Metrobank

October 27, 2016

Mr. Jose Valeriano B. Zuño III
OIC - Head, Disclosure Department
Philippine Stock Exchange, Inc.
3/F Philippine Stock Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City

Dear Mr. Zuño:

We hereby submit a copy of our SEC Form 17-Q for the period ended September 30, 2016.

Very truly yours,

Marilou 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

2 0 5 7 3

SEC Registration Number

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES

(Company's Full Name)

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

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

Marilou C. Bartolome

(Contact Person)

898-8805

(Company Telephone Number)

1 2	3 1	17-Q		
Month	*Day*	(Form Type)	*Month*	*Day*
(Fiscal Year)			(Annual Meeting)	

NONE

(Secondary License Type, If Applicable)

Corporate Finance Department

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

As of 09.30.16

3,133

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

Remarks: Please use BLACK ink for scanning purposes.

SEC Number 20573
File Number______

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

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

898-8805
(Telephone Number)

December 31
(Fiscal year ending)

17-Q
(Form Type)

(Amendment Designation, if applicable)

September 30, 2016
(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, 2016**

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

Title of Each Class	No. of Shares of Common Stock Outstanding	Amount of Debt Outstanding (Unpaid Subscriptions)
Common Shares	**3,180,172,786 shares**	**None**

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

Yes [x]   No [ ]

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

12. Indicate by check mark whether the registrant:

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

Yes [x]   No [ ]

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

Yes [x]   No [ ]

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Attached are the following:

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

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

PART II - OTHER INFORMATION

I. Control of Registrant

The following stockholders own more than 5% of the total outstanding number of shares issued as of September 30, 2016:

NAME OF STOCKHOLDER	TOTAL NUMBER OF SHARES HELD	PERCENT TO TOTAL NUMBER OF SHARES ISSUED
PCD Nominee Corporation (Non-Filipino)*	1,079,717,523	33.952%
GT Capital Holdings, Inc.	806,781,945	25.369%
PCD Nominee Corporation (Filipino) *	416,292,541	13.090%

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

As of September 30, 2016, public ownership on the Bank was at 50.270%. Of the total shares issued, 33.994% represents foreign ownership.

II. Pending Legal Proceedings

The registrant is a party to the following pending legal proceedings as of September 30, 2016:

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, the 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

October 27, 2016

METROPOLITAN BANK & TRUST COMPANY
AND SUBSIDIARIES

Interim Condensed Consolidated Financial Statements
As of September 30, 2016 (Unaudited) and December 31, 2015 (Audited)
and for the nine months ended September 30, 2016 and 2015 (Unaudited)

ANNEX 1

METROPOLITAN BANK & TRUST COMPANY

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(In Millions)

		(Unaudited)		(Audited)
		September 30, 2016		December 31, 2015
ASSETS				
Cash and Other Cash Items	₱	**19,625**	₱	32,536
Due from Bangko Sentral ng Pilipinas		**218,773**		214,704
Due from Other Banks		**30,584**		36,864
Interbank Loans Receivable and Securities Purchased Under Resale Agreements		**38,676**		36,118
Financial Assets at Fair Value Through Profit or Loss		**44,320**		48,856
Available-for-Sale Investments		**122,607**		235,158
Held-to-Maturity Investments		**213,393**		208,432
Loans and Receivables		**965,088**		887,202
Investments in Associates and a Joint Venture		**5,653**		5,272
Property and Equipment		**21,864**		21,670
Investment Properties		**8,271**		8,195
Deferred Tax Assets		**8,621**		8,427
Goodwill		**5,202**		5,202
Other Assets		**9,514**		12,056
	₱	**1,712,191**	₱	1,760,692
LIABILITIES AND EQUITY				
LIABILITIES				
Deposit Liabilities				
Demand	₱	**272,942**	₱	233,912
Savings		**517,886**		467,587
Time		**436,191**		542,221
Long-Term Negotiable Certificates		**22,900**		14,250
		1,249,919		**1,257,970**
Bills Payable and Securities Sold Under Repurchase Agreements		**139,483**		176,791
Derivative Liabilities		**6,167**		4,145
Manager's Checks and Demand Drafts Outstanding		**5,642**		5,613
Income Taxes Payable		**917**		880
Accrued Interest and Other Expenses		**7,785**		8,187
Bonds Payable		**11,495**		11,516
Subordinated Debts		**29,515**		29,487
Deferred Tax Liabilities		**313**		451
Non-equity Non-controlling Interest		**8,572**		9,909
Other Liabilities		**41,703**		52,433
		1,501,511		1,557,382
EQUITY				
Equity Attributable to Equity Holders of the Parent Company		**201,440**		193,759
Non-controlling Interest		**9,240**		9,551
		210,680		203,310
	₱	**1,712,191**	₱	1,760,692

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

	(Unaudited)			
	Quarter Ended September 30		Nine Months Ended September 30	
	2016	2015	**2016**	2015
INTEREST INCOME ON				
Loans and receivables	₱ **13,358**	₱ 11,613	₱ **37,989**	₱ 35,307
Trading and investment securities	**3,426**	4,843	**11,852**	12,968
Deposits with banks and others	**270**	66	**535**	400
	17,054	16,522	**50,376**	48,675
INTEREST AND FINANCE CHARGES				
Deposit liabilities	**2,360**	2,753	**7,461**	8,509
Bills payable and securities sold under repurchase agreements, bonds payable, subordinated debt and others	**1,287**	1,392	**3,899**	3,910
	3,647	4,145	**11,360**	12,419
NET INTEREST INCOME	**13,407**	12,377	**39,016**	36,256
PROVISION FOR CREDIT AND IMPAIRMENT LOSSES	**1,509**	29	**4,708**	1,979
NET INTEREST INCOME AFTER PROVISION FOR CREDIT AND IMPAIRMENT LOSSES	**11,898**	12,348	**34,308**	34,277
OTHER INCOME				
Service charges, fees and commissions	**2,513**	2,399	**7,663**	7,351
Trading and securities and foreign exchange gain (loss) - net	**675**	(791)	**4,233**	1,109
Miscellaneous	**1,774**	1,631	**5,531**	5,680
	4,962	3,239	**17,427**	14,140
OTHER EXPENSES				
Compensation and fringe benefits	**5,180**	3,973	**14,152**	11,266
Occupancy and equipment-related cost	**721**	664	**2,107**	1,991
Miscellaneous	**5,565**	4,851	**17,003**	15,771
	11,466	9,488	**33,262**	29,028
INCOME BEFORE INCOME TAX	**5,394**	6,099	**18,473**	19,389
PROVISION FOR INCOME TAX	**1,280**	1,625	**4,222**	4,652
NET INCOME	₱ **4,114**	₱ 4,474	₱ **14,251**	₱ 14,737
Attributable to :				
Equity holders of the Parent Company	₱ **3,516**	₱ 3,966	₱ **12,578**	₱ 13,253
Non-controlling interest	**598**	508	**1,673**	1,484
	₱ **4,114**	₱ 4,474	₱ **14,251**	₱ 14,737
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 13)			₱ **3.88**	₱ 4.16

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

	Quarter Ended September 30		Nine Months Ended September 30	
	2016	2015	**2016**	2015
NET INCOME	**₱ 4,114**	₱ 4,474	**₱ 14,251**	₱ 14,737
OTHER COMPREHENSIVE INCOME				
Items that will not be reclassified to profit or loss:				
Change in remeasurement gain (loss) on retirement plan	**(1)**	-	**88**	(10)
Items that may be reclassified to profit or loss:				
Change in net unrealized gain (loss) on available-for-sale investments	**(405)**	(244)	**4,713**	357
Change in other comprehensive income (loss) of associates	**81**	(76)	**85**	(53)
Translation adjustment and others	**(1,250)**	446	**(928)**	632
Total items that may be reclassified to profit or loss	**(1,574)**	126	**3,870**	936
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	**(1,575)**	126	**3,958**	926
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**₱ 2,539**	₱ 4,600	**₱ 18,209**	₱ 15,663
Total Comprehensive Income attributable to :				
Equity holders of the Parent Company	**₱ 3,311**	₱ 4,107	**₱ 17,842**	₱ 14,175
Non-controlling interest	**(772)**	493	**367**	1,488
	₱ 2,539	₱ 4,600	**₱ 18,209**	₱ 15,663

ANNEX 3

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

As of September 30, 2016 and 2015
(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 Stocks**	**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**
Balance, January 1, 2016	**₱63,603**	**₱6,351**	**₱42,139**	**₱87,497**	**₱1,506**	**(₱187)**	**(₱4,783)**	**₱180**	**(₱3,530)**	**₱983**	**₱193,759**	**₱9,551**	**₱203,310**
Total comprehensive income for the period	-	-	-	12,578	-	-	4,672	84	87	421	17,842	367	18,209
Transfer to surplus reserves	-	-	-	(93)	93	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	(3,180)	-	-	-	-	-	-	(3,180)	(678)	(3,858)
Coupon payment of hybrid capital securities	-	-	-	(267)	-	-	-	-	-	-	(267)	-	(267)
Redemption of hybrid capital securities	-	(6,351)	-	(89)	-	-	-	-	-	-	(6,440)	-	(6,440)
Parent Company shares held by mutual fund subsidiaries	-	-	-	-	-	(274)	-	-	-	-	(274)	-	(274)
Balance, September 30, 2016	**₱63,603**	**₱-**	**₱42,139**	**₱96,446**	**₱1,599**	**(₱461)**	**(₱111)**	**₱264**	**(₱3,443)**	**₱1,404**	**₱201,440**	**₱9,240**	**₱210,680**
Balance, January 1, 2015	**₱54,896**	**₱6,351**	**₱19,312**	**₱72,258**	**₱1,371**	**(₱30)**	**(₱2,394)**	**₱260**	**(₱2,440)**	**₱545**	**₱150,129**	**₱8,656**	**₱158,785**
Total comprehensive income (loss) 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 a mutual fund subsidiaries	-	-	-	-	-	(158)	-	-	-	-	(158)	-	(158)
Balance, September 30, 2015	**₱63,603**	**₱6,351**	**₱42,139**	**₱82,206**	**₱1,425**	**(₱188)**	**(₱2,051)**	**₱208**	**(₱2,450)**	**₱1,186**	**₱192,429**	**₱9,211**	**₱201,640**

Capital Stock of the Parent Company consists of (Note 11 of Annex 5):

* **COMMON STOCK** at ₱20 par value
Authorized - 4,000,000,000 shares as of September 30, 2016 and 2015, respectively
Issued - 3,180,172,786 shares as of September 30, 2016 and 2015, 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	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Income before income tax	₱ **18,473**	₱ 19,389
Adjustments for :		
Provision for credit and impairment losses	**4,708**	1,979
Trading and securities gain on available-for-sale investments	**(2,120)**	(1,151)
Depreciation and amortization	**2,438**	2,098
Share in net income of associates and a joint venture	**(322)**	(335)
Profits from assets sold	**(543)**	(1,134)
Net unrealized market valuation loss (gain) on financial assets at FVPL	**173**	(1,240)
Gain on foreclosure of real estate and chattel	**(633)**	(561)
Amortization of software cost	**351**	279
Accretion of discount on subordinated debt and bonds payable	**35**	33
Dividends	**(141)**	(298)
Changes in operating assets and liabilities:		
Decrease (increase) in the amounts of :		
Financial assets at fair value through profit or loss	**6,266**	(15,653)
Loans and receivables	**(83,842)**	(11,246)
Other assets	**2,411**	(146)
Increase (decrease) in the amounts of:		
Deposit liabilities	**(8,051)**	(8,533)
Bills payable - deposit substitutes	**3,540**	30,257
Manager's checks and demand drafts outstanding	**29**	(270)
Accrued interest and other expenses	**(402)**	(1,092)
Non-equity non-controlling interest	**(1,337)**	(528)
Other liabilities	**(10,520)**	(9,251)
Net cash generated from (used in) operations	**(69,487)**	2,597
Dividends received	**166**	305
Income taxes paid	**(4,517)**	(5,143)
Net cash used in operating activities	**(73,838)**	(2,241)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Available-for-sale investments	**(283,939)**	(219,286)
Held-to-maturity investments	**(5,608)**	(79,353)
Property and equipment	**(2,574)**	(3,384)
Proceeds from sale of:		
Available-for-sale investments	**402,920**	194,913
Property and equipment	**229**	729
Investment properties	**1,828**	3,643
Decrease (increase) in interbank loans receivable and securities purchased under resale agreements	**(10,232)**	3,022
Proceeds from maturity of held-to-maturity investments	**105**	175
Net cash provided by (used in) investing activities	**102,729**	(99,541)
CASH FLOWS FROM FINANCING ACTIVITIES		
Settlements of bills payable	**(983,551)**	(949,418)
Availments of bills payable and securities sold under repurchase agreement	**942,703**	947,062
Proceeds from issuance of shares of stock	**-**	31,534
Cash dividends paid	**(3,858)**	(3,678)
Coupon payment of hybrid capital securities	**(267)**	(506)
Redemption of hybrid capital securities	**(6,440)**	-
Acquisition of Parent Company shares by mutual fund subsidiaries	**(274)**	(158)
Net cash provided by (used in) by financing activities	**(51,687)**	24,836
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(22,796)**	(76,946)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		
Cash and other cash items	**32,536**	34,943
Due from Bangko Sentral ng Pilipinas	**214,704**	215,253
Due from other banks	**36,864**	38,200
Interbank loans receivable and securities purchased under resale agreements	**31,532**	112,188
	315,636	400,584
CASH AND CASH EQUIVALENTS AT END OF PERIOD		
Cash and other cash items	**19,625**	20,933
Due from Bangko Sentral ng Pilipinas	**218,773**	208,041
Due from other banks	**30,584**	26,237
Interbank loans receivable and securities purchased under resale agreements	**23,858**	68,427
	₱ **292,840**	₱ 323,638

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

1. Corporate Information

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

The Bank's shares were listed with the Philippine Stock Exchange, Inc. (PSE), on February 26, 1981, as approved by the SEC in November 1980. It has a universal banking license granted by the Bangko Sentral ng Pilipinas (BSP) on August 21, 1981.

The Bank and its subsidiaries (the Group) are engaged in all aspects of banking, financing, leasing, real estate and stock brokering through a network of 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.

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, 2015.

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 (₱000,000) except when otherwise indicated.

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

Statement of Compliance

The 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. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position. Income and expense are not offset in the statement of income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

Basis of Consolidation

The 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, 2016:

Subsidiary	Effective Percentage of Ownership	Country of Incorporation	Functional Currency
Financial Markets:			
Domestic:			
First Metro Investment Corporation (FMIC) and Subsidiaries	99.24	Philippines	PHP
Philippine Savings Bank (PSBank)	82.68	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
Foreign:			
Metropolitan Bank (China) Ltd (MBCL)	100.00	China	Chinese Yuan
Metropolitan Bank (Bahamas) Limited (Metrobank Bahamas)	100.00	The Bahamas	United States Dollar (USD)
First Metro International Investment Company Limited (FMIIC) and Subsidiary	100.00	Hong Kong	Hong Kong Dollar (HKD)
Remittances:			
Metro Remittance (Hong Kong) Limited	100.00	Hong Kong	HKD
Metro Remittance (Singapore) Pte. Ltd.	100.00	Singapore	Singapore Dollar
Metro Remittance (UK) Limited	100.00	United Kingdom	Great Britain Pound
Metro Remittance (USA), Inc.	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
Real Estate:			
Circa 2000 Homes, Inc. *	100.00	Philippines	PHP
Others:			
Philbancor Venture Capital Corporation *	60.00	Philippines	PHP
MBTC Technology, Inc. **	100.00	Philippines	PHP

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

On July 29, 2016, the Bank purchased 16,093,618 shares of PSBank (11,492,811 shares from FMIC and its subsidiaries and 4,600,807 shares from PSBank Retirement Fund) at a price of ₱100 per share or a total amount of ₱1.6 billion thereby increasing its ownership in PSBank from 75.98% to 82.68%. The transaction resulted in a gain of ₱199.6 million for the Group (Note 12). This additional investment was approved by the BSP on May 31, 2016.

On August 11, 2016, FMIIC executed the buy-back of the outstanding shares, out of its capital, held by FMIC and Metrobank Bahamas, representing their respective 20.00% and 26.74%, at approximately HK$1.59 per share or a total consideration of HK$111.4 million. Before the execution of said transaction, FMIIC was 53.26% owned by the Bank, 20.00% by FMIC and 26.74% by Metrobank Bahamas. FMIC and Metrobank Bahamas recognized gain amounting to P99.2 million and P139.8 million, respectively, or a total of ₽238.2 million for the Group (Note 12).

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.

<u>Entity with significant influence over the Group</u>
GT Capital Holdings, Inc. (GT Capital) holds 25.37% and 25.22% of the total shares of the Bank as of September 30, 2016 and December 31, 2015, respectively.

<u>Non-Controlling Interest</u>
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.

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

Non-equity non-controlling interest (NENCI) represents the portion of profit or loss and net assets of the consolidated funds not attributed, directly or indirectly, to the Parent Company and are presented separately in the consolidated statement of income and in the liability section in the consolidated statement of financial position.

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, 2015, except for the adoption of the following applicable PAS and PFRS by the Group effective beginning January 1, 2016:

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.

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 PFRS 3 and other PFRS in accounting for business combination as well as the disclosures required by such PFRS.

Annual Improvements to PFRSs (2012 - 2014 cycle)

PFRS 7, *Financial Instruments: Disclosures - Servicing Contracts*
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 applied such that the assessment of which servicing contracts constitute continuing involvement needs 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).

The adoption of the amended 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, at fair value at each statement of financial position date. Also, fair values of financial instruments measured at amortized cost and investment properties are disclosed in Note 4.

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

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

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

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

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

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

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

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

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

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

The Group determines the policies and procedures for both recurring fair value measurement, such as financial assets 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.

'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 (IRS), call options, non-deliverable forwards (NDF) and other interest rate derivatives. These derivatives are entered into as a service to customers and as a means of reducing or managing their respective foreign exchange and interest rate exposures, as well as for trading purposes. Such derivative financial instruments are initially recorded at fair value on the date at which the derivative contract is entered into and are subsequently remeasured at fair value. Any gains or losses arising from changes in fair values of derivatives (except those accounted for as accounting hedges) are taken directly to the statement of income and are included in 'Trading 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.

<u>Derecognition of Financial Assets and Liabilities</u>
Financial assets
A financial asset (or, where applicable, a part of a financial asset or part of a group of financial assets) is derecognized when:

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

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

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

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

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

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

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.

<u>*New Standards*</u>

PFRS 9, *Financial Instruments* (2014 or final version)
PFRS 9 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 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: (a) 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; or (b) at fair value through other comprehensive income if the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets 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. PFRS 9 introduces the single, forward-looking "expected loss" impairment model, replacing the "incurred loss" impairment model. PFRS 9 also 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. 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.

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.

PFRS 16, *Leases*
PFRS 16 replaces the accounting requirements for leases under the old Standard (IAS 17, *Leases*). The new standard requires all leases to be reported on a company's balance sheet as assets and liabilities. PFRS 16 shall be effective for annual periods beginning on or after January 1, 2019. Earlier application is not permitted until the FRSC has adopted the new revenue recognition standard (IFRS 15, *Revenues from Contracts with Customers)* issued by the IASB.

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.

Amendments

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. In December 2015, the IASB deferred the effectivity of the amendments to PFRS 10 and PAS 28 for a broader review by the Board.

PAS 7, *Statement of Cash Flows*
The amendments to disclosures require entities to provide information about changes in their financing liabilities. This will help investors to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes such as foreign exchange gains or losses. The amendments to PAS 7 will become mandatory for annual periods beginning on or after January 1, 2017.

PAS 12, *Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses*
The amendments to PAS 12 clarify the requirements on recognition of deferred tax assets for unrealized losses on debt instruments measured at fair value. The amendments shall be applied for annual periods beginning on or after January 1, 2017, with earlier application permitted.

3. Financial Risk Management

Compared with December 31, 2015, there have been no changes in the financial risk exposures that materially affect the financial statements of the Group as of September 30, 2016. 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 2015 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, among others.

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, whenever applicable. To further promote alignment of risk management procedures, policies and practices, the Parent Company created a Risk Management Coordinating Council (RMCC) composed of the head of the risk management units of the Parent Company and its financial institution subsidiaries.

Credit Risk
Credit risk is the risk of financial loss to the Group if a counterparty to a financial instrument fails to meet its contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties, related groups of borrowers, for market segmentation, and

industry concentrations, and by monitoring exposures in relation to such limits, among others. The same is true for treasury-related activities. Each business unit is responsible for the quality of its credit portfolio and for monitoring and controlling all credit risks in its portfolio. Regular reviews and audits of business units and credit processes are undertaken by IAG and Risk Management Group (RSK).

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 estimates 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 and sensitivity limit structures and by doing stress testing analysis. These processes address potential product concentration risks, monitor portfolio vulnerability and give the management an early advice if 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 predefined 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. 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.

4. Fair Value Measurement

<u>Financial Instruments</u>

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, 2016 (Unaudited)				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets Measured at Fair Value					
Financial Assets					
Financial assets at FVPL					
HFT investments					
Debt securities					
Government	₱9,897	₱7,224	₱2,673	₱-	₱9,897
Private	5,343	5,149	194	-	5,343
Treasury bills	513	513	-	-	513
Treasury notes and bonds	14,234	14,234	-	-	14,234
	29,987	27,120	2,867	-	29,987
Equity securities					
Quoted	6,663	6,663	-	-	6,663
Derivative assets					
Currency forwards	1,272	-	1,272	-	1,272
Interest rate swaps	992	-	992	-	992
Cross currency swaps	5,241	-	5,241	-	5,241
Put option	154	-	154	-	154
Call option	9	-	9	-	9
Embedded derivatives in:					
Non-financial contract	2	-	2	-	2
	7,670	-	7,670	-	7,670
	44,320	33,783	10,537	-	44,320
AFS investments					
Debt securities					
Government	29,936	26,107	3,829	-	29,936
Private	41,210	40,622	588	-	41,210
Treasury bills	398	398	-	-	398
Treasury notes and bonds	50,464	50,464	-	-	50,464
	122,008	117,591	4,417	-	122,008
Equity Securities					
Quoted	406	406	-	-	406
	122,414	117,997	4,417	-	122,414
	₱166,734	₱151,780	₱14,954	₱-	₱166,734

	September 30, 2016 (Unaudited)				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets for which Fair Values are Disclosed					
Financial Assets					
HTM investments					
Government	₱23,626	₱25,587	₱3,659	₱-	₱29,246
Private	5,083	5,244	-	-	5,244
Treasury notes and bonds	184,684	191,393	-	-	191,393
	213,393	222,224	3,659	-	225,883
Loans and receivables - net					
Receivables from customers					
Commercial loans	660,743	-	661,634	-	661,634
Residential mortgage loans	89,418	-	90,218	-	90,218
Auto loans	92,461	-	104,052	-	104,052
Trade	33,969	-	33,969	-	33,969
Others	72,532	-	72,482	-	72,482
	949,123	-	962,355	-	962,355
Unquoted debt securities	1,371	-	1,488	-	1,488
Sales contract receivable	211	-	249	-	249
	950,705	-	964,092	-	964,092
Other assets					
Residual value of leased assets	943	-	918	-	918
Miscellaneous	173	-	176	-	176
	1,116	-	1,094	-	1,094
	1,165,214	222,224	968,845	-	1,191,069
Non-financial assets					
Investment properties	8,271	-	-	12,917	12,917
	₱1,173,485	₱222,224	₱969,845	₱12,917	₱1,203,986
Liabilities Measured at Fair Value					
Financial Liabilities					
Financial liabilities at FVPL					
Derivative liabilities					
Currency forwards	₱1,830	₱-	₱1,830	₱-	₱1,830
Interest rate swaps	1,996	-	1,996	-	1,996
Cross currency swaps	2,329	-	2,329	-	2,329
Call option	12	-	12	-	12
	₱6,167	₱-	₱6,167	₱-	₱6,167
Liabilities for which Fair Values are Disclosed					
Financial Liabilities					
Deposit liabilities					
Time	₱436,115	₱-	₱439,726	₱-	₱439,726
LTNCD	22,900	22,956	-	-	22,956
Bills payable and SSURA	139,483	-	144,047	-	144,047
Bonds payable	11,495	-	11,849	-	11,849
Subordinated debts	29,515	22,745	7,053	-	29,798
Other liabilities					
Deposits on lease contracts	1,302	-	1,188	-	1,188
	₱640,810	₱45,701	₱603,863	₱-	₱649,564

	December 31, 2015 (Audited)				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets Measured at Fair Value					
Financial Assets					
Financial assets at FVPL					
HFT investments					
Debt securities					
Government	₱10,351	₱9,529	₱822	₱-	₱10,351
Private	3,723	3,675	48	-	3,723
Treasury bills	104	104	-	-	104
Treasury notes and bonds	19,511	19,511	-	-	19,511
	33,689	32,819	870	-	33,689
Equity securities					
Quoted	9,225	9,225	-	-	9,225
Derivative assets					
Currency forwards	769	-	769	-	769
Interest rate swaps	420	-	420	-	420
Cross currency swaps	4,568	-	4,568	-	4,568
Put option	149	-	149	-	149
Call option	8	-	8	-	8
Embedded derivatives in:					
Financial contract	25	-	25	-	25
Non-financial contract	3	-	3	-	3
	5,942	-	5,942	-	5,942
	48,856	42,044	6,812	-	48,856
AFS investments					
Debt securities					
Government	40,708	36,155	4,553	-	40,708
Private	28,098	27,433	665	-	28,098
Treasury notes and bonds	160,693	160,604	89	-	160,693
	229,499	224,192	5,307	-	229,499
Equity Securities					
Quoted	2,207	2,207	-	-	2,207
	231,706	226,399	5,307	-	231,706
	₱280,562	₱268,443	₱12,119	₱-	₱280,562
Assets for which Fair Values are Disclosed					
Financial Assets					
HTM investments					
Government	₱19,107	₱22,376	₱-	₱-	₱22,376
Private	4,530	4,530	-	-	4,530
Treasury notes and bonds	184,795	179,288	-	-	179,288
	208,432	206,194	-	-	206,194
Loans and receivables-net					
Receivables from customers					
Commercial loans	593,034	-	593,938	-	593,938
Residential mortgage loans	84,520	-	85,850	-	85,850
Auto loans	81,042	-	94,394	-	94,394
Trade	32,988	-	32,994	-	32,994
Others	77,102	-	79,391	-	79,391
	868,686	-	886,567	-	886,567
Unquoted debt securities	1,936	-	2,035	-	2,035
Sales contract receivable	365	-	386	-	386
	870,987	-	888,988	-	888,988
Other assets					
Residual value of leased assets	899	-	831	-	831
Miscellaneous	178	-	176	-	176
	1,077	-	1,007	-	1,007
	1,080,496	206,194	889,995	-	1,096,189
Non-financial assets					
Investment properties	8,195	-	-	12,981	12,981
	₱1,088,691	₱206,194	₱889,995	₱12,981	₱1,109,170

	December 31, 2015 (Audited)				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Liabilities Measured at Fair Value					
Financial Liabilities					
Financial liabilities at FVPL					
Derivative liabilities					
Currency forwards	₱730	₱-	₱730	₱-	₱730
Interest rate swaps	952	-	952	-	952
Cross currency swaps	2,454	-	2,454	-	2,454
Call option	9	-	9	-	9
	₱4,145	₱-	₱4,145	₱-	₱4,145
Liabilities for which Fair Values are Disclosed					
Financial Liabilities					
Deposit liabilities					
Time	₱542,221	₱-	₱545,963	₱-	₱545,963
LTNCD	14,250	13,862	-	-	13,862
Bills payable and SSURA	176,791	-	173,911	-	173,911
Bonds payable	11,516	-	11,858	-	11,858
Subordinated debts	29,487	18,757	6,909	-	25,666
Other liabilities					
Deposits on lease contracts	1,249	-	1,069	-	1,069
	₱775,514	₱32,619	₱739,710	₱-	₱772,329

There are no financial assets and liabilities classified under Level 3 as of September 30, 2016 and December 31, 2015.

There were no transfers between levels of the fair value hierarchy during the period ended September 30, 2016 while AFS investment in debt securities amounting to ₱47.1 million was transferred from Level 2 to Level 1 in 2015.

5. Segment Information

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

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

Segment assets are those operating assets that are employed by a segment in its operating activities and that 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 periods ended September 30, 2016 and 2015.

	Consumer Banking	Corporate Banking	Investment Banking	Treasury	Branch Banking	Others	Total
Period Ended September 30, 2016 (Unaudited)							
Results of Operations							
Net interest income (expense)							
Third party	₱9,531	₱16,388	₱-	₱9,827	₱1,682	₱1,588	₱39,016
Intersegment	(190)	(6,465)	-	(3,430)	11,395	(1,310)	-
Net interest income after intersegment transaction	9,341	9,923	-	6,397	13,077	278	39,016
Non-interest income	4,064	526	584	2,407	2,628	6,896	17,105
Revenue - net of interest expense	13,405	10,449	584	8,804	15,705	7,174	56,121
Non-interest expense	9,607	2,116	40	1,255	13,853	11,099	37,970
Income (loss) before share in net income of associates and a joint venture	3,798	8,333	544	7,549	1,852	(3,925)	18,151
Share in net income of associates and a joint venture	-	19	-	-	-	303	322
Provision for income tax	(930)	(250)	-	(2,237)	(38)	(767)	(4,222)
Non-controlling interest in net income of consolidated subsidiaries	-	-	-	-	-	(1,673)	(1,673)
Net income (loss)	₱2,868	₱8,102	₱544	₱5,312	₱1,814	(₱6,062)	₱12,578
Statement of Financial Position							
Total assets	₱157,415	₱713,279	₱-	₱415,351	₱131,446	₱294,700	₱1,712,191
Total liabilities	₱58,704	₱679,794	₱-	₱408,738	₱209,487	₱144,788	₱1,501,511
Other Segment Information							
Capital expenditures	₱791	₱46	₱-	₱88	₱67	₱2,203	₱3,195
Depreciation and amortization	₱361	₱133	₱-	₱9	₱930	₱1,356	₱2,789
Provision for credit and impairment losses	₱4,955	(₱178)	₱-	₱-	(₱32)	(₱37)	₱4,708
Period Ended September 30, 2015 (Unaudited)							
Results of Operations							
Net interest income (expense)							
Third party	₱7,665	₱14,047	₱4	₱12,683	₱445	₱1,412	₱36,256
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	8,643	31,007
Income (loss) before share in net income of associates and a joint venture	4,745	4,950	575	5,409	7,784	(4,409)	19,054
Share in net income of associates and a joint venture	-	13	-	-	-	322	335
Benefit from (provision for) income tax	(925)	(169)	-	(2,922)	206	(842)	(4,652)
Non-controlling interest in net income of consolidated subsidiaries	-	–	-	-	–	(1,484)	(1,484)
Net income	₱3,820	₱4,794	₱575	₱2,487	₱7,990	(₱6,413)	₱13,253
Statement of Financial Position							
Total assets	₱135,666	₱542,197	₱-	₱580,491	₱120,887	₱278,575	₱1,657,816
Total liabilities	₱50,773	₱509,445	₱-	₱577,972	₱192,057	₱125,929	₱1,456,176
Other Segment Information							
Capital expenditures	₱561	₱66	₱-	₱111	₱135	₱3,259	₱4,132
Depreciation and amortization	₱208	₱118	₱-	₱7	₱842	₱1,202	₱2,377
Provision for credit and impairment losses	₱2,451	(₱1,195)	(₱91)	₱-	₱767	₱47	₱1,979

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.

6. Trading and Investment Securities

HTM Investments

Bond Exchange Transactions

In July 2011, the Department of Finance (DOF) and the Bureau of Treasury (BTr) 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 ₱36.7 billion and ₱35.9 billion as of September 30, 2016 and December 31, 2015, respectively, would have been reclassified to AFS investments and carried at fair value with net unrealized gain of ₱5.9 billion and ₱3.8 billion, respectively, being recognized in other comprehensive income.

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

On August 12, 2016, the BSP authorized the Bank to issue up to ₱20.0 billion LTNCD in one or multiple tranches issued over a period of one year. The Bank issued the first tranche amounting to ₱8.65 billion on September 19, 2016 at a rate of 3.50% per annum, payable quarterly, with a tenor of 7 years and maturing on September 19, 2023. Subject to BSP Rules, the Bank has the option to pre-terminate the LTNCDs as a whole but not in part, prior to maturity and on any interest payment date at face value plus accrued interest covering the accrued and unpaid interest. The minimum investment size for the LTNCD is ₱50.0 thousand with increments of ₱50.0 thousand thereafter.

On September 23, 2016, the BOD of PSBank approved the issuance of LTNCDs up to ₱10.0 billion through one or more tranches over a period of one year, subject to BSP approval.

8. 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, 2016 (Unaudited)		December 31, 2015 (Audited)	
	Transferred Securities	**SSURA**	Transferred Securities	SSURA
Government debt securities				
HFT investments	**₱-**	**₱-**	₱867	₱798
AFS investments	**3,616**	**3,520**	23,707	21,617
HTM investments	**40,640**	**39,128**	46,629	40,772
	₱44,256	**₱42,647**	₱71,203	₱63,187

9. Bonds Payable

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

					Carrying value	
Issue Date	Maturity Date	Interest Rate	Redemption Period	Face Value	**September 30, 2016 (Unaudited)**	December 31, 2015 (Audited)
November 25, 2011	February 25, 2017	5.675%	after 4th year	₱5,000	**₱4,857**	₱4,863
August 10, 2012	November 10, 2017	5.500%	after 4th year	4,000	**3,849**	3,867
August 10, 2012	August 10, 2019	5.750%	after 5th year	3,000	**2,789**	2,786
				₱12,000	**₱11,495**	₱11,516

Significant terms of the bonds issued by FMIC have been disclosed in the 2015 audited financial statements.

10. Subordinated Debts

Details of the Group's subordinated debt follow:

			September 30, 2016 (Unaudited)		December 31, 2015 (Audited)	
	Maturity Date	**Face Value**	**Carrying Value**	**Market Value**	Carrying Value	Market Value
Parent Company						
2024	June 27, 2024	₱16,000	**₱15,932**	**₱16,143**	₱15,915	₱12,574
2025	August 8, 2025	6,500	**6,465**	**6,602**	6,459	6,183
PSBank						
2022	February 20, 2022	3,000	**2,980**	**3,355**	2,978	3,328
2024	August 23, 2024	3,000	**2,976**	**2,450**	2,974	2,318
MCC-2023	December 20, 2023	1,170	**1,162**	**1,247**	1,161	1,263
		₱29,670	**₱29,515**	**₱29,797**	₱29,487	₱25,666

Significant terms of the Peso Notes outstanding as of December 31, 2015 have been disclosed in the 2015 audited financial statements.

On September 8, 2016, the BSP approved the exercise by PSBank of the call option on the unsecured subordinated debt - Tier 2 Notes issued in 2012 amounting to ₱3.0 billion on February 21, 2017.

11. Capital Stock

The movement in issued shares follows:

	Shares	
	September 30, 2016	December 31, 2015
Authorized		
Preferred stock - ₱20.00 par value	**1,000,000,000**	1,000,000,000
Common stock - ₱20.00 par value	**4,000,000,000**	4,000,000,000
Common stock issued and outstanding		
Balance at beginning of the year	**3,180,172,786**	2,744,801,066
Issuance of stock rights	**-**	435,371,720
Balance at the end of the period	**3,180,172,786**	3,180,172,786

As of September 30, 2016 and December 31, 2015, treasury shares totaling 5,586,332 and 2,058,912, 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 2016 after obtaining their respective BSP approvals. Details for 2016 and 2015 payments are as follows:

Date of BSP Approval	Date Paid
January 28, 2016	February 16, 2016
July 24, 2015	August 17, 2015
February 9, 2015	February 17, 2015

On February 16, 2016, the Parent Company redeemed its US$125.0 million HT1 Capital Securities as approved by its BOD and the BSP on June 17, 2015 and October 22, 2015, respectively.

Details of the Bank's cash dividend distributions in 2016 and 2015 follow:

Date of Declaration	Per Share	Total Amount (In Millions)	Date of BSP Approval*	Record date	Payment date
March 16, 2016	₱1.00	₱3,180	-	April 1, 2016	April 8, 2016
January 27, 2015	1.00	2,745	March 3, 2015	March 26, 2015	March 31, 2015

* No longer required in accordance with BSP Circular No. 888 dated October 9, 2015.

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 2015 audited financial statements.

12. Related Party Transactions

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

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

The Parent Company has a 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 is 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, 2016 and December 31, 2015, 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 3.33% and 2.57%, 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, 2016 and December 31, 2015, 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, 2016, December 31 and September 30, 2015 follow (transactions with subsidiaries have been eliminated in the interim condensed consolidated financial statement):

Category	Amount	Terms and Conditions/Nature
Transactions Affecting Statements of Financial Position		
September 30, 2016 (Unaudited)		
Entities with Significant Influence		
Outstanding Balance:		
Deposit liabilities*	**₱268**	With annual fixed rates ranging from 0.00% to 1.13% including time deposits with maturity terms from 7 days to 28 days
Bills payable*	**100**	Peso borrowing subject to annual fixed interest rate of 1.75% with maturity term of 32 days
Volume:		
Deposit liabilities	**(6,116)**	Generally similar to terms and conditions above
Foreign currency		
Sell	**24**	Outright sale of foreign currency
Subsidiaries		
Outstanding Balance:		
Interbank loans receivable*	**₱4,222**	Peso and foreign currency-denominated lending which earn annual fixed interest rates ranging from 0.77% to 2.90% with maturity terms from 3 days to 372 days, no impairment
Receivables from customers*	**1,394**	Secured - ₱151.0 million, unsecured - ₱1.2 billion, no impairment With annual fixed rate of 2.80% and maturity terms from 4 days to 273 days
Accounts receivable	**327**	Outstanding remittance receivables, credit card receivables and rental fees; non-interest bearing
Derivative assets	**175**	Fair value of forward leg of swap bought and forward exchange bought with various terms
Deposit liabilities*	**4,694**	With annual fixed interest rates ranging from 0.00% to 1.75% including time deposits with maturity terms from 3 days to 364 days
Bills payable*	**636**	Peso and foreign currency-denominated borrowings subject to annual fixed interest rates ranging from 1.38% to 1.95% with maturity terms of 15 days to 34 days
Bonds payable*	**519**	Issued by FMIC with interest rates ranging from 1.38% to 5.75% with maturity terms from 32 days to 5 years
Treasury stock	**461**	Parent Company's shares held by FMIC's mutual fund subsidiaries
Volume:		
Interbank loans receivable	**2,809**	Generally similar to terms and conditions above
Receivables from customers	**(1,649)**	Generally similar to terms and conditions above
Accounts receivable	**48**	Generally similar to terms and conditions above
Deposit liabilities	**(576)**	Generally similar to terms and conditions above
Bills payable	**(3,783)**	Generally similar to terms and conditions above
Bonds payable	**69**	Generally similar to terms and conditions above
Contingent		
Derivatives	**5,490**	Outright forwards and swaps bought with various terms
Securities transactions		
Purchases	**59,239**	Outright purchases of HFT securities and AFS investments
Sales	**63,161**	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	**36,101**	Outright purchases of foreign currency
Sell	**89,499**	Outright sale of foreign currency

Category	Amount	Terms and Conditions/Nature
Associates		
Outstanding Balance:		
Accounts Receivable	**₱3**	Rental fees, non-interest bearing
Deposit liabilities*	**1,088**	With annual fixed interest rates ranging from 0.00% to 1.25% including time deposits with maturity terms from 3 days to 63 days
Volume:		
Accounts Receivable	**3**	Generally similar to terms and conditions above
Deposit liabilities	**(700)**	Generally similar to terms and conditions above
Contingent		
Derivatives	**118**	Outright forwards sold with various terms
Securities transactions		
Outright sales	**500**	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	**530**	Outright purchases of foreign currency
Sell	**544**	Outright sale of foreign currency
Other Related Parties		
Outstanding Balance:		
Receivables from customers*	**₱5,599**	Secured - ₱952.5 million, unsecured - ₱4.6 billion, no impairment With annual fixed rates ranging from 1.50% to 8.50% and maturity terms from 60 days to 5 years
Accounts receivable	**2**	Credit card receivables, non-interest bearing
Assets held under joint operations	**368**	Parcels of land and former branch sites of the Parent Company contributed to joint operations
Deposit liabilities*	**17,227**	With annual fixed rates ranging from 0.00% to 1.83% including time deposits with maturity terms from 3 days to 365 days
Bills payable*	**2,448**	Peso-denominated borrowings with annual fixed interest rates ranging from 1.63% to 5.54% and maturity terms from 28 days to 5 years
Contingent		
Unused commercial LCs	**30**	LC transactions with various terms
Others	**4**	Bank guaranty with indemnity agreement
Volume:		
Receivables from customers	**(4,317)**	Generally similar to terms and conditions above
Deposit liabilities	**1,097**	Generally similar to terms and conditions above
Bills payable	**(691)**	Generally similar to terms and conditions above
Securities transactions		
Outright purchases	**166**	Outright purchases of HFT securities and AFS investments
Outright sales	**3,436**	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	**114**	Outright purchases of foreign currency
Sell	**20,346**	Outright sale of foreign currency
Key Personnel		
Outstanding Balance:		
Receivables from customers*	**₱83**	Secured - ₱58.7 million, unsecured - ₱24.3 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*	**258**	With various terms and with minimum annual interest rate of 0.00%
Volume:		
Receivables from customers	**1**	Generally similar to terms and conditions above
Deposit liabilities	**123**	Generally similar to terms and conditions above
December 31, 2015 (Audited)		
Entities with Significant Influence		
Outstanding Balance:		
Deposit liabilities*	**₱6,384**	With annual fixed rates ranging from 0.00% to 2.50% including time deposits with maturity terms from 21 days to 38 days
Volume:		
Receivables from customers	**(402)**	Secured - ₱280.0 million and unsecured - ₱122.4 million, no impairment Settlement of short-term loan with interest rate of 3.25% subject to regular repricing with maturity terms from 31 days to 91 days
Deposit liabilities	**6,035**	Generally similar to terms and conditions above
Foreign currency		
Sell	**6**	Outright sale of foreign currency

(Forward)

Category	Amount	Terms and Conditions/Nature
Subsidiaries		
Outstanding Balance:		
Interbank loans receivable*	**₱1,413**	Foreign currency-denominated lending which earn annual fixed interest rates ranging from 1.71% to 2.01% with maturity terms from 99 days to 373 days, no impairment
Receivables from customers*	**3,043**	Unsecured with no impairment With annual fixed rates ranging from 2.25% to 5.59% and maturity terms from 2 days to 5 years
Accounts receivable	**279**	Outstanding remittance receivables, credit card receivables and rental fees, non-interest bearing
Deposit liabilities*	**5,270**	With annual fixed interest rates ranging from 0.00% to 1.25% including time deposits with maturity terms from 6 days to 270 days
Bills payable*	**4,419**	Peso and foreign currency-denominated borrowings subject to annual fixed interest rates ranging from 0.19% to 2.50% with maturity terms from 1 day to 45 days
Bonds payable*	**450**	Issued by FMIC with interest rates ranging from 5.50% to 5.75% with maturity terms from 2 to 5 years, covered by deed of assignments of government securities
Treasury stock	**187**	Parent Company's shares held by FMIC's mutual fund subsidiaries
Volume:		
Interbank loans receivable	**(350)**	Generally similar to terms and conditions above
Receivables from customers	**196**	Generally similar to terms and conditions above
Deposit liabilities	**(62)**	Generally similar to terms and conditions above
Bills Payable	**1,627**	Generally similar to terms and conditions above
Bonds Payable	**(60)**	Generally similar to terms and conditions above
Securities transactions		
Purchases	**51,123**	Outright purchases of HFT securities and AFS investments
Sales	**50,340**	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	**43,072**	Outright purchases of foreign currency
Sell	**38,624**	Outright sale of foreign currency
Other transaction		
Underwriting/Arranging agreement	**102**	Arranging and underwriting fee of FMIC relative to the Parent Company's SRO in 2015
Associates		
Outstanding Balance:		
Other receivables	**₱18**	Dividend receivable from SMBC Metro
Deposit liabilities*	**1,788**	With annual fixed interest rates ranging from 0.00% to 1.75% including time deposits with maturity terms from 7 days to 90 days
Volume:		
Deposit liabilities	**74**	Generally similar to terms and conditions above
Bills Payable	**(1)**	Settlement of peso-denominated borrowings subject to annual fixed interest rate of 0.63% with maturity term of 91 days
Securities transactions		
Outright purchases	**406**	Outright purchases of HFT securities and AFS investments
Outright sales	**1,183**	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	**48**	Outright purchases of foreign currency
Sell	**271**	Outright sale of foreign currency
Other Related Parties		
Outstanding Balance:		
Receivables from customers*	**₱9,916**	Secured - ₱9.6 billion and unsecured - ₱270.5 million, no impairment With annual fixed rates ranging from 3.00% to 10.37% and maturity terms from 30 days to 12 years
Accounts receivable	**2**	Credit card receivables, non-interest bearing
Building under construction	**4,547**	Commercial and office spaces located at Bonifacio Global City, Taguig City purchased from Bonifacio Landmark Realty and Development Corp., a jointly controlled entity of GTCapital through Federal Land, Inc.
Assets held under joint operations	**401**	Parcels of land and former branch sites of the Parent Company contributed to joint operations
Deposit liabilities*	**16,130**	With annual fixed rates ranging from 0.00% to 2.55% including time deposits with maturity terms from 6 days to 367 days
Bills payable*	**3,239**	Peso-denominated borrowings subject to annual fixed interest rates ranging from 1.63% to 5.54% with maturity terms from 28 days to 5 years

(Forward)

Category	Amount	Terms and Conditions/Nature
Contingent		
Unused commercial LCs	**₱113**	LC transactions with various terms
Others	**2**	Bank guaranty with indemnity agreement
Volume:		
Receivables from customers	**(2,102)**	Generally similar to terms and conditions above
Deposit liabilities	**(7,090)**	Generally similar to terms and conditions above
Bills Payable	**(254)**	Generally similar to terms and conditions above
Securities transactions		
Outright purchases	**43**	Outright purchases of HFT securities and AFS investments
Outright sales	**144**	Outright sale of HFT securities and AFS investments
Foreign currency		
Buy	**465**	Outright purchases of foreign currency
Sell	**39,794**	Outright sale of foreign currency
Key Personnel		
Outstanding Balance:		
Receivables from customers*	**₱82**	Secured – ₱58.2 million, and unsecured - ₱23.6 million, no impairment, with annual fixed rates ranging from 0.00% to 10.00% and maturity terms from 2 to 15 years
Deposit liabilities*	**135**	With various terms and with minimum annual interest rate of 0.00%
Volume:		
Receivables from customers	**(8)**	Generally similar to terms and conditions above
Deposit liabilities	**27**	Generally similar to terms and conditions above
Transactions Affecting Statements of Income		
September 30, 2016 - Amount		
Entities with Significant Influence		
Service charges, fees and commissions	**₱419**	Advisory fee of FMIC
Interest expense	**37**	Interest expense on deposit liabilities
Subsidiaries		
Interest income	**₱89**	Income on receivables from customers and interbank loans receivables
Service charges, fees and commissions	**61**	Income on transactional fees
Trading and securities gain - net	**32**	Net gain from securities transactions; includes gain on sale of PSBank shares by FMIC (Note 2)
Foreign exchange gain - net	**89**	Net gain from foreign exchange transactions
Leasing income	**64**	Income from leasing agreements with various lease terms
Dividend income	**1,263**	Dividend income from PSBank and MCC
Miscellaneous income	**561**	Information technology and other fees; gain on buy-back of shares (Note 2)
Interest expense	**68**	Interest expense on deposit liabilities, bills payable and bonds payable
Miscellaneous expense	**99**	Management and other professional fees and merchant discount
Associates		
Foreign exchange gain - net	**₱1**	Net gain from foreign exchange transactions
Leasing income	**15**	Income from leasing agreements with various lease terms
Dividend income	**25**	Dividend income from Northpine Land, Inc. (NLI) and SMBC Metro Investment Corporation (SMBC Metro)
Interest expense	**2**	Interest expense on deposit liabilities
Other Related Parties		
Interest income	**₱174**	Interest income on receivables from customers
Foreign exchange loss - net	**(36)**	Net loss on foreign exchange transactions
Leasing income	**15**	Income from leasing agreements with various lease terms
Interest expense	**180**	Interest expense on deposit liabilities and bills payable
Key Personnel		
Interest income	**₱3**	Interest income on receivables from customers

(Forward)

Category	Amount	Terms and Conditions/Nature
September 30, 2015 - Amount		
Entities with Significant Influence		
Interest expense	**₱2**	Interest expense on deposit liabilities
Subsidiaries		
Interest income	**₱78**	Interest income on receivables from customers and interbank loans receivables
Service charges, fees and commissions	**30**	Income on transactional fees
Trading and securities loss-net	**(15)**	Income from securities transactions
Foreign exchange gain - net	**130**	Net gain from foreign exchange transactions
Leasing income	**61**	Income from leasing agreements with various lease terms
Dividend income	**1,543**	Dividend income from PSBank and MCC
Miscellaneous income	**258**	Information technology, audit and common use of space area fees
Interest expense	**33**	Interest expense on deposit liabilities, bills payable and bonds payable
Miscellaneous expense	**11**	Call center service fees
Associates		
Trading and securities gain - net	**₱2**	Income from securities transactions
Leasing income	**15**	Income from leasing agreements with various lease terms
Dividend income	**7**	Dividend income from NLI
Interest expense	**1**	Interest expense on deposit liabilities
Other Related Parties		
Interest income	**₱628**	Interest income on receivables from customers
Foreign exchange (loss) - net	**(13)**	Loss from foreign exchange transactions
Leasing income	**12**	Income from leasing agreements with various lease terms
Profit from assets sold	**603**	Gain from sale of investment properties to FLI
Interest expense	**131**	Interest expense on deposit liabilities and bills payable
Key Personnel		
Interest income	**₱4**	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, 2016 and December 31, 2015, government bonds classified under AFS investments with total face value of ₱50.0 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 ₱43.4 million and ₱40.5 million in September 30, 2016 and 2015, respectively. As of September 30, 2016 and 2015, the Parent Company sold securities totaling ₱1.3 billion and ₱2.5 billion, respectively to its related party retirement plans and recognized net trading loss of ₱0.2 million and net trading gain of ₱0.3 million, respectively. The Parent Company also purchased securities totaling ₱279.7 million and ₱607.8 million as of September 30, 2016 and 2015, respectively. Further, as of September 30, 2016 and December 31, 2015, the total outstanding deposit liabilities of the Group to these related party retirement funds amounted to ₱3.0 million and ₱279.5 million, respectively. Interest expense on deposit liabilities amounted to ₱0.7 million and ₱0.4 million in September 30, 2016 and 2015, respectively.

As of September 30, 2016 and December 31, 2015, the related party retirement plans also hold investments in the equity shares of various companies within the Group amounting to ₱396.7 million and ₱850.4 million, respectively, with unrealized trading gains of ₱53.7 million and ₱313.4 million, respectively. As of September 30, 2016 and December 31, 2015, the related party retirement plans also hold investments in mutual funds and trust funds of various companies within the Group amounting to ₱431.8 million and ₱183.4 million, respectively, with unrealized trading gains of ₱8.0 million and ₱1.7 million, respectively. As of September 30, 2016 and 2015, dividend income recognized from these securities amounted to ₱6.9 million and ₱10.4 million, respectively and realized trading gains amounted to ₱261.2 million (includes gain on sale of PSBank shares, Note 2) and ₱11.4 million, respectively.

13. 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, 2016 (Unaudited)	December 31, 2015 (Audited)
Trust Banking Group accounts	**₱429,905**	₱357,001
Commitments		
Credit card lines	**126,642**	97,964
Undrawn - facilities to lend	**13,968**	18,404
Unused commercial letters of credit	**38,963**	38,073
Bank guaranty with indemnity agreement	**12,319**	11,320
Credit line certificate with bank commission	**4,706**	4,722
Outstanding shipside bonds/airway bills	**4,646**	2,685
Late deposits/payments received	**1,311**	1,237
Inward bills for collection	**1,012**	715
Outward bills for collection	**567**	486
Confirmed export letters of credits	**154**	109
Outstanding guarantees	**76**	109
Others	**7,422**	10,801
	₱641,691	₱543,626

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 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.

14. **Financial Performance**

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

	For the Period Ended September 30		For the Year Ended
	2016	2015	December 31, 2015
	(Unaudited)		(Audited)
a. Net income attributable to equity holders of the Parent Company	**₱12,578**	₱13,253	₱18,625
b. Share of hybrid capital securities holders	**(267)**	(506)	(506)
c. Net income attributable to common shareholders	**₱12,311**	₱12,747	₱18,119
d. Weighted average number of outstanding common shares of the Parent Company	**3,176**	3,064	3,092
e. Basic/diluted earnings per share (c/d)	**₱3.88**	₱4.16	₱5.86

As of September 30, 2016 and 2015 and December 31, 2015, there were no outstanding dilutive potential common shares.

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

	For the Period Ended September 30		For the Year Ended
	2016	2015	December 31, 2015
	(Unaudited)		(Audited)
Return on average equity	**8.49%**	10.32%	10.83%
Return on average assets	**0.97%**	1.08%	1.11%
Net interest margin on average earning assets	**3.65%**	3.59%	3.54%

15. **Other Matters**

The Group has no significant matters to report on the following during the period ended September 30, 2016:

a. Known trends, events or uncertainties that would have material impact on liquidity and on the sales or revenues;
b. Explanatory comments about the seasonality or cyclicality of interim operations;
c. Issuances, repurchases and repayments of debt and equity securities except for the issuance of LTNCD amounting to ₱8.65 billion as discussed in Note 7 and the redemption of the US$125.0 million HT1 Capital Securities as discussed in Note 11.
d. Unusual items as to nature, size or incidents affecting assets, liabilities, equity, net income or cash flows except for the payments of cash dividends and semi-annual coupons on the hybrid capital securities by the Bank as discussed in Note 11; and
e. Effect of changes in the composition of the Group during the interim period, including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinuing operations except for the additional investment in PSBank and the buy-back of shares by FMIIC as discussed in Note 2.

16. **Subsequent Event**

a. On October 7, 2016, the BOD and stockholders of SMBC Metro, an associate of the Bank, approved the shortening of its corporate term by December 2017 through an amendment of its Articles of Incorporation.

b. On October 21, 2016, the BOD of PSBank declared a 7.5% regular cash dividend for the third quarter of 2016 amounting to ₱180.19 million equivalent to ₱0.75 per share, payable on November 21, 2016 to all stockholders of record as of November 9, 2016.

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
FINANCIAL INDICATORS
AS OF AND FOR THE PERIOD ENDED SEPTEMBER 30, 2016 AND 2015

		2016	2015
a)	Liquidity Ratio	40.18%	50.28%
b)	Loans to Deposits Ratio	76.96%	65.23%
c)	Debt to Equity Ratio	745.33%	756.74%
d)	Asset to Equity Ratio	849.98%	861.53%
e)	Return on Average Equity	8.49%	10.32%
f)	Return on Average Assets	0.97%	1.08%
g)	Net Interest Margin on Average Earning Assets	3.65%	3.59%
h)	Operating Efficiency Ratio	59.27%	57.99%
i)	Capital Adequacy Ratio	17.63%	19.86%
j)	Common Equity Tier 1 Ratio	14.53%	16.01%

METROPOLITAN BANK & TRUST COMPANY
SEC FORM 17 – Q
FOR THE PERIOD ENDED SEPTEMBER 30, 2016

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

Key Performance Indicators

Financial Ratios

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

	For the Period Ended September 30, 2016 (Unaudited)				
	Group	**Metrobank**	**FMIC**	**PSBank**	**MCC**
Earnings per share	₱3.88	₱2.94	₱3.20	₱7.77	₱2.30
Return on equity	8.49%	7.75%	7.03%	12.50%	40.70%
Return on assets	0.97%	0.92%	2.01%	1.41%	5.68%
Operating efficiency ratio	59.27%	63.65%	50.21%	60.52%	27.17%
Non-performing loans ratio	0.93%	0.36%	nil	1.10%	2.04%

	For the Period Ended September 30, 2015 (Unaudited)				
	Group	**Metrobank**	**FMIC**	**PSBank**	**MCC**
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	57.99%	57.88%	135.72%	64.43%	33.99%
Non-performing loans ratio	1.16%	0.45%	nil	1.12%	3.61%

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, 2016 and 2015, the Parent Company had no shares of stock that had a dilutive effect on its basic earnings per share.

The decrease in the Group's EPS from ₱4.16 to ₱3.88 was the effect of lower net income attributable to the equity holders of the Parent Company from ₱13.25 billion for the period ended September 30, 2015 to ₱12.58 billion for the same period in 2016 and increase in weighted average number of common shares after giving retroactive effect to stock rights exercised in April 2015.

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, 2016 was lower at 8.49% compared with 10.32% for the same period in 2015 due to the net effect of the 15.37% increases in the average equity and the 5.09% decrease in 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 0.97% for the period ended September 30, 2016 from 1.08% for the same period in 2015 due to the net effect of the 6.45% growth in the average total assets and the 5.09% decrease in 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 income tax) to total operating income (excluding share in net income of associates and a joint venture).

For the period ended September 30, 2016, the Group's operating efficiency ratio was higher at 59.27% compared with 57.99% for the same period in 2015. The change was due to the increases in operating expenses by ₱4.23 billion (or 14.59%) and operating income by ₱6.06 billion (or 12.10%).

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, 2016 and 2015, NPL ratio of the Group was at 0.93% and 1.16%, respectively.

Liquidity
To ensure that funds are more than adequate to meet its obligations, the Bank proactively monitors its liquidity position daily. Based on this system of monitoring, the Bank does not anticipate having any cash flow or liquidity problem within the next twelve months. As of September 30, 2016, the contractual maturity profile shows that the Bank has at its disposal about ₱683.60 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 65.46% of the ₱1.04 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 72.63% 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 13 - 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 13 - Commitments and Contingent Liabilities of the General Notes to the Interim Condensed Consolidated Financial Statements. Likewise, the summary of obligations are discussed in Note 7 - LTNCD; Note 9 - Bonds Payable; Note 10 - Subordinated Debts and Note 11 - Capital Stock.

Material Commitments for Capital Expenditures
For the year 2016, the Bank estimates to incur capital expenditures of about ₱7.0 billion**,** of which ₱4.9 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, 2016:

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 15 - Other Matters; and Note 16 - 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, 2016 (Unaudited) vs. December 31, 2015 (Audited)
The Metrobank Group posted unaudited consolidated total assets of ₱1.71 trillion and consolidated total liabilities of ₱1.50 trillion as of September 30, 2016. Compared with the audited figures as of December 31, 2015, total assets and total liabilities went down by ₱48.50 billion and ₱55.87 billion, respectively. On the other hand, equity attributable to equity holders of the Parent Company was higher by ₱7.68 billion from ₱193.76 billion to ₱201.44 billion.

Cash and Other Cash Items decreased by ₱12.91 billion or 39.68% due to the lower level of cash requirements of the Parent Company and PSBank compared with the required level as of year-end. Due from BSP increased by ₱4.07 billion or 1.90% coming from Special deposit account maintained with the BSP. Due from Other Banks decreased by ₱6.28 billion or 17.04% as a result of the net movements in the balances maintained with various local and foreign banks. Interbank Loans Receivable and SPURA went up by ₱2.56 billion or 7.08% on account of the increases in interbank loans receivable and SPURA by ₱0.57 billion and ₱1.99 billion, respectively.

AFS investments went down by ₱112.55 billion or 47.86% due to the net effect of lower investments in treasury notes and bonds (₱110.23 billion), equity securities (₱5.06 billion) and government bonds (₱10.77 billion) and higher private bonds (₱13.11 billion). Financial Assets at FVPL consist of HFT securities and derivative assets amounting to ₱36.65 billion and ₱7.67 billion, respectively, as of September 30, 2016 and ₱42.91 billion and ₱5.94 billion, respectively, as of December 31, 2015. HTM investments went up by ₱4.96 billion or 2.38% due to the higher portfolios of government and private bonds by ₱5.07 billion net of lower portfolio on treasury notes and bonds by ₱0.11 billion.

Loans and Receivables representing 56.37% and 50.39% of the Group's total assets as of September 30, 2016 and December 31, 2015, respectively, expanded by ₱77.89 billion or 8.78% driven by the strong demands from corporate and consumer segments.

Investments in Associates and a Joint Venture increased by ₱0.38 billion or 7.23% mainly due to share in the net income of associates. Other Assets decreased by ₱2.54 billion or 21.08% mainly due to the ₱4.02 billion decline in inter-office float items offset by the increase in prepaid expenses by ₱1.17 billion.

Deposit liabilities represent 83.24% and 80.77% of the consolidated total liabilities as of September 30, 2016 and December 31, 2015, respectively, wherein low cost deposits represent 63.26% and 55.75% of the Group's total deposits, respectively. The Group's deposit level, sourced mainly by the Bank, PSBank and MBCL reached ₱1.25 trillion as of September 30, 2016, a decrease of ₱8.05 billion or 0.64% from the December 31, 2015 level. Time deposits were lower by ₱106.03 billion while demand and savings deposits grew by ₱39.03 billion and ₱50.30 billion, respectively. Further, on September 19, 2016, the Bank issued LTNCD amounting to ₱8.65 billion (Note 7).

Bills Payable and SSURA representing 9.29% and 11.35% of the Group's total liabilities as of September 30, 2016 and December 31, 2015, respectively, went down by ₱37.31 billion or 21.10%. The variance came from lower balances in SSURA by ₱20.54 billion and borrowings from local and foreign banks by ₱20.31 billion offset by the increase in deposit substitutes by ₱3.54 billion.

Derivative Liabilities representing the mark-to-market of foreign currency forwards and swaps, interest rate swaps, cross currency swaps and foreign currency options with negative fair value increased by ₱2.02 billion or 48.78%.

Deferred Tax Liabilities decreased by ₱0.14 billion or 30.60%. Non-equity Non-controlling Interest went down by ₱1.34 billion or 13.49% on account of the decline in income of certain mutual fund subsidiaries of FMIC. Other Liabilities decreased by ₱10.73 billion or 20.46% primarily due to lower levels of bills purchased contra and marginal deposits offset by the higher balance of accounts payable.

Equity attributable to equity holders of the Parent Company increased by ₱7.68 billion or 3.96% due to the net effect of the net income reported during the period, the net unrealized gain recognized on AFS investments, early redemption of HT1 capital securities, declaration of cash dividends and coupon payment of HT1 capital securities.

Results of Operations

<u>Quarter Ended September 2016 vs. Quarter Ended September 2015 (Unaudited)</u>

Unaudited net income attributable to equity holders of the Parent Company reached ₱3.52 billion for the quarter ended September 30, 2016, ₱0.45 billion or 11.35% lower than the ₱3.97 billion net income reported for the same quarter of the previous year.

Interest income improved by ₱0.53 billion or 3.22% due to the net effect of higher interest income on loans and receivables by ₱1.75 billion driven by the growth on loans, and the ₱0.20 billion increase in interest income on deposits with banks and others reduced by the ₱1.42 billion lower interest income on trading and investment securities. Meanwhile, the decreases in interest expense on deposit liabilities by ₱0.39 billion and bills payable and SSURA by ₱0.11 billion accounted for the ₱0.50 billion decrease in interest expense. These resulted in a ₱1.03 billion or 8.32% improvement in net interest income.

Other operating income of ₱4.96 billion went up by ₱1.72 billion or 53.20% from ₱3.24 billion for the same quarter of the previous year. The variance was due to the increases in net trading and securities and foreign exchange gain, fee-based income and in miscellaneous income by ₱1.47 billion, ₱0.11 billion and ₱0.14 billion, respectively.

Provision for credit and impairment losses for the third quarter of 2016 was at ₱1.51 billion compared with ₱0.03 billion for the same period in 2015 or increased by ₱1.48 billion due to additional provisions recognized by certain subsidiaries. Compensation and fringe benefits increased by 30.38% from ₱3.97 billion to ₱5.18 billion. Occupancy and equipment-related expenses and miscellaneous expenses also increased by 8.58% or ₱0.06 billion and 14.72% or ₱0.71 billion, respectively. Provision for income tax was lower by ₱0.35 billion or 21.23% from ₱1.63 billion to ₱1.28 billion due to net movements in deferred income tax, corporate and final taxes.

Income attributable to non-controlling interests for the third quarter of 2016 amounted to ₱0.60 billion as against the ₱0.51 billion net income posted for the same quarter in 2015 due to higher income generated by certain majority-owned subsidiaries in 2016.

Total comprehensive income went down by ₱2.06 billion from ₱4.60 billion for the third quarter of 2015 to ₱2.54 billion for the same period in 2016, coming from the ₱1.70 billion decrease in translation adjustment and others due mainly to the increase in ownership in PSBank. As a result, total comprehensive income attributable to equity holders of the Parent Company went down to ₱3.31 billion or by ₱0.80 billion from ₱4.11 billion in 2015.

Period Ended September 2016 vs. Period Ended September 2015 (Unaudited)

Unaudited net income attributable to equity holders of the Parent Company for the period ended September 30, 2016 was recorded at ₱12.58 billion, lower by ₱0.68 billion or 5.09% from the ₱13.25 billion net income reported in the same period in 2015.

Interest income went up by ₱1.70 billion or 3.49% from ₱48.68 billion to ₱50.38 billion resulting from the higher interest income on loans and receivable by ₱2.68 billion (volume driven) and increase in interest income on deposit with banks and others by ₱0.14 billion while interest income on trading and investment securities dropped by ₱1.12 billion. On the other hand, interest expense decreased by ₱1.06 billion or 8.53% from ₱12.42 billion to ₱11.36 billion coming from lower interest expenses on deposit liabilities by ₱1.05 billion or 12.32% and on bills payable and other borrowings by ₱0.01 billion or 0.28%. These resulted in a 7.61% or ₱2.76 billion growth in net interest income.

Other operating income of ₱17.43 billion was higher by ₱3.29 billion or 23.25% compared with ₱14.14 billion for the same period in previous year. This resulted from the improvements in net trading and securities and foreign exchange gains by ₱3.12 billion or 281.70% and in fee-based income by ₱0.31 billion or 4.24%, reduced by the ₱0.15 billion or 2.62% decline in miscellaneous income.

Total operating expenses increased by ₱4.23 billion or 14.59% from ₱29.03 billion to ₱33.26 billion with higher compensation and fringe benefits by ₱2.89 billion or 25.62%, occupancy and equipment-related expenses by ₱0.12 billion or 5.83%, and miscellaneous expenses by ₱1.23 billion or 7.81%. Provision for credit and impairment losses increased by ₱2.73 billion from ₱1.98 billion to ₱4.71 billion while provision for income tax was lower by ₱0.43 billion from ₱4.65 billion to P4.22 billion on account of lower final and deferred taxes.

Income attributable to non-controlling interests went up to ₱1.67 billion from ₱1.48 billion or by ₱0.19 billion or 12.74% on account of the increases in the results of operations of majority-owned subsidiaries.

Total comprehensive income went up by ₱2.55 billion from ₱15.66 billion to ₱18.21 billion for the period ended September 30, 2015 and 2016, respectively. The variance was attributed to the ₱4.71 billion net unrealized gain recognized on AFS investments for the period ended September 30, 2016 compared with ₱0.36 billion in 2015, the ₱1.56 billion decrease in translation adjustments and others, and the ₱0.49 billion decrease in net income. Total comprehensive income attributable to equity holders of the Parent Company for the period ended September 30, 2016, went up to ₱17.84 billion or by ₱3.67 billion from ₱14.18 billion for the same period in 2015.

METROPOLITAN BANK & TRUST COMPANY
(CONSOLIDATED)

AGING OF ACCOUNTS RECEIVABLE
(IN MILLIONS)
AS OF SEPTEMBER 30, 2016

NO. OF DAYS OUTSTANDING		AMOUNT
1-90	₱	2,852
91-180		4,877
181-360		259
OVER 360		1,528
GRAND TOTAL	₱	9,516