included in this classification are debt and equity securities which have been acquired principally for the purpose of selling or repurchasing in the near term.

*AFS investments*

AFS investments include debt and equity instruments. Equity investments classified under AFS investments are those which are neither classified as held-for-trading (HFT) nor designated at FVPL. Debt securities are those that do not qualify to be classified as HTM investments or loans and receivables, are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

After initial measurement, AFS investments are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in the statement of income. The unrealized gains and losses arising from the fair valuation of AFS investments are excluded, net of tax, from reported earnings and are included in the statement of comprehensive income as 'Net unrealized gain on AFS investments'.

When the security is disposed of, the cumulative gain or loss previously recognized in the statement of comprehensive income is recognized as 'Trading and securities gain - net' in the statement of income. Gains and losses on disposal are determined using the average cost method.

Interest earned on holding AFS investments are reported as 'Interest income' using the effective interest rate (EIR) method. Dividends earned on holding AFS investments are recognized in the statement of income as 'Dividends' when the right of the payment has been established. The losses arising from impairment of such investments are recognized as 'Provision for credit and impairment losses' in the statement of income.

*HTM investments*

HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group's management has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS investments unless for sales or reclassifications that:

- are so close to maturity or the financial asset's call date (for example, less than three months before maturity) that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- occur after the entity has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or
- are attributable to an isolated event that is beyond the entity's control, is non-recurring and could not have been reasonably anticipated by the entity.

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

The Group follows Philippine GAAP for banks in accounting for its HTM investments in the consolidated financial statements. Under Philippine GAAP for banks, the gain on exchange on FMIC's participation in the domestic bond exchange was deferred and amortized over the term of new bonds (see Statement of Compliance discussion).

#### *Loans and receivables*

This accounting policy relates to the statement of financial position captions 'Due from BSP', 'Due from other banks', 'Interbank loans receivable and securities purchased under resale agreements (SPURA)' and 'Loans and receivables'. These are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as 'other financial assets held for trading', designated as AFS investments or 'financial assets designated at FVPL'.

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

Loans and receivables also include ORIX Metro's lease contracts receivable and notes receivable financed which are stated at the outstanding balance, reduced by unearned lease income and unearned finance income, respectively.

After initial measurement, 'Due from BSP', 'Due from other banks', 'Interbank loans receivable and SPURA' and 'Loans and receivables', are subsequently measured at amortized cost using the EIR method, less allowance for credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in 'Interest income' in the statement of income. The losses arising from impairment are recognized in 'Provision for credit and impairment losses' in the statement of income.

#### *Other financial liabilities*

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

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

#### Derecognition of Financial Assets and Liabilities

##### *Financial assets*

A financial asset (or, where applicable, a part of a financial asset or part of a group of financial assets) is derecognized when:

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

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. The extent of the Group's continuing involvement in the transferred asset is the extent to which it is exposed to changes in the value of the transferred asset. When the Group's continuing involvement takes the form of guaranteeing the transferred asset, the extent of the Group's continuing involvement is the lower of (i) the amount of the asset and (ii) the maximum amount of the consideration received that the Group could be required to repay ('the guarantee amount'). When the Group's continuing involvement takes the form of a written or purchased option (or both) on the transferred asset the extent of

the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase. However, in case of a written put option to an asset that is measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price. When the Group's continuing involvement takes the form of a cash-settled option or similar provision on the transferred asset, the extent of the Group's continuing involvement is measured in the same way as that which results from non-cash settled options.

#### *Financial liabilities*

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

#### *Repurchase and reverse repurchase agreements*

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

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

#### Impairment of Financial Assets

The Group assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

#### *Financial assets carried at amortized cost*

For financial assets carried at amortized cost such as loans and receivables, due from other banks, and HTM investments, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. For individually assessed financial assets, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

Financial assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment. The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to the statement of income. Interest income continues to be recognized based on the original EIR of the asset. Financial assets, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent period, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the

previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited to the 'Provision for credit and impairment losses' in the statement of income.

If the Group determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of credit risk characteristics such as industry, collateral type, past-due status and term. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with changes in related observable data from period to period (such as changes in property prices, payment status, or other factors that are indicative of incurred losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

The Group also uses the Net Flow Rate method to determine the credit loss rate of a particular delinquency age bucket based on historical data of flow-through and flow-back of loans across specific delinquency age buckets. The allowance for credit losses is determined based on the results of the net flow to write-off methodology. Net flow tables are derived from monitoring of monthly peso movements between different stage buckets, from 1-day past due to 180-day past due. The net flow to write-off methodology relies on the last 12 months of net flow tables to establish a percentage ('net flow rate') of accounts receivable that are current or in any state of delinquency (i.e., 30, 60, 90, 120, 150 and 180 day past due) as of reporting date that will eventually result in write-off. The gross provision is then computed based on the outstanding balances of the receivables as of statement of financial position date and the net flow rates determined for the current and each delinquency bucket. This gross provision is reduced by the estimated recoveries, which are also based on historical data, to arrive at the required allowance for credit losses.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

#### *AFS investments*

In case of quoted equity investments classified as 'AFS investments', this would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statement of income - is removed from the statement of comprehensive income and recognized in the statement of income. Impairment losses on equity investments are not reversed through the statement of income. Increases in fair value after impairment are recognized directly in the statement of comprehensive income.

In case of unquoted equity investments classified as 'AFS investments', the amount of the impairment is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

In case of debt instruments classified as 'AFS investments', impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of 'Interest income' in the statement of income. If subsequently, the fair value of a debt instrument increased and the increase can be objectively related to an

event occurring after the impairment loss was recognized in the statement of income, the impairment loss is reversed through the statement of income.

#### *Restructured loans*

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR. The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the original EIR, is recognized in 'Provision for credit and impairment losses' in the statement of income.

#### Offsetting Financial Instruments

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

#### **Standards Issued but not yet Effective**

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

#### New Standards

##### *PFRS 9, Financial Instruments - Classification and Measurement (2010 version)*

PFRS 9 (2010 version) reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement*. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

PFRS 9 (2010 version) is effective for annual periods beginning on or after January 1, 2015. This mandatory adoption date was moved to January 1, 2018 when the final version of PFRS 9 was adopted by the Philippine Financial Reporting Standards Council (FRSC). Such adoption, however, is still for approval by the Board of Accountancy (BOA).

##### *Philippine Interpretation IFRIC 15, Agreements for the Construction of Real Estate*

This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The SEC and the FRSC have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting



Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. Adoption of the interpretation when it becomes effective will not have any impact on the financial statements of the Group.

The following new standards and amendments issued by the IASB were already adopted by the FRSC but are still for approval by BOA.

*PFRS 14, Regulatory Deferral Accounts*

This is an interim standard aimed at enhancing the comparability of financial reporting by entities that are engaged in rate-regulated activities. It allows first-time adopters to continue to recognize amounts related to rate regulation in accordance with the previous GAAP requirements when they adopt IFRS. The standard which becomes effective on January 1, 2016, is not applicable to the Group.

*Amendments*

*PAS 1, Presentation of Financial Statements – Initiative to improve presentation and disclosure in financial reports*

The amendments to PAS 1 further encourage companies to apply professional judgment in determining what information to disclose in their financial statements. It clarifies that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures.

*PAS 16, Property, Plant and Equipment and PAS 38, Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization*

The revised PAS 16 and PAS 38 both establish the principle for the basis of depreciation and amortization as being the expected pattern of consumption of the future economic benefits of an asset. The amendments to PAS 16 explicitly prohibits revenue-based depreciation of property plant and equipment while the amendments to PAS 38 introduce a rebuttable presumption that a revenue-based amortization method for intangible assets is inappropriate for the same reason that there are multiple factors that influence revenue and that not all these factors are related to the way the asset is used or consumed. The revised standards are effective for periods beginning January 1, 2016, with earlier application permitted.

*PAS 16, Property, Plant and Equipment and PAS 41, Agriculture - Change in Financial Reporting for Bearer Plants*

The amendments require entities to account for bearer plants in the same way as property, plant and equipment in PAS 16 because their operation is similar to that of manufacturing, bringing them within the scope of PAS 16, instead of PAS 41. The produce growing on bearer plants will remain within the scope of PAS 41. The amended standards are effective for annual periods beginning on or after January 1, 2016, with earlier application permitted. The amendments are not applicable to the Group.

*PFRS 11, Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations*

The amendments provide guidance on how to account for acquisition of an interest in a joint operation that constitutes a business, and apply the relevant principles of IFRS 3 and other IFRS in accounting for business combination as well as the disclosures required by such IFRS. The amendments shall be applied prospectively for annual periods beginning on or after January 1, 2016. Earlier application is permitted.

*PAS 27, Separate Financial Statements - Equity Method in Separate Financial Statements*

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of PFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to PFRS. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments will not have any impact on the Group's consolidated financial statements.

*PFRS 10, Consolidated Financial Statements and PAS 28, Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

These amendments address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. These amendments are effective from annual periods beginning on or after January 1, 2016.

*PFRS 10, Consolidated Financial Statement, PFRS 12, Disclosure of Interests in Other Entities and PAS 28-Applying the Consolidation Exception*

The amendments to PFRS 10, PFRS 12 and PAS 28 clarify the requirements when accounting for investment entities. The amendments also provide relief in particular circumstances, which will reduce the costs of applying the Standards. These amendments may be applied immediately, and become mandatory for annual periods beginning on or after January 1, 2016.

Unless otherwise indicated, the above improvements to PFRSs will have no impact on the Group's financial position or performance.

*Annual Improvements to PFRSs (2012 - 2014 cycle)*

The Annual Improvements to PFRSs (2012 - 2014 cycle) are effective for annual periods beginning on or after January 1, 2016 and are not expected to have a material impact on the Group. They include:

*PFRS 5, Non-current Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal*

The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

*PFRS 7, Financial Instruments: Disclosures - Servicing Contracts*

PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.

*PFRS 7 - Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*

This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.

*PAS 19, Employee Benefits - Regional Market Issue regarding Discount Rate*

This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

*PAS 34, Interim Financial Reporting - Disclosure of Information 'Elsewhere in the Interim Financial Report'*

The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

Effective January 1, 2018

PFRS 9, *Financial Instruments - Hedge Accounting and Amendments to PFRS 9, PFRS 7 and PAS 39* (2013 version)

PFRS 9 (2013 version) already includes the third phase of the project to replace PAS 39 which pertains to hedge accounting. This version of PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a derivative instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

PFRS 9 (2013 version) has no mandatory effective date. The mandatory effective date of January 1, 2018 was eventually set when the final version of PFRS 9 was adopted by the FRSC. The adoption of the final version of PFRS 9, however, is still for approval by BOA.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets but will have no impact on the classification and measurement of the Group's financial liabilities. The adoption will also have an effect on the Group's application of hedge accounting.

PFRS 9, *Financial Instruments* (2014 or final version)

In July 2014, the final version of PFRS 9, *Financial Instruments*, was issued. PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of PFRS 9 is permitted if the date of initial application is before February 1, 2015.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Group's financial liabilities. The adoption will also have an effect on the Group's application of hedge accounting. The Group is currently assessing the impact of adopting this standard.

The Group conducted an evaluation of the financial impact of the adoption of PFRS 9 based on the audited financial statements as of December 31, 2014 and decided not to early adopt PFRS 9 in its 2015 financial reporting.

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### 3. **Financial Risk Management**

Compared with December 31, 2014, there have been no changes in the financial risk exposures that materially affect the financial statements of the Group as of September 30, 2015. The Group has exposures to the following risks from its use of financial instruments: (a) credit; (b) liquidity; and (c) market risks. Related discussions follow below and should be read in conjunction with Note 4, Financial Risk and Capital Management, of the Group's 2014 audited financial statements.

#### *Risk management framework*

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

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

#### Credit Risk

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

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

Financial assets recognized by type	Gross Carrying Amounts (before offsetting)	Gross Amounts Offset in Accordance with the Offsetting Criteria	Net Amount Presented in Statement of Financial Position	Effect of Remaining Rights of Set-Off (including rights to set-off financial collateral) offsetting criteria		Net Exposure
				Financial Instruments	Fair Value of Financial Collateral	
<b>September 30, 2015 (Unaudited)</b>						
Derivative assets	P125,936	P119,946	P5,990	P780	P-	P5,210
SPURA	50,000	-	50,000	-	49,528	472
	<b>P175,936</b>	<b>P119,946</b>	<b>P55,990</b>	<b>P780</b>	<b>P49,528</b>	<b>P5,682</b>
<b>December 31, 2014 (Audited)</b>						
Derivative assets	P139,700	P136,901	P2,799	P631	P-	P2,168
SPURA	96,826	-	96,826	-	96,700	126
	<b>P236,526</b>	<b>P136,901</b>	<b>P99,625</b>	<b>P631</b>	<b>P96,700</b>	<b>P2,294</b>

#### **Financial liabilities recognized by type**

<b>September 30, 2015 (Unaudited)</b>						
Derivative liabilities	P101,459	P96,500	P4,959	P780	P-	P4,179
SSURA	47,049	-	47,049	-	47,049	-
	<b>P148,508</b>	<b>P96,500</b>	<b>P52,008</b>	<b>P780</b>	<b>P47,049</b>	<b>P4,179</b>
<b>December 31, 2014 (Audited)</b>						
Derivative liabilities	P89,646	P86,575	P3,071	P631	P-	P2,440
SSURA	42,748	-	42,748	-	42,748	-
	<b>P132,394</b>	<b>P86,575</b>	<b>P45,819</b>	<b>P631</b>	<b>P42,748</b>	<b>P2,440</b>

#### Liquidity Risk

Liquidity risk is defined as the current and prospective risk to earnings or capital arising from the Group's inability to meet its obligations when they become due. The Group manages its liquidity risk through analyzing net funding requirements under alternative scenarios, diversification of funding sources and contingency planning. Specifically for the Parent Company, it utilizes a diverse range of sources of funds, although short-term deposits made with its network of domestic branches comprise the majority of such funding. To ensure that funding requirements are met, the Parent Company manages its liquidity risk by holding sufficient liquid assets of appropriate quality. It also maintains a balanced loan portfolio that is repriced on a regular basis. Deposits with banks are made on a short-term basis.

Further, the Parent Company's Treasury Group uses liquidity forecast models to estimate its cash flow needs based on its actual contractual obligations under normal and extraordinary circumstances. RSK generates Maximum Cumulative Outflow (MCO) reports on a monthly basis to estimate net cash flows of the bank under business-as-usual and stress parameters. The Group's financial institution subsidiaries (excluding insurance companies) prepare their respective MCO reports. These are reported to the Parent Company's ROC on a monthly basis.

### Market Risk

Market risk is the possibility of loss to future earnings, fair values or future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates, foreign currency exchange rates, and other market factors. The Parent Company's market risk originates from its holdings in foreign currencies, debt securities and derivatives transactions. The Parent Company manages market risk by segregating its balance sheet into a trading book and a banking book. ALCO, chaired by the Parent Company's Chairman is the senior review and decision-making body for the management of all related market risks. The Parent Company enforces a set of risk limits to properly monitor and manage the market risks. The risk limits are approved by the BOD. The RSK serves under the ROC and performs daily market risk analyses to ensure compliance with the Parent Company's policies. The Treasury Group manages asset/liability risks arising from both banking book and trading operations in financial markets.

As part of its oversight function, the Parent Bank regularly coordinates with Subsidiaries to monitor their compliance to their respective risk tolerances and ensure consistency of risk management practices. Risk aggregation and consolidation of exposures are part of the Bank's initiatives to provide senior management, the ROC and the BOD with a group-wide market risk profile perspective such as Group Trading VaR.

#### Market Risk - Trading Book

In measuring the potential loss in its trading portfolio, the Parent Company uses Value-at-Risk (VaR) as a primary tool. The VaR method is a procedure for estimating portfolio losses exceeding some specified proportion based on a statistical analysis of historical market price trends, correlations and volatilities. VaR estimates the potential decline in the value of a portfolio, under normal market conditions, for a given "confidence level" over a specified holding period. The limitations of the VaR methodology are recognized by supplementing VaR limits with other position, sensitivity, and loss limit structures and by performing stress testing analysis. These processes address potential product concentration risks, monitor portfolio vulnerability and give the management an early advice if a potential loss goes beyond what is deemed to be tolerable to the bank, even before the VaR limit is hit.

Similarly, the Subsidiaries of the Bank independently quantify and manage their respective market risk exposures. Each institution has its respective risk management system and processes in place. The Subsidiaries perform daily mark-to-market valuation and VaR calculations for their trading book exposures.

#### Market Risk - Banking Book

The Group follows a prudent policy in managing its assets and liabilities to ensure that exposure to fluctuations in interest rates are kept within acceptable limits.

#### *Interest rate risk*

To quantify interest rate risk for banking book or accrual portfolios, the Group uses tools or approaches such as Earnings-at-Risk (EaR) and Sensitivity analysis. These are used to measure the potential effect of interest rate movements to net interest earnings. The measurement and monitoring of exposures are done on a monthly basis.

EaR is derived by multiplying the repricing gap by the change in interest rate and the time over which the repricing gap is in effect. The repricing/maturity gap is a method that distributes rate-sensitive assets, liabilities, and off-balance sheet positions into time bands. Floating rate positions are distributed based on the time remaining to next repricing dates. On the other hand, fixed rate items are distributed based on the time remaining to respective maturities. There are certain balance sheet items that may require set-up of assumptions as to their distribution to time bands. For the Parent Company, rate-sensitive positions that lack definitive repricing dates or maturity dates (e.g. demand and savings deposit accounts) are assigned to repricing time bands based on frequency or pattern of interest rate change.

#### *Foreign currency risk*

Foreign exchange risk is the probability of loss to earnings or capital arising from changes in foreign exchange rates. The Group takes on exposure to effects of fluctuations in the current foreign currency exchange rates on its financial performance and cash flows. Foreign currency liabilities generally consist of foreign currency deposits in the Group's FCDU account. Foreign currency deposits are generally used to fund the Group's foreign currency-denominated loan and investment portfolio in the FCDU. Banks are

required by the BSP to match the foreign currency liabilities with the foreign currency assets held in FCDUs. In addition, the BSP requires a 30.00% liquidity reserve on all foreign currency liabilities held in the FCDU. Outside the FCDU, the Group has additional foreign currency assets and liabilities in its foreign branch network. The Group's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines.

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#### 4. Fair Value Measurement

##### Financial Instruments

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

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

Trading and investment securities - Fair values of debt securities (financial assets at FVPL, AFS and HTM investments) and equity investments are generally based on quoted market prices. Where the debt securities are not quoted or the market prices are not readily available, the Group obtained valuations from independent parties offering pricing services, used adjusted quoted market prices of comparable investments, or applied discounted cash flow methodologies. For equity investments that are not quoted, the investments are carried at cost less allowance for impairment losses due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value.

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

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

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

##### Non-financial Asset

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy as described in Note 2.

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

September 30, 2015

	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
<b>Assets Measured at Fair Value</b>					
<b>Financial Assets</b>					
Financial assets at FVPL					
HFT investments					
Debt securities					
Government	₱11,012	₱11,012	₱-	₱-	₱11,012
Private	4,617	3,964	653	-	4,617
Treasury bills	145	145	-	-	145
Treasury notes and bonds	33,548	33,547	1	-	33,548
	49,322	48,668	654	-	49,322
Equity securities					
Quoted	9,167	9,167	-	-	9,167
Derivative assets					
Cross currency swaps	4,334	-	4,334	-	4,334
Currency forwards	1,204	-	1,204	-	1,204
Interest rate swaps	452	-	452	-	452
Put option	161	-	161	-	161
Call option	78	-	78	-	78
Embedded derivatives in non-financial contract	4	-	4	-	4
	6,233	-	6,233	-	6,233
	64,722	57,835	6,887	-	64,722
AFS investments					
Debt securities					
Government	39,414	34,814	4,600	-	39,414
Private	29,590	28,857	733	-	29,590
Treasury notes and bond	157,676	157,588	88	-	157,676
	226,680	221,259	5,421	-	226,680
Equity Securities					
Quoted	2,187	2,187	-	-	2,187
	228,867	223,446	5,421	-	228,867
	₱293,589	₱281,281	₱12,308	₱-	₱293,589
<b>Assets for which Fair Values are Disclosed</b>					
<b>Financial Assets</b>					
HTM investments					
Government	₱19,004	₱22,384	₱-	₱-	₱22,384
Private	4,530	4,620	-	-	4,620
Treasury notes and bonds	184,720	184,588	24	-	184,612
	208,254	211,592	24	-	211,616
Loans and receivables - net					
Receivables from customers					
Commercial loans	495,839	-	497,876	-	497,876
Residential mortgage loans	80,890	-	77,982	-	77,982
Auto loans	75,991	-	66,763	-	66,763
Trade	34,805	-	34,811	-	34,811
Others	65,722	-	65,235	-	65,235
	753,247	-	742,667	-	742,667
Unquoted debt securities	2,001	-	2,138	-	2,138
Sales contract receivable	414	-	434	-	434
	755,662	-	745,239	-	745,239
<b>Other assets</b>					
Residual value of leased assets	877	-	831	-	831
Miscellaneous	165	-	169	-	169
	1,042	-	1,000	-	1,000
	964,958	211,592	746,263	-	957,855

(Forward)

September 30, 2015					
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
<b>Non-financial assets</b>					
Investment properties	₱8,325	₱-	₱-	₱12,842	₱12,842
	₱973,283	₱211,592	₱746,263	₱12,842	₱970,697
<b>Liabilities Measured at Fair Value</b>					
<b>Financial Liabilities</b>					
Financial liabilities at FVPL					
Derivative liabilities					
Cross currency swaps	₱2,260	₱-	₱2,260	₱-	₱2,260
Interest rate swaps	1,634	-	1,634	-	1,634
Currency forwards	1,065	-	1,065	-	1,065
Put option	36	-	36	-	36
Call option	29	-	29	-	29
	₱5,024	₱-	₱5,024	₱-	₱5,024
<b>Liabilities for which Fair Values are Disclosed</b>					
<b>Financial Liabilities</b>					
Deposit liabilities					
Time	₱508,926	₱-	₱512,581	₱-	₱512,581
LTNCD	14,250	14,059	-	-	14,059
Bills payable and SSURA	168,300	-	166,631	-	166,631
Bonds payable	11,514	-	12,021	-	12,021
Subordinated debts	29,478	19,190	7,025	-	26,215
Other liabilities					
Deposits on lease contracts	1,227	-	1,069	-	1,069
	₱733,695	₱33,249	₱699,327	₱-	₱732,576

December 31, 2014					
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
<b>Assets Measured at Fair Value</b>					
<b>Financial Assets</b>					
Financial assets at FVPL					
HFT investments					
Debt securities					
Government	₱10,503	₱9,467	₱1,036	₱-	₱10,503
Private	3,925	3,887	38	-	3,925
Treasury bills	1,763	1,763	-	-	1,763
Treasury notes and bonds	16,912	16,912	-	-	16,912
	33,103	32,029	1,074	-	33,103
Equity securities					
Quoted	9,791	9,791	-	-	9,791
Derivative assets					
Cross currency swaps	1,857	-	1,857	-	1,857
Currency forwards	598	-	598	-	598
Interest rate swaps	345	-	345	-	345
Put option	164	-	164	-	164
Call option	45	-	45	-	45
Bond forward	27	-	27	-	27
Embedded derivatives in non-financial contract	5	-	5	-	5
	3,041	-	3,041	-	3,041
	45,935	41,820	4,115	-	45,935
AFS investments					
Debt securities					
Government	50,861	46,560	4,301	-	50,861
Private	26,739	25,923	816	-	26,739
Treasury notes and bonds	122,767	122,718	49	-	122,767
	200,367	195,201	5,166	-	200,367

(Forward)



December 31, 2014

	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Equity Securities					
Quoted	₱3,892	₱3,892	₱-	₱-	₱3,892
	204,259	199,093	5,166	-	204,259
	₱250,194	₱240,913	₱9,281	₱-	₱250,194
<b>Assets for which Fair Values are Disclosed</b>					
<b>Financial Assets</b>					
HTM investments					
Government	₱14,478	₱18,157	₱-	₱-	₱18,157
Private	3,371	3,344	-	-	3,344
Treasury notes	111,227	113,548	24	-	113,572
	129,076	135,049	24	-	135,073
Loans and receivables-net					
Receivables from customers					
Commercial loans	493,604	-	494,875	-	494,875
Residential mortgage loans	73,826	-	72,149	-	72,149
Auto loans	63,353	-	66,485	-	66,485
Trade	36,189	-	36,197	-	36,197
Others	76,452	-	76,351	-	76,351
	743,424	-	746,057	-	746,057
Unquoted debt securities	2,508	-	2,740	-	2,740
Sales contract receivable	430	-	451	-	451
	746,362	-	749,248	-	749,248
<b>Other assets</b>					
Residual value of leased assets	832	-	791	-	791
Miscellaneous	115	-	117	-	117
	947	-	908	-	908
	876,385	135,049	750,180	-	885,229
<b>Non-financial assets</b>					
Investment properties	10,037	-	-	15,773	15,773
	₱886,422	₱135,049	₱750,180	₱15,773	₱901,002
<b>Liabilities Measured at Fair Value</b>					
<b>Financial Liabilities</b>					
Financial liabilities at FVPL					
Derivative liabilities					
Cross currency swaps	₱1,436	₱-	₱1,436	₱-	₱1,436
Interest rate swaps	1,113	-	1,113	-	1,113
Currency forwards	506	-	506	-	506
Foreign exchange swaps	16	-	16	-	16
	₱3,071	₱-	₱3,071	₱-	₱3,071
<b>Liabilities for which Fair Values are Disclosed</b>					
<b>Financial Liabilities</b>					
Deposit liabilities					
Time	₱576,152	₱-	₱580,433	₱-	₱580,433
LTNCD	14,250	8,080	6,215	-	14,295
Bills payable and SSURA	140,399	-	141,626	-	141,626
Bonds payable	11,444	-	12,004	-	12,004
Subordinated debts	29,452	19,687	7,107	-	26,794
Other liabilities					
Deposits on lease contracts	1,171	-	1,031	-	1,031
	₱772,868	₱27,767	₱748,416	₱-	₱776,183

There are no financial assets and liabilities classified under Level 3 as of September 30, 2015 and December 31, 2014.

The following table shows transfers from Level 2 to Level 1 of the fair value hierarchy:

	Carrying Values			
	September 30, 2015		December 31, 2014	
	Level 1	Level 2	Level 1	Level 2
HFT investments - debt securities	₱ -	₱ -	₱15	(₱15)
AFS investments - debt securities	47	(47)	45	(45)

Trading gains on trading and investment securities for the periods ended September 30, 2015 and 2014 amounted to ₱1.2 billion and ₱1.3 billion, respectively.

## 5. Segment Information

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

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

Segment assets are those operating assets that are employed by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment liabilities are those operating liabilities that result from the operating activities of a segment and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Interest income is reported net, as management primarily relies on the net interest income as performance measure, not the gross income and expense. The Group has no significant customers which contributes 10.00% or more of the consolidated revenue net of interest expense. Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is charged/credited to business segments based on a pool rate which approximates the cost of funds. The following table presents revenue and income information of operating segments presented in accordance with PFRS and segment assets and liabilities as of and for the period ended September 30, 2015 and 2014.

	Consumer Banking	Corporate Banking	Investment Banking	Treasury	Branch Banking	Others	Total
<b>Period Ended September 30, 2015</b>							
<b>(Unaudited)</b>							
<b>Results of Operations</b>							
Net interest income (expense)							
Third party	P7,665	P14,047	P4	P12,683	P445	P1,412	P36,256
Intersegment	(281)	(8,858)	-	(7,349)	18,651	(2,163)	-
Net interest income (expense) after intersegment transaction	7,384	5,189	4	5,334	19,096	(751)	36,256
Non-interest income	3,683	416	516	1,250	2,955	4,985	13,805
Revenue - net of interest expense	11,067	5,605	520	6,584	22,051	4,234	50,061
Non-interest expense	6,322	655	(55)	1,175	14,267	8,969	31,333
Income (loss) before share in net income of associates and a joint venture	4,745	4,950	575	5,409	7,784	(4,735)	18,728
Share in net income of associates and a joint venture	-	13	-	-	-	322	335
Provision for income tax	(925)	(169)	-	(2,922)	206	(842)	(4,652)
Non-controlling interest in net income of consolidated subsidiaries	-	-	-	-	-	(1,158)	(1,158)
<b>Net income (loss)</b>	<b>P3,820</b>	<b>P4,794</b>	<b>P575</b>	<b>P2,487</b>	<b>P7,990</b>	<b>(P6,413)</b>	<b>P13,253</b>
<b>Statement of Financial Position</b>							
Total assets	P135,666	P542,197	P-	P580,491	P120,887	P278,575	P1,657,816
Total liabilities	P50,773	P509,445	P-	P577,972	P192,057	P125,929	P1,456,176
<b>Other Segment Information</b>							
Capital expenditures	P561	P66	P-	P111	P135	P3,259	P4,132
Depreciation and amortization	P208	P118	P-	P7	P842	P1,202	P2,377
Provision for credit and impairment losses	P2,451	(P1,195)	(P91)	P-	P767	P47	P1,979
<b>Period Ended September 30, 2014</b>							
<b>Results of Operations</b>							
Net interest income (expense)							
Third party	P6,314	P12,294	P-	P12,011	P1,961	P1,435	P34,015
Intersegment	(246)	(6,827)	-	(5,932)	14,905	(1,900)	-
Net interest income (expense) after intersegment transaction	6,068	5,467	-	6,079	16,866	(465)	34,015
Non-interest income	4,017	830	369	(369)	2,783	11,071	18,701
Revenue - net of interest expense	10,085	6,297	369	5,710	19,649	10,606	52,716
Non-interest expense	6,682	1,643	26	623	13,202	10,867	33,043
Income before share in net income of associates and a joint venture	3,403	4,654	343	5,087	6,447	(261)	19,673
Share in net income of associates and a joint venture	-	66	-	-	-	263	329
Provision for income tax	(713)	(295)	-	(2,219)	(149)	(1,092)	(4,468)
Non-controlling interest in net income of consolidated subsidiaries	-	-	-	-	-	(2,457)	(2,457)
<b>Net income</b>	<b>P2,690</b>	<b>P4,425</b>	<b>P343</b>	<b>P2,868</b>	<b>P6,298</b>	<b>(P3,547)</b>	<b>P13,077</b>
<b>Statement of Financial Position</b>							
Total assets	P109,670	P478,692	P-	P537,096	P116,131	P265,085	P1,506,674
Total liabilities	P44,453	P462,267	P-	P509,989	P183,643	P155,796	P1,356,148
<b>Other Segment Information</b>							
Capital expenditures	P361	P128	P-	P82	P184	P2,048	P2,803
Depreciation and amortization	P226	P93	P-	P5	P754	P1,082	P2,160
Provision for credit and impairment losses	P3,071	P12	P-	(P51)	P580	(P312)	P3,300

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

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## 6. Trading and Investment Securities

### Bond Exchange Transactions

In September 2015, the Parent Company and its subsidiaries, FMIC and PSBank, participated in a bond exchange transaction with the Republic of the Philippines affecting HFT and AFS investments and received 10-year and 25-year Benchmark bonds with coupon of 3.625% and 4.625%, respectively, and face value of ₱16.0 billion and ₱15.0 billion, respectively, at a price equivalent to the ratio of Eligible Bond Repurchase Price to the New Benchmark Bond Issue Price for every ₱1.00 principal amount of each series of Eligible Bonds offered. The Parent Company, FMIC and PSBank realized net trading gain of ₱32.9 million, ₱0.9 million and ₱ 4.4 million, respectively.

The Parent Company and FMIC also subscribed to new 10-year Benchmark bonds for cash amounting to ₱878.0 million and ₱307.0 million, respectively, under the Bond Exchange program.

### HTM Investments

In July 2011, the Department of Finance and the Bureau of Treasury embarked on a Liability Management exercise through the exchange of eligible fixed income government bonds for a new 10-year bonds (due 2022) or 20-year bonds (due 2031) wherein the proceeds of a simultaneous issuance of additional new 20-year bonds were used to buy back Eligible bonds via Tender Offer. Given the existing tainting rule on HTM investment under PAS 39, the SEC granted an exemptive relief from the tainting rule subject to, among others, (a) proper disclosures to the SEC; (b) Day 1 profit or loss shall not be recognized and any unrealized gains or losses shall be amortized over the term of the new benchmark bonds; (c) basis of preparation of the financial statements shall not be PFRS but should be the prescribed financial reporting framework for entities which are given relief from certain requirements of the PFRS; and (d) appropriate clearance shall be obtained from the BSP. In October 2011, the BSP through Circular 738 issued exemption from tainting provision for prudential reporting on certain securities booked under HTM category which are covered by an offer and accepted tender offer pursuant to liability management transactions of the Republic of the Philippines, among others.

In July 2011, given its nature of business, FMIC participated in the domestic bond exchange covering its ₱3.0 billion eligible government bonds classified as HTM investments to extend the bond holdings (from maturity date of December 16, 2020 to July 19, 2031) and benefit from the higher yields (from 5.875% to 8.00%). FMIC has complied with the disclosure and other requirements of the SEC as follows: total HTM investments portfolio of FMIC before and after the exchange remain the same while the gain on exchange of ₱14.5 million is deferred and amortized over the term of the new bonds; and as disclosed in Note 2, the related financial statements of the Group have been prepared in accordance with Philippine GAAP for banks.

### *Reporting under PFRS*

Had the Group accounted for the transaction under PFRS, the entire HTM investments portfolio of the Group covered by the tainting period under the bond exchange, with amortized cost of ₱36.8 billion and ₱36.6 billion as of September 30, 2015 and December 31, 2014, respectively, would have been reclassified to AFS investments and carried at fair value with net unrealized gain of ₱3.8 billion and ₱4.1 billion, respectively, being recognized in other comprehensive income.

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## 7. Securities Sold Under Repurchase Agreement

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

	September 30, 2015 (Unaudited)		December 31, 2014 (Audited)	
	Transferred Securities	SSURA	Transferred Securities	SSURA
Government debt securities				
HFT investments	<b>₱402</b>	<b>₱348</b>	₱242	₱210
AFS investments	<b>13,300</b>	<b>11,969</b>	26,289	21,951
HTM investments	<b>43,624</b>	<b>34,732</b>	23,801	20,587
	<b>₱57,326</b>	<b>₱47,049</b>	<b>₱50,332</b>	<b>₱42,748</b>

## 8. Bonds Payable

This account represents scripless fixed rate corporation bonds issued by FMIC as follows:

Issue Date	Maturity Date	Interest Rate	Redemption Period	Face Value	Carrying value	
					September 30, 2015 (Unaudited)	December 31, 2014 (Audited)
November 25, 2011	February 25, 2017	5.675%	after 4 <sup>th</sup> year	₱5,000	<b>₱4,863</b>	₱4,819
August 10, 2012	November 10, 2017	5.500%	after 4 <sup>th</sup> year	4,000	<b>3,866</b>	3,820
August 10, 2012	August 10, 2019	5.750%	after 5 <sup>th</sup> year	3,000	<b>2,785</b>	2,805
				₱12,000	<b>₱11,514</b>	₱11,444

Significant terms of the bonds issued by FMIC have been disclosed in the 2014 audited financial statements.

## 9. Subordinated Debts

Details of the Group's subordinated debt follow:

Maturity Date	Face Value	September 30, 2015		December 31, 2014	
		Carrying Value	Market Value	Carrying Value	Market Value
Parent Company					
2024	June 27, 2024	₱16,000	<b>₱15,909</b>	<b>₱12,792</b>	₱15,893
2025	August 8, 2025	6,500	<b>6,457</b>	<b>6,399</b>	6,451
PSBank					
2022	February 20, 2022	3,000	<b>2,977</b>	<b>3,395</b>	2,975
2024	August 23, 2024	3,000	<b>2,974</b>	<b>2,352</b>	2,972
MCC-2023	December 20, 2023	1,170	<b>1,161</b>	<b>1,277</b>	1,161
		₱29,670	<b>₱29,478</b>	<b>₱26,215</b>	₱29,452
					₱26,794

Significant terms of the Peso Notes outstanding as of December 31, 2014 have been disclosed in the 2014 audited financial statements.

## 10. Capital Stock

The movement in issued shares follows:

	Shares	
	September 30, 2015	December 31, 2014
Authorized		
Common stock - ₱20.00 par value	<b>4,000,000,000</b>	4,000,000,000
Preferred stock - ₱20.00 par value	<b>1,000,000,000</b>	1,000,000,000
Common stock issued and outstanding		
Balance at beginning of the year	<b>2,744,801,066</b>	2,744,801,066
Issuance of stock rights	<b>435,371,720</b>	-
Balance at the end of the period	<b>3,180,172,786</b>	2,744,801,066

As of September 30, 2015 and December 31, 2014, treasury shares totaling 2,073,622 and 391,320, respectively, represent shares of the Parent Company held by FMIC's mutual fund subsidiaries.

On January 21, 2015, the Parent Company's BOD approved the Stock Rights Offer (SRO) by way of issuance from the unissued portion of the authorized capital stock. This was noted by the BSP with the issuance of a letter of no objection to the Rights Issue on February 17, 2015. On February 24, 2015, the SEC confirmed the exemption of the SRO from the registration requirements under Section 8 of the Securities Regulation Code. On February 25, 2015, the PSE approved the listing of up to 500,000,000 common shares to cover the SRO to all stockholders of record as of March 18, 2015. On April 7, 2015, following regulatory approvals, the Parent Company concluded the ₱32 billion SRO, involving 435,371,720 common shares with par value of ₱20.00 priced at ₱73.50 per share and listed with the PSE on the same date.

The Parent Company paid the semi-annual coupon amounting to US\$5.6 million on the US\$125.0 million HT1 Capital Securities in 2006 to 2015 after obtaining their respective BSP approvals. Details for 2015 and 2014 payments are as follows:

Date of BSP Approval	Date Paid
July 24, 2015	August 17, 2015
February 9, 2015	February 17, 2015
August 1, 2014	August 15, 2014
February 10, 2014	February 15, 2014

On June 17, 2015, the BOD of the Parent Company approved the redemption of its US\$125.0 million HT1 Capital Securities on February 15, 2016 ("First Optional Redemption Date") as it no longer qualifies as capital under BASEL III regulations starting January 1, 2014 (Note 15b).

Details of the Bank's cash dividend distributions in 2015 and 2014 follow:

Date of Declaration	Per Share	Total Amount (In Millions)	Date of BSP Approval	Record date	Payment date
January 27, 2015	₱1.00	₱2,745	March 3, 2015	March 26, 2015	March 31, 2015
March 26, 2014	1.00	2,745	April 15, 2014	May 7, 2014	May 16, 2014

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

Significant information on capital issuances have been disclosed in the 2014 audited financial statements.

## 11. Related Party Transactions

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

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

The Parent Company has a Related Party Transactions Committee (RPTC) 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 corporate or

business resources of the Parent Company are not misappropriated or misapplied. After appropriate review, RPTC discloses all information and endorses to the BOD with recommendations, the proposed related party transactions. The members of the RPTC are appointed annually by the BOD. Currently, RPTC composed of four (4) independent directors (including the Committee's Chairman); the head of Internal Audit Group; and the Compliance Officer (as the Committee Secretary) and meets monthly or as the need arises. RPTC's review of the proposed related party transactions considers the following: (a) identity of the parties involved in the transaction or relationship; (b) terms of the transaction or relationship and whether these are no less favorable than terms generally available to an unrelated third party under the same circumstances; (c) business purpose, timing, rationale and benefits of the transaction or relationship; (d) approximate monetary value of the transaction and the approximate monetary value of the related party's interest in the transaction; (e) valuation methodology used and alternative approaches to valuation of the transaction; (f) information concerning potential counterparties in the transaction; (g) description of provisions or limitations imposed as a result of entering into the transaction; (h) whether the proposed transaction includes any potential reputational risk issues that may arise as a result of or in connection with the transaction; (i) impact to a director's independence; and (j) extent that such transaction or relationship would present an improper conflict of interest. Further, no director or officer participates in any discussion of a related party transaction for which he, she, or any member of his or her immediate family is a related party, except in order to provide material information on the related party transaction to RPTC.

Major subsidiaries, which include FMIC, PSBank, MCC and MBCL, have their own respective RPTCs which assist their respective BODs in ensuring that transactions with related parties are reviewed to assess risks and are subjected to appropriate restrictions to ensure that these are conducted at arm's-length terms and that their corporate or business resources are not misappropriated or misapplied.

In the ordinary course of business, the Group has loan transactions with investees and with certain directors, officers, stockholders and related interests (DOSRI) based on BSP Circular No. 423 dated March 15, 2004, as amended. Existing banking regulations limit the amount of individual loans to DOSRI, 70.00% of which must be secured, to the total of their respective deposits and book value of their respective investments in the lending company within the Group. In the aggregate, loans to DOSRI generally should not exceed the respective total equity or 15.00% of the respective total loan portfolio, whichever is lower, of the Bank, PSBank, FMIC and ORIX Metro.

BSP Circular No. 560 provides the rules and regulations that govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. Under the said Circular, the total outstanding loans, other credit accommodations and guarantees to each of the bank's/quasi-bank's subsidiaries and affiliates shall not exceed 10.00% of the net worth of the lending bank/quasi-bank, provided that the unsecured portion of which shall not exceed 5.00% of such net worth. Further, the total outstanding loans, credit accommodations and guarantees to all subsidiaries and affiliates shall not exceed 20.00% of the net worth of the lending bank/quasi-bank; and the subsidiaries and affiliates of the lending bank/quasi-bank are not related interest of any director, officer and/or stockholder of the lending institution, except where such director, officer or stockholder sits in the BOD or is appointed officer of such corporation as representative of the bank/quasi-bank as reported to the BSP. As of September 30, 2015 and December 31, 2014, the total outstanding loans, other credit accommodations and guarantees to each of the Bank's subsidiaries and affiliates did not exceed 10.00% of the Bank's net worth, and the unsecured portion did not exceed 5.00% of such net worth and the total outstanding loans, other credit accommodations and guarantees to all such subsidiaries and affiliates represent 1.60% and 3.73%, respectively, of the Bank's net worth.

Further, BSP issued Circular No. 654 allows a separate individual limit to loans of banks/quasi-banks to their subsidiaries and affiliates engaged in energy and power generation, i.e., a separate individual limit of twenty-five (25.00%) of the net worth of the lending bank/quasi-bank: provided, that the unsecured portion thereof shall not exceed twelve and one-half percent (12.50%) of such net worth: provided further, that these subsidiaries and affiliates are not related interests of any of the director, officer and/or stockholder of the lending bank/quasi-bank; except where such director, officer or stockholder sits in the BOD or is appointed officer of such corporation as representative of the bank/quasi-bank. As of September 30, 2015 and December 31, 2014, the total outstanding loans, other credit accommodations and guarantees to each of the Bank's subsidiaries and affiliates engaged in energy and power generation did not exceed 25.00% of the

Bank's net worth, as reported to the BSP, and the unsecured portion did not exceed 12.50% of such net worth.

Details on significant related party transactions of the Group as of September 30, 2015, December 31 and September 30, 2014 follow (transactions with subsidiaries have been eliminated in the interim condensed consolidated financial statement):

<u>Category</u>	<u>Amount</u>	<u>Terms and Conditions/Nature</u>
<b>Transactions Affecting Statements of Financial Position</b>		
<b>September 30, 2015</b>		
<b>Entities with Significant Influence</b>		
<u>Outstanding Balance:</u>		
Deposit liabilities*	<b>₱369</b>	With annual fixed rates ranging from 0.00% to 1.50% including time deposits with maturity terms from 28 days to 30 days
<u>Volume:</u>		
Receivables from customers	<b>(402)</b>	Settlement of short-term loan with interest rate of 3.25% subject to regular repricing with maturity terms from 31 days to 91 days. (Secured - ₱280.0 million and unsecured - ₱122.4 million, no impairment.)
Deposit liabilities	<b>20</b>	Generally similar to terms and conditions above
Foreign Currency - sell	<b>5</b>	Outright sale of foreign currency
<b>Subsidiaries</b>		
<u>Outstanding Balance:</u>		
Interbank loans receivable*	<b>₱1,040</b>	Foreign currency-denominated lending which earn annual fixed interest rates ranging from 1.46% to 1.61% with maturity terms from 30 days to 372 days, no impairment
Receivables from customers*	<b>1,293</b>	Unsecured with no impairment With annual fixed rates ranging from 3.25% to 5.59% and maturity terms from 2 days to 5 years
Accounts receivable	<b>302</b>	Outstanding remittance receivables, credit card receivables and rental fees; non-interest bearing
Deposit liabilities*	<b>4,752</b>	With annual fixed interest rates ranging from 0.00% to 1.38% including time deposits with maturity terms from 1 day to 270 days
Bills payable*	<b>808</b>	Peso and foreign currency-denominated borrowings subject to annual fixed interest rates ranging from 0.19% to 1.38% and maturity terms of 15 days to 33 days
Bonds payable*	<b>450</b>	Issued by FMIC with interest rates ranging from 5.50% to 5.75% with maturity terms from 2 years to 5 years
Treasury stock	<b>188</b>	Parent Company's shares held by FMIC's mutual fund subsidiaries
<u>Volume:</u>		
Interbank loans receivable	<b>(723)</b>	Generally similar to terms and conditions above
Receivables from customers	<b>(1,554)</b>	Generally similar to terms and conditions above
Deposit liabilities	<b>(580)</b>	Generally similar to terms and conditions above
Bills payable	<b>(1,984)</b>	Generally similar to terms and conditions above
Bonds payable	<b>(60)</b>	Generally similar to terms and conditions above
Securities transactions		
Purchases	<b>41,304</b>	Outright purchases of HFT securities and AFS investments
Sales	<b>48,284</b>	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	<b>30,549</b>	Outright purchases of foreign currency
Sell	<b>27,363</b>	Outright sale of foreign currency
<u>Other Transaction:</u>		
Underwriting/Arranging Agreement	<b>102</b>	Arranging and underwriting fee of FMIC relative to the Parent Company's SRO
<b>Associates</b>		
<u>Outstanding Balance:</u>		
Deposit liabilities*	<b>₱1,134</b>	With annual fixed interest rates ranging from 0.00% to 1.75% including time deposits with maturity terms from 1 day to 66 days
<u>Volume:</u>		
Deposit liabilities	<b>(580)</b>	Generally similar to terms and conditions above
Bills payable	<b>(1)</b>	Peso denominated borrowings subject to annual fixed interest rate of 0.63% with maturity term of 91 days

(Forward)



<b>Category</b>	<b>Amount</b>	<b>Terms and Conditions/Nature</b>
Securities transactions		
Outright purchases	<b>₱404</b>	Outright purchases of HFT securities and AFS investments
Outright sales	<b>1,180</b>	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	<b>23</b>	Outright purchases of foreign currency
Sell	<b>246</b>	Outright sale of foreign currency
<b>Other Related Parties</b>		
<u>Outstanding Balance:</u>		
Receivables from customers*	<b>₱9,255</b>	Secured, no impairment With annual fixed rates ranging from 3.25% to 10.37% and maturity terms from 5 to 12 years
Accounts receivable	<b>3</b>	Credit card receivables, non-interest bearing
Assets held under joint operations	<b>418</b>	Parcels of land and former branch sites of the Parent Company contributed to joint operations
Miscellaneous assets	<b>3,322</b>	Payments to Federal Land, Inc. (FLI) on the purchase of commercial and office spaces located at Bonifacio Global City, Taguig City
Derivative assets	<b>1</b>	Fair value of forward exchange bought with various terms
Deposit liabilities*	<b>17,220</b>	With annual fixed rates ranging from 0.00% to 2.00% including time deposits with maturity terms from 1 day to 367 days
Bills payable*	<b>8,544</b>	Peso-denominated borrowings with annual fixed interest rates ranging from 1.63% to 5.54% and maturity terms from 29 days to 5 years
Contingent		
Unused commercial LCs	<b>102</b>	LC transactions with various terms
Derivatives	<b>21</b>	Outright bought with various terms
Others	<b>2</b>	Outstanding guarantees
<u>Volume:</u>		
Receivables from customers	<b>(2,763)</b>	Generally similar to terms and conditions above
Deposit liabilities	<b>(6,000)</b>	Generally similar to terms and conditions above
Bills payable	<b>5,051</b>	Generally similar to terms and conditions above
Securities transactions		
Outright purchases	<b>43</b>	Outright purchases of HFT securities and AFS investments
Outright sales	<b>111</b>	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	<b>458</b>	Outright purchases of foreign currency
Sell	<b>31,446</b>	Outright sale of foreign currency
<b>Key Personnel</b>		
<u>Outstanding Balance:</u>		
Receivables from customers*	<b>₱80</b>	Secured - ₱58.7 million, unsecured - ₱21.1 million, no impairment. With annual fixed rate ranging from 0.00% to 10.00% and maturity terms from 2 years to 15 years
Deposit liabilities*	<b>218</b>	With various terms and with minimum annual interest rate of 0.00%
<u>Volume:</u>		
Receivables from customers	<b>(10)</b>	Generally similar to terms and conditions above
Deposit liabilities	<b>110</b>	Generally similar to terms and conditions above
December 31, 2014		
<b>Entities with Significant Influence</b>		
<u>Outstanding Balance:</u>		
Receivables from customers*	<b>₱402</b>	Secured - ₱280.0 million and unsecured - ₱122.4 million, no impairment Short-term lending with interest rates of 3.25% subject to regular repricing with maturity terms from 31 days to 91 days
Deposit liabilities*	<b>349</b>	With annual fixed rates ranging from 0.0% to 1.00% including time deposits with maturity terms from 14 days to 29 days
<u>Volume:</u>		
Receivables from customers	<b>(303)</b>	Generally similar to terms and conditions above
Deposit liabilities	<b>118</b>	Generally similar to terms and conditions above
(Forward)		

<b>Category</b>	<b>Amount</b>	<b>Terms and Conditions/Nature</b>
<b>Securities transactions</b>		
Sales	₱55	Outright sale of FMIC's AFS investments in Toyota Manila Bay Corporation (TMBC) and Toyota Cubao, Inc. (TCI)
Foreign currency		
Sell	2	Outright sale of foreign currency
<b>Subsidiaries</b>		
<u>Outstanding Balance:</u>		
Interbank loans receivable*	₱1,763	Foreign currency-denominated lending which earn annual fixed interest rates ranging from 1.40% to 1.56% with maturity terms from 30 days to 390 days, no impairment
Receivables from customers*	2,847	Unsecured with no impairment With annual fixed interest rates ranging from 3.00% to 5.59% and maturity terms from 8 days to 5 years
Accounts receivable	286	Outstanding information technology fees and remittance receivables, non-interest bearing
Deposit liabilities*	5,332	With annual fixed interest rates ranging from 0.00% to 4.00% including time deposits with maturity terms from 7 days to 270 days
Bills payable*	2,792	Peso and foreign currency-denominated borrowings subject to annual fixed interest rates ranging from 0.19% to 2.50% with maturity terms from 11 days to 360 days
Bonds payable*	510	Issued by FMIC with interest rates ranging from 5.50% to 5.75% with maturity terms from 2 to 5 years
Treasury stock	30	Parent Company's shares held by FMIC's mutual fund subsidiary
<u>Volume:</u>		
Interbank loans receivable	(119)	Generally similar to terms and conditions above
Receivables from customers	1,786	Generally similar to terms and conditions above
Deposit liabilities	1,426	Generally similar to terms and conditions above
Bills Payable	2,157	Generally similar to terms and conditions above
Bonds Payable	201	Generally similar to terms and conditions above
Securities transactions		
Purchases	48,747	Outright purchases of HFT securities and AFS investments
Sales	39,366	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	26,884	Outright purchases of foreign currency
Sell	15,217	Outright sale of foreign currency
<b>Associates</b>		
<u>Outstanding Balance:</u>		
Deposit liabilities*	₱1,714	With annual fixed interest rates ranging from 0.00% to 2.50% including time deposits with maturity terms from 7 days to 182 days
Bills payable*	1	Peso-denominated borrowings subject to annual fixed interest rate of 0.63% with maturity term of 91 days
<u>Volume:</u>		
Receivables from customers	(129)	Non-interest bearing domestic bills purchased
Deposit liabilities	(793)	Generally similar to terms and conditions above
Bills Payable	1	Generally similar to terms and conditions above
Bonds Payable	(10)	Issued by FMIC subject to annual fixed interest rate of 5.68% and maturity term of 5 years
Securities transactions		
Outright purchases	1,600	Outright purchases of HFT securities and AFS investments
Outright sales	721	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	268	Outright purchases of foreign currency
Sell	390	Outright sale of foreign currency
<b>Other Related Parties</b>		
<u>Outstanding Balance:</u>		
Receivables from customers*	₱12,018	Secured - ₱11.3 billion and unsecured - ₱754.2 million, no impairment With annual fixed rates ranging from 3.25% to 10.37% and maturity terms from 180 days to 12 years
Assets held under joint operations	544	Parcels of land and former branch sites of the Parent Company contributed to joint operations
Miscellaneous assets	3,322	Payments to FLI on the purchase of commercial and office spaces located at Bonifacio Global City, Taguig City
Deposit liabilities*	23,220	With annual fixed rates ranging from 0.00% to 4.00% including time deposits with maturity terms from 6 days to 365 days

(Forward)

<b>Category</b>	<b>Amount</b>	<b>Terms and Conditions/Nature</b>
Bills payable*	<b>₱3,493</b>	Peso-denominated borrowings subject to annual fixed interest rates ranging from 0.01% to 5.54% with maturity terms from 15 days to 5 years
Contingent		
Unused commercial LCs	<b>3</b>	LC transactions with various terms
Others	<b>1</b>	Include outstanding shipside bonds/airway bills and outstanding guarantees
<b>Volume:</b>		
Receivables from customers	<b>(2,116)</b>	Generally similar to terms and conditions above
Deposit liabilities	<b>8,046</b>	Generally similar to terms and conditions above
Bills Payable	<b>(3,521)</b>	Generally similar to terms and conditions above
Securities transactions		
Outright purchases	<b>311</b>	Outright purchases of HFT securities and AFS investments
Outright sales	<b>239</b>	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	<b>1,569</b>	Outright purchases of foreign currency
Sell	<b>54,216</b>	Outright sale of foreign currency
<b>Key Personnel</b>		
<b>Outstanding Balance:</b>		
Receivables from customers*	<b>₱90</b>	Secured - ₱65.6 million, and unsecured - ₱24.7 million, no impairment, with annual fixed rates ranging from 0.0% to 10.0% and maturity terms from 5 to 15 years
Deposit liabilities*	<b>108</b>	With various terms and with minimum annual interest rate of 0.00%
<b>Volume:</b>		
Receivables from customers	<b>23</b>	Generally similar to terms and conditions above
Deposit liabilities	<b>(35)</b>	Generally similar to terms and conditions above
<b>Transactions Affecting Statements of Income</b>		
<b>September 30, 2015 - Amount</b>		
<b>Entities with Significant Influence</b>		
Interest expense	<b>₱2</b>	Interest expense on deposit liabilities
<b>Subsidiaries</b>		
Interest income	<b>₱78</b>	Income on receivables from customers and interbank loans receivables
Service charges, fees and commissions	<b>30</b>	Income on transactional fees
Trading and securities loss - net	<b>(15)</b>	Net loss from securities transactions
Foreign exchange gain - net	<b>130</b>	Net gain from foreign exchange transactions
Leasing income	<b>61</b>	Income from leasing agreements with various lease terms
Dividend income	<b>1,543</b>	Dividend income from PSBank and MCC
Miscellaneous income	<b>258</b>	Information technology, audit and common use of space area fees
Interest expense	<b>33</b>	Interest expense on deposit liabilities, bills payable and bonds payable
Miscellaneous expense	<b>11</b>	Call center services fees
<b>Associates</b>		
Trading and securities gain - net	<b>₱2</b>	Income from securities transaction
Leasing income	<b>15</b>	Income from leasing agreements with various lease terms
Dividend income	<b>7</b>	Dividend income from Northpine Land, Inc. (NLI)
Interest expense	<b>1</b>	Interest expense on deposit liabilities
<b>Other Related Parties</b>		
Interest income	<b>₱628</b>	Interest income on receivables from customers
Foreign exchange loss - net	<b>(13)</b>	Net loss on foreign exchange transactions
Leasing income	<b>12</b>	Income from leasing agreements with various lease terms
Profit from assets sold	<b>603</b>	Gain on sale of investment properties to FLI
Interest expense	<b>131</b>	Interest expense on deposit liabilities and bills payable
<b>Key Personnel</b>		
Interest income	<b>₱4</b>	Interest income on receivables from customers
<b>September 30, 2014 - Amount</b>		
<b>Entities with Significant Influence</b>		
Interest income	<b>₱7</b>	Interest income on receivables from customers
Trading and securities gain-net	<b>225</b>	Gain on sale of FMIC's 19.25% ownership in TMBC and 9% ownership in TCI

(Forward)

<b>Category</b>	<b>Amount</b>	<b>Terms and Conditions/Nature</b>
Gain on sale of investment in an associate	<b>₱1,225</b>	Gain on sale of FMIC's 33.33% ownership in Charter Ping An Insurance Corp., and Parent Company's 15.00% and PSBank's 25.00% ownership in Toyota Financial Services Philippines Corporation
Interest expense	<b>1</b>	Interest expense on deposit liabilities
<b>Subsidiaries</b>		
Interest income	<b>₱66</b>	Interest income on receivables from customers and interbank loans receivable
Service charges, fees and commissions	<b>4</b>	Income on transactional fees
Trading and securities loss-net	<b>(33)</b>	Net loss from securities transactions
Foreign exchange gain-net	<b>39</b>	Income from foreign exchange transactions
Leasing income	<b>29</b>	Income from leasing agreements with various terms
Dividend income	<b>2,981</b>	Dividend income from PSBank, FMIC and MCC
Miscellaneous income	<b>200</b>	Information technology fees
Interest expense	<b>54</b>	Interest expense on deposit liabilities, bills payable and bonds payable
<b>Associates</b>		
Foreign exchange loss-net	<b>₱(10)</b>	Net loss from foreign exchange transactions
Leasing income	<b>12</b>	Income from leasing agreements with various lease terms
Dividend income	<b>5</b>	Dividend income from NLI
Interest expense	<b>3</b>	Interest expense on deposit liabilities
<b>Other Related Parties</b>		
Interest income	<b>₱697</b>	Interest income on receivables from customers
Foreign exchange loss-net	<b>(209)</b>	Income from foreign exchange transactions
Leasing income	<b>12</b>	Income from leasing agreements with various lease terms
Profit from assets sold	<b>3,097</b>	Net gain from sale of investment properties
Interest expense	<b>92</b>	Interest expense on deposit liabilities and bills payable
<b>Key Personnel</b>		
Interest income	<b>₱3</b>	Interest income on receivables from customers

\* including accrued interest

Receivables from customers and deposit liabilities and their related statement of financial position and statement of income accounts resulted from the lending and deposit-taking activities of the Group. Together with the sale of investment properties; borrowings; contingent accounts including derivative transactions; outright purchases and sales of HFT securities and AFS investments; foreign currency buy and sell; leasing of office premises; securing of insurance coverage on loans and property risks; and other management services rendered, these are conducted in the normal course of business and at arms-length transactions. The amounts and related volumes and changes are presented in the summary above.

As of September 30, 2015 and December 31, 2014, government bonds classified under AFS with total face value of ₱50 million are pledged by PSBank to the Parent Company to secure the latter's payroll account with PSBank. Also, the Parent Company has assigned to PSBank government securities classified under AFS investments with total face value of ₱3.0 billion to secure PSBank deposits to the Parent Company.

#### Transactions with retirement plans

Under PFRS, certain post-employment benefit plans are considered as related parties. The Parent Company has business relationships with a number of related party retirement plans pursuant to which it provides trust and management services to these plans. Certain trustees of the plans are either officers or directors of the Parent Company and/or the subsidiaries. Income earned by the Parent Company from such services amounted to ₱40.5 million and ₱33.0 million in September 30, 2015 and 2014, respectively. As of September 30, 2015 and 2014, the Parent Company sold securities totaling ₱2.5 billion and ₱249.7 million, respectively to its related party retirement plans and recognized net trading gain of ₱0.3 million and ₱0.02 million, respectively. The Parent Company also purchased securities totaling ₱607.8 million and ₱98.3 million as of September 30, 2015 and 2014, respectively. Further, as of September 30, 2015 and December 31, 2014, the total outstanding deposit liabilities of the Group to these related party retirement funds amounted to ₱39.1 million and ₱137.2 million, respectively. Interest expense on deposit liabilities amounted to ₱0.4 million and ₱0.9 million in September 30, 2015 and 2014, respectively. The Group also has other payables of ₱0.3 million to these related party retirement funds as of September 30, 2015

As of September 30, 2015 and December 31, 2014, the related party retirement plans also hold investments in the equity shares of various companies within the Group amounting to ₱855.2 million and ₱819.8 million, respectively, with unrealized trading gains of ₱314.4 million and ₱309.9 million, respectively. As of September 30, 2015 and December 31, 2014, the related party retirement plans also hold investments in mutual funds and trust funds of various companies within the Group amounting to ₱174.1 million and ₱142.5 million, respectively, with unrealized trading gains of ₱1.2 million and ₱6.5 million, respectively. As of September 30, 2015 and 2014, dividend income recognized from these securities amounted to ₱10.4 million and ₱10.5 million, respectively, and realized trading gains amounted to ₱11.4 million and ₱11.7 million, respectively.

## 12. Commitments and Contingent Liabilities

In the normal course of the Group's operations, there are various outstanding commitments and contingent liabilities which are not reflected in the accompanying interim condensed consolidated financial statements. No material losses are anticipated to be recognized as a result of these transactions.

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

	September 30, 2015 (Unaudited)	December 31, 2014 (Audited)
Trust Banking Group accounts	₱348,954	₱336,860
Commitments		
Credit card lines	96,059	85,553
Undrawn - facilities to lend	17,858	19,001
Unused commercial letters of credit	37,208	37,980
Bank guaranty with indemnity agreement	10,570	7,669
Credit line certificate with bank commission	4,408	4,082
Outstanding shipside bonds/airway bills	1,776	776
Late deposits/payments received	1,146	1,535
Inward bills for collection	905	985
Outward bills for collection	449	612
Outstanding guarantees	109	57
Confirmed export letters of credits	16	335
Others	12,066	9,659
	<b>₱531,524</b>	<b>₱505,104</b>

On October 17, 2011, a consortium of eight banks including the Parent Company filed a Petition for Certiorari, Prohibition and/or Mandamus (with Urgent Application for a Temporary Restraining Order (TRO) and/or Writ of preliminary Injunction) with the Supreme Court (SC) against respondents the ROP, Bureau of Internal Revenue (BIR) and its Commissioner, the DOF and its Secretary and the BTr and the National Treasurer, asking the Court to annul BIR Ruling No. 370-2011 which imposes a 20-percent final withholding tax on the 10-year Zero-Coupon Government Bonds (also known as the PEACe bonds) that matured on October 18, 2011 and command the respondents to pay the full amount of the face value of the PEACe bonds. On October 18, 2011, the SC issued the TRO enjoining the implementation of the said BIR ruling on the condition that the 20-percent final withholding tax be withheld by the petitioner banks and placed in escrow pending resolution of the Petition. However, to date, the respondents have not complied with the said TRO, i.e., they have not credited the banks' escrow accounts with the amount corresponding to the questioned 20-percent final tax. The case is still pending resolution with the SC.

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

### 13. Financial Performance

The basis of calculation for earnings per share attributable to equity holdings of the Parent Company follows (amounts in millions except for earnings per share):

	<b>For the Period Ended September 30</b>		For the Year Ended
	<b>2015</b>	2014	December 31, 2014
	(Unaudited)		(Audited)
a. Net income attributable to equity holders of the Parent Company	<b>₱13,253</b>	₱13,077	₱20,113
b. Share of hybrid capital securities holders	<b>(506)</b>	(499)	(499)
c. Net income attributable to common shareholders	<b>₱12,747</b>	₱12,578	₱19,614
d. Weighted average number of outstanding common shares of the Parent Company	<b>3,064</b>	2,849*	2,742
e. Basic/diluted earnings per share (c/d)	<b>₱4.16</b>	₱4.42	₱7.15

\* Restated to show the effect of stock rights granted and exercised in 2015

As of September 30, 2015 and 2014 and December 31, 2014, there were no outstanding dilutive potential common shares.

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

	<b>For the Period Ended September 30</b>		For the Year Ended
	<b>2015</b>	2014	December 31, 2014
	(Unaudited)		(Audited)
Return on average equity	<b>10.32%</b>	12.59%	14.11%
Return on average assets	<b>1.08%</b>	1.21%	1.35%
Net interest margin on average earning assets	<b>3.59%</b>	3.84%	3.73%

### 14. Other Matters

The Group has no significant matters to report on the following during the period ended September 30, 2015:

- Known trends, events or uncertainties that would have material impact on liquidity and on the sales or revenues;
- Explanatory comments about the seasonality or cyclicity of interim operations;
- Issuances, repurchases and repayments of debt and equity securities except for the issuance of ₱32.0 billion stock rights as discussed in Note 10;
- Unusual items as to nature, size or incidents affecting assets, liabilities, equity, net income or cash flows except for the payments of cash dividends and semi-annual coupons on the hybrid capital securities by the Parent Company as discussed in Note 10; and
- Effect of changes in the composition of the Group during the interim period, including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinuing operations except those discussed in Note 2 under the Basis of Consolidation.

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**15. Subsequent Events**

- a. On July 28, 2015, the BOD of PSBank approved the declaration of 7.5% regular cash dividend for the second quarter of 2015 amounting to ₱180.19 million equivalent to ₱0.75 per share. This was approved by the BSP on September 23, 2015 and the President of PSBank, as authorized by the BOD, fixed the record and payment dates on October 26, 2015 and November 11, 2015, respectively.
- b. On October 22, 2015, the BSP approved the request of the Parent Company for the redemption of its US\$125.0 million, 9.00% non-cumulative step-up callable perpetual capital securities (HT1 Capital Securities) on February 15, 2016, as discussed in Note 10.
- c. On October 29, 2015, the BOD of PSBank declared a 7.5% regular cash dividend for the third quarter of 2015 amounting to ₱180.19 million equivalent to ₱0.75 per share payable to all stockholders of record as of November 16, 2015, to be paid no later than November 27, 2015.

**METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES**  
**FINANCIAL INDICATORS**  
**AS OF AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014**

	2015	2014
a) Liquidity Ratio	50.28%	50.13%
b) Loans to Deposits Ratio	65.23%	63.07%
c) Debt to Equity Ratio	756.74%	953.82%
d) Asset to Equity Ratio	861.53%	1,059.68%
e) Return on Average Equity	10.32%	12.59%
f) Return on Average Assets	1.08%	1.21%
g) Net Interest Margin on Average Earning Assets	3.59%	3.84%
h) Operating Efficiency Ratio	58.64%	56.42%
i) Capital Adequacy Ratio	19.86%	16.21%
j) Common Equity Tier 1 Ratio	16.01%	12.12%



**METROPOLITAN BANK & TRUST COMPANY**  
**SEC FORM 17 – Q**  
**FOR THE PERIOD ENDED SEPTEMBER 30, 2015**

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

**Key Performance Indicators**

***Financial Ratios***

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

	<b>For the Period Ended September 30, 2015 (Unaudited)</b>				
	<b>Group</b>	<b>Metrobank</b>	<b>FMIC</b>	<b>PSBank</b>	<b>MCC</b>
Earnings per share	₱4.16	₱3.59	₱0.67	₱7.21	₱1.97
Return on equity	10.32%	10.82%	1.81%	12.53%	40.41%
Return on assets	1.08%	1.17%	0.42%	1.51%	5.41%
Operating efficiency ratio	58.64%	57.88%	135.72%	64.43%	33.99%
Non-performing loans ratio	1.16%	0.45%	nil	1.12%	3.61%

	<b>For the Period Ended September 30, 2014 (Unaudited)</b>				
	<b>Group</b>	<b>Metrobank</b>	<b>FMIC</b>	<b>PSBank</b>	<b>MCC</b>
Earnings per share	₱4.42*	₱3.90*	₱5.02	₱7.81	₱1.96
Return on equity	12.59%	14.04%	12.64%	13.94%	41.61%
Return on assets	1.21%	1.36%	2.72%	1.68%	6.23%
Operating efficiency ratio	56.42%	56.18%	33.26%	61.53%	33.08%
Non-performing loans ratio	1.12%	0.52%	nil	0.21%	3.41%

\*Restated to show the effect of stock rights granted and exercised in 2015

**Earnings Per Share**

Basic earnings per share (EPS) is computed by dividing the net income by the weighted average number of common shares outstanding after giving retroactive effect to stock dividends declared, stock rights exercised and stock splits made during the period, if any. However, for purposes of computing the EPS of the Group and the Parent Company, the share of the hybrid capital securities holders was deducted from the net income attributable to the equity holders of the Parent Company and net income, respectively. As of September 30, 2015 and 2014, the Parent Company had no shares of stock that had a dilutive effect on its basic earnings per share.

Net income attributable to the equity holders of the Parent Company improved from ₱13.08 billion to ₱13.25 billion, however, due to the effect of the stock rights issued in April 2015, the Group’s EPS decreased from ₱4.42 to ₱4.16.

**Return on Equity**

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

ROE of the Group for the period ended September 30, 2015 was lower at 10.32% compared with 12.59% for the same period in 2014 due to the net effect of the 23.64% growth in the average equity (relative to the stock rights issued in April 2015) and the 1.35% improvement on the net income attributable to equity holders of the Parent Company.

#### Return on Assets

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

ROA went down to 1.08% for the period ended September 30, 2015 from 1.21% for the same period in 2014 due to the net effect of the 13.07% growth in the average total assets and the 1.35% improvement on the net income attributable to the equity holders of the Parent Company .

#### Operating Efficiency Ratio

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

For the period ended September 30, 2015, the Group's operating efficiency ratio was higher at 58.64% compared with 56.42% for the same period in 2014 despite the ₱0.39 billion (or 1.31%) drop in operating expenses due to the ₱2.65 billion (or 5.04%) decrease in operating income.

#### Non-Performing Loans Ratio

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

As of September 30, 2015 and 2014, NPL ratio of the Group was at 1.16% and 1.12%, respectively.

#### Liquidity

To ensure that funds are more than adequate to meet its obligations, the Bank proactively monitors its liquidity position daily. Based on this system of monitoring, the Bank does not anticipate having any cash flow or liquidity problem within the next twelve months. As of September 30, 2015, the contractual maturity profile shows that the Bank has at its disposal about ₱691.78 billion of cash inflows in the next twelve months from its portfolio of cash, placements with banks, debt securities and receivable from customers. This will cover 68.51% of the ₱1.01 trillion total deposits maturing during the same period. These cash inflows exclude securities in available-for-sale (AFS) with maturities beyond one year but may easily be liquidated in an active secondary market. Inclusive of these securities, the total financial assets will cover 87.28% of the total deposits maturing during the same period. On the other hand, historical balances of deposits showed that no substantial portion has been withdrawn in one year.

#### Events That Will Trigger Material Direct or Contingent Financial Obligation

These events are discussed in Annex 5 under Note 12 - Commitments and Contingent Liabilities of the General Notes to the Interim Condensed Consolidated Financial Statements.

#### Material Off-Balance Sheet Transactions, Arrangements or Obligations

The summary of contingencies and commitments at their peso-equivalent contractual amounts arising from off-balance sheet items are discussed in Annex 5 under Note 8 - Bonds Payable; Note 9 - Subordinated Debts; Note 10 - Capital Stock; and Note 12 - Commitments and Contingent Liabilities of the General Notes to the Interim Condensed Consolidated Financial Statements.

#### Material Commitments for Capital Expenditures

For the year 2015, the Bank estimates to incur capital expenditures of about ₱3.7 billion, of which ₱2.0 billion is estimated to be incurred for information technology. This amount is not considered material to the Bank's operations.

#### Material Events or Uncertainties

The registrant has nothing to report on the following for the period ended September 30, 2015:

1. Any known trends or demands, commitments, events or uncertainties that will have a material impact on liquidity or that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations, except as

disclosed in Annex 5 under Note 14 - Other Matters; and Note 15 - Subsequent Events of the General Notes to the Interim Condensed Consolidated Financial Statements;

2. Any seasonal aspects that had a material effect on the financial condition or results of operations; and
3. Any significant element of income or loss that did not arise from continuing operations.

### **Material Changes in Financial Statements Accounts**

#### ***Financial Condition***

##### **September 30, 2015 (Unaudited) vs. December 31, 2014 (Audited)**

The Metrobank Group posted unaudited consolidated total assets of ₱1.66 trillion and consolidated total liabilities of ₱1.46 trillion as of September 30, 2015. Compared with the audited figures as of December 31, 2014, total assets and total liabilities grew by ₱53.28 billion and ₱10.42 billion, respectively. On the other hand, equity attributable to equity holders of the Parent Company was higher by ₱42.30 billion from ₱150.13 billion to ₱192.43 billion.

Cash and Other Cash Items decreased by ₱14.01 billion or 40.09% due to the lower level of cash requirements of the Parent Company and PSBank compared with the level as of year-end. Due from Other Banks also decreased by ₱11.96 billion or 31.32% as a result of the net movements in the balances maintained with various local and foreign banks. Interbank Loans Receivable and SPURA went down by ₱46.78 billion or 39.04% of which ₱46.83 billion accounted from SPURA offset by the ₱0.05 billion increase from interbank loans receivable.

Financial Assets at FVPL consist of HFT securities and derivative assets amounting to ₱58.49 billion and ₱6.23 billion, respectively, as of September 30, 2015 and ₱42.89 billion and ₱3.04 billion, respectively, as of December 31, 2014. AFS investments went up by ₱24.61 billion or 11.85% due to the ₱34.91 billion and ₱2.85 billion increases in investments in treasury notes and bonds and private debt securities, respectively, net of the decreases in investments in government bonds and equity securities by ₱11.45 billion and ₱1.71 billion (due to the reclassification of FMIC's investment in LCMC of ₱1.3 billion to Investment in Associates), respectively. HTM investments also went up by ₱79.18 billion or 61.34% due to the increases in the portfolios of treasury notes and bonds by ₱73.49 billion, government bonds by ₱4.53 billion and private bonds by ₱1.16 billion.

Loans and Receivables, representing 46.38% and 47.33% of the Group's total assets as of September 30, 2015 and December 31, 2014, respectively, went up by ₱9.44 billion or 1.24% due to strong demand from consumer segment offset by the decrease in corporate loans.

Investments in Associates and a Joint Venture increased by ₱2.57 billion or 99.19% as a result of the reclassification of FMIC's investment in LCMC from AFS investment and the Group's share in net earnings of various associates. Property and Equipment increased by ₱0.86 billion or 5.32% due to acquisition of various furniture and fixtures. Investment Properties went down by ₱1.71 billion or 17.06% due to the sustained disposal of foreclosed real estate properties.

Deferred Tax Assets increased by ₱0.36 billion or 5.31% due to movements in the accounts with temporary tax differences. Other Assets consist of, among others, prepaid expenses, creditable withholding tax and inter-office float items. The decline of ₱0.85 billion or 6.42% was mainly due to the decreases in inter-office float items by ₱1.36 billion, creditable withholding tax (CWT) by ₱0.78 billion offset by the increases in prepaid expenses and software costs by ₱0.94 billion and ₱0.48 billion, respectively.

Deposit liabilities represent 80.75% and 81.93% of the consolidated total liabilities as of September 30, 2015 and December 31, 2014, respectively. The Group's deposit level, sourced mainly by the Bank, PSBank and MBCL reached ₱1.18 trillion as of September 30, 2015, a slight decrease of ₱8.53 billion or 0.72% from the December 31, 2014 level. Time deposits were lower by ₱67.23 billion while demand and savings deposits increased by ₱22.44 billion and ₱36.25 billion, respectively. Low cost deposits

represent 55.50% and 50.14% of the Group's total deposits as of September 30, 2015 and December 31, 2014, respectively.

Bills Payable and SSURA representing 11.56% and 9.71% of the Group's total liabilities as of September 30, 2015 and December 31, 2014, respectively, went up by ₱27.90 billion or 19.87%. The variance came from higher balances in deposit substitutes by ₱30.26 billion and in SSURA by ₱4.30 billion net of the decreases in borrowings from local and foreign banks by ₱0.75 billion and ₱5.91 billion, respectively.

Derivative Liabilities which represents mark-to-market of foreign currency forwards, interest rate swaps, cross currency swaps and foreign currency options with negative fair value increased by ₱1.95 billion or 63.59%. The decrease of ₱0.27 billion or 5.80% in Manager's Check and Demand Drafts Outstanding resulted from normal banking operations of the Bank and PSBank.

Income taxes payable decreased by ₱0.15 billion or 12.85% due to settlement of the 2014 income tax liabilities in April 2015 net of accrual for 2015. Accrued Interest and Other Expenses went down by ₱1.09 billion or 11.06% due to payment of other bank expenses and decrease in accruals for interests on deposit liabilities (volume related) and other borrowings. Deferred Tax Liabilities increased by ₱0.03 billion or 5.47%.

Other Liabilities decreased by ₱9.51 billion or 15.65% primarily due to lower levels of bills purchased contra and retirement liability offset by the higher balances of outstanding acceptances executed by the bank and marginal deposits.

The growth in Equity attributable to equity holders of the Parent Company of ₱42.30 billion or 28.18% was mainly attributable to the issuance of stock rights in April 2015 with total net proceeds of ₱31.54 billion. The ₱13.25 billion net income generated by the Group (excluding non-controlling interests) for the period ended September 30, 2015 reduced by the cash dividends payment of ₱2.74 billion and coupon payment on HT1 capital securities of ₱0.51 billion also contributed to the variance. The ₱0.56 billion or 6.41% increase in equity of non-controlling interest was attributed to the net income generated by the majority-owned subsidiaries for the period ended September 30, 2015.

### ***Results of Operations***

#### **Quarter Ended September 2015 vs. Quarter Ended September 2014 (Unaudited)**

Unaudited net income attributable to equity holders of the Parent Company reached ₱3.97 billion for the quarter ended September 30, 2015, ₱0.04 billion or 0.90% lower than the ₱4.0 billion net income reported for the same quarter of the previous year.

Interest income improved by ₱1.43 billion or 9.46% due to the increases in interest income on loans and receivable by ₱0.44 billion (relative to the increase in volume) and interest income on trading and investment securities by ₱0.98 billion (higher investment portfolio). Meanwhile, the increases in interest expense on deposit liabilities by ₱0.44 billion (relative to the increase in volume and the issuance of LTNCD in October and November 2014) and on bills payable and SSURA by ₱0.27 billion accounted for the ₱0.71 billion higher interest expense. These resulted in a ₱0.72 billion or 6.19% improvement in net interest income.

Other operating income of ₱3.24 billion went down by ₱2.18 billion or 40.24% from ₱5.42 billion for the same quarter of the previous year. The variance was mainly due to the ₱0.79 billion net trading and securities and foreign exchange loss incurred for the third quarter of 2015 compared with the ₱0.41 billion net gain recognized for the same quarter in 2014 and the decrease in miscellaneous income by ₱1.18 billion (due to last year's profit realized from the divestment of non-core assets) partially offset by the ₱0.20 billion increase in fee-based income.

Lower provision for credit and impairment losses was recognized for the third quarter of 2015 at ₱29.55 million compared with ₱1.37 billion for the same period in 2014 or a decrease of ₱1.34 billion or 97.88% while occupancy and equipment-related cost increased by 5.90% from ₱0.63 billion to ₱0.66

billion. Provision for income tax increased by ₱0.62 billion or 62.18% from ₱1.0 billion to ₱1.63 billion due to net movements in deferred income tax, corporate and final taxes .

Income attributable to non-controlling interests for the third quarter of 2014 amounted to ₱726 million as against the ₱8 million loss incurred for the same quarter in 2015 due to losses incurred by a majority-owned subsidiary.

Total comprehensive income went up by ₱0.80 billion from ₱3.80 billion for the third quarter of 2014 to ₱4.60 billion for the same period in 2015 as a result of lower net unrealized losses recognized on AFS investments from ₱1.29 billion to ₱0.24 billion. Total comprehensive income attributable to equity holders of the Parent Company went up to ₱4.11 billion or by ₱0.77 billion from ₱3.34 billion in 2014.

**Period Ended September 2015 vs. Period Ended September 2014 (Unaudited)**

Unaudited net income attributable to equity holders of the Parent Company for the period ended September 30, 2015 was recorded at ₱13.25 billion, higher by ₱0.18 billion or 1.35% from the ₱13.08 billion net income reported in the same period in 2014. The net increment was attributed to the improvement in net interest income by ₱2.24 billion or 6.59% while other operating income declined by ₱4.89 billion or 25.70%. Total operating expenses and provision for credit and impairment losses decreased by ₱0.39 billion or 1.31% and ₱1.32 billion or 40.03%, respectively, with provision for income tax higher by ₱0.18 billion or 4.12%.

Interest income went up by ₱4.95 billion or 11.31% from ₱43.73 billion to ₱48.68 billion resulting from the increases in interest income on loans and receivable by ₱2.96 billion (volume driven), trading and investment securities by ₱1.81 billion and interest on deposit with banks and others by ₱0.18 billion. On the other hand, interest expense increased by ₱2.71 billion or 27.85% from ₱9.71 billion to ₱12.42 billion coming from higher interest expense on deposit liabilities by ₱1.79 billion or 26.60% and on bills payable and other borrowings by ₱0.92 billion or 30.64%. These resulted in a 6.59% or ₱2.24 billion growth in net interest income.

Other operating income of ₱14.14 billion was lower by ₱4.89 billion or 25.70% compared with ₱19.03 billion for the same period in previous year. This resulted from lower miscellaneous income of ₱5.68 billion compared with ₱10.88 billion in 2014 (due to last year's profit realized from the sale of bank-owned property and ROPA to Federal Land, Inc., a related party, and divestments of non-core assets) and trading and securities and foreign exchange gains by ₱0.40 billion or 26.31% offset by the ₱0.70 billion or 10.59% increase in fee-based income.

Total operating expenses decreased by ₱0.39 billion or 1.31% from ₱29.74 billion to ₱29.35 billion with lower compensation and fringe benefits by ₱1.12 billion or 9.04% offset by higher occupancy and equipment-related expenses by ₱0.17 billion or 9.52% and miscellaneous expenses by ₱0.56 billion or 3.58%.

Income attributable to non-controlling interests went down to ₱1.16 billion from ₱2.46 billion or by ₱1.30 billion or 52.87% on account of the decreases in the results of operations of majority-owned subsidiaries.

Total comprehensive income went up by ₱3.71 billion from ₱11.96 billion to ₱15.66 billion for the period ended September 30, 2014 and 2015, respectively. The variance was attributed to the ₱0.36 billion net unrealized gain recognized on AFS investments for the period ended September 30, 2015 compared with the ₱2.58 billion net unrealized loss in 2014, the ₱1.83 billion favorable movement in translation adjustments and others, and the ₱1.12 billion decrease in net income. Total comprehensive income attributable to equity holders of the Parent Company for the period ended September 30, 2015, went up to ₱14.18 billion or by ₱3.61 billion from ₱10.57 billion for the same period in 2014.

**METROPOLITAN BANK & TRUST COMPANY  
(CONSOLIDATED)**

**AGING OF ACCOUNTS RECEIVABLE  
(IN MILLIONS)**

**AS OF SEPTEMBER 30, 2015**

<b>NO. OF DAYS OUTSTANDING</b>	<b>AMOUNT</b>
<b>1-90</b>	<b>₱ 5,932</b>
<b>91-180</b>	<b>117</b>
<b>181-360</b>	<b>303</b>
<b>OVER 360</b>	<b>1,508</b>
<b>GRAND TOTAL</b>	<b>₱ 7,860</b>