

November 14, 2018

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

Dear Ms. Encarnacion:

We hereby submit a copy of our SEC Form 17-Q for the period ended September 30, 2018.

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

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, 2018

(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, 2018**
2. Commission Identification Number : **20573**
3. BIR Tax Identification No. : **000-477-863**
4. Exact name of issuer as specified in its charter : **METROPOLITAN BANK & TRUST COMPANY**
5. Province, country or other jurisdiction of incorporation or organization : **Metro Manila, Philippines**
6. Industry Classification Code : (SEC Use Only)
7. Address of issuer's principal office : Metrobank Plaza, Sen. Gil Puyat Avenue, Urdaneta Village, Makati City, Metro Manila
8. Issuer's telephone number, including area code : **(632) 898-8805**
9. Former name, former address and former fiscal year, if changed since last report: **N/A**
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

<u>Title of Each Class</u>	<u>No. of Shares of Common Stock Outstanding</u>	<u>Amount of Debt Outstanding (Unpaid Subscriptions)</u>
Common Shares	3,980,015,036 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, 2018:

NAME OF STOCKHOLDER	TOTAL NUMBER OF SHARES HELD	PERCENT TO TOTAL NUMBER OF SHARES ISSUED
GT Capital Holdings, Inc.	1,447,016,063	36.36%
PCD Nominee Corporation (Non-Filipino)*	1,162,088,785	29.20%
PCD Nominee Corporation (Filipino)*	713,410,756	17.92%

* 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, 2018, public ownership on the Bank was at 48.93%. Out of the total shares issued, 29.23% represents foreign ownership.

II. Pending Legal Proceedings

As of September 30, 2018, 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 is no material disclosure that have not been reported under SEC Form 17-C during the period covered by this report.


SIGNATURES

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

METROPOLITAN BANK & TRUST COMPANY

By:


MARILOU C. BARTOLOME
Senior Vice President/Controller


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

November 12, 2018

METROPOLITAN BANK & TRUST COMPANY
AND SUBSIDIARIES

Interim Condensed Consolidated Financial Statements

As of September 30, 2018 (Unaudited) and December 31, 2017 (Audited)
and for the nine months ended September 30, 2018 and 2017 (Unaudited)

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

	(Unaudited)	(Audited)
	September 30, 2018	December 31, 2017
ASSETS		
Cash and Other Cash Items	₱ 24,315	₱ 27,631
Due from Bangko Sentral ng Pilipinas	234,518	261,959
Due from Other Banks	27,711	31,291
Interbank Loans Receivable and Securities Purchased		
Under Resale Agreements	28,522	45,475
Investment Securities		
At Fair Value Through Profit or Loss (FVTPL)	52,467	43,887
Fair Value Through Other Comprehensive Income (FVOCI)	101,951	-
Available-for-Sale (AFS)	-	343,910
Hold-to-Collect (HTC)	265,349	-
Loans and Receivables	1,326,134	1,265,469
Property and Equipment	22,125	22,362
Investments in Associates and a Joint Venture	6,262	5,764
Goodwill	5,200	5,200
Investment Properties	7,635	7,717
Deferred Tax Assets	9,976	9,161
Other Assets	14,888	10,466
	₱ 2,127,053	₱ 2,080,292
LIABILITIES AND EQUITY		
LIABILITIES		
Deposit Liabilities		
Demand	₱ 345,526	₱ 344,708
Savings	609,430	605,508
Time	552,255	547,721
Long-Term Negotiable Certificates	35,110	30,025
	1,542,321	1,527,962
Bills Payable and Securities Sold Under Repurchase Agreements	196,439	227,835
Derivative Liabilities	7,579	5,352
Manager's Checks and Demand Drafts Outstanding	8,166	8,054
Income Taxes Payable	2,099	3,381
Accrued Interest and Other Expenses	8,730	6,973
Bonds Payable	2,914	2,910
Subordinated Debts	26,608	26,580
Deferred Tax Liabilities	346	277
Non-equity Non-controlling Interest	6,878	8,002
Other Liabilities	39,882	58,876
	1,841,962	1,876,202
EQUITY		
Equity Attributable to Equity Holders of the Parent Company	277,463	201,955
Other Equity Reserves	-	(7,400)
Non-controlling Interest	7,628	9,535
	285,091	204,090
	₱ 2,127,053	₱ 2,080,292

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

	(Unaudited)			
	Quarter Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
INTEREST INCOME ON				
Loans and receivables	₱ 20,727	₱ 16,578	₱ 58,133	₱ 47,269
Trading and investment securities	3,980	3,831	11,772	11,280
Deposits with banks and others	160	193	407	541
	24,867	20,602	70,312	59,090
INTEREST AND FINANCE CHARGES				
Deposit liabilities	4,933	3,313	13,013	9,170
Bills payable and securities sold under repurchase agreements, bonds payable, subordinated debt and others	2,256	1,594	6,300	4,606
	7,189	4,907	19,313	13,776
NET INTEREST INCOME	17,678	15,695	50,999	45,314
PROVISION FOR CREDIT AND IMPAIRMENT LOSSES	1,741	3,409	5,209	5,912
NET INTEREST INCOME AFTER PROVISION FOR CREDIT AND IMPAIRMENT LOSSES	15,937	12,286	45,790	39,402
OTHER INCOME				
Service charges, fees and commissions	3,067	2,943	9,135	8,126
Trading and securities and foreign exchange gain - net	696	1,306	2,102	3,056
Miscellaneous	1,835	2,016	6,153	5,466
	5,598	6,265	17,390	16,648
OTHER EXPENSES				
Compensation and fringe benefits	5,578	4,921	16,029	14,369
Occupancy and equipment-related cost	830	733	2,384	2,193
Miscellaneous	6,916	6,104	20,875	18,216
	13,324	11,758	39,288	34,778
INCOME BEFORE INCOME TAX	8,211	6,793	23,892	21,272
PROVISION FOR INCOME TAX	1,996	2,273	5,751	5,907
NET INCOME	₱ 6,215	₱ 4,520	₱ 18,141	₱ 15,365
Attributable to :				
Equity holders of the Parent Company	₱ 5,744	₱ 3,695	₱ 16,750	₱ 13,191
Non-controlling interest	471	825	1,391	2,174
	₱ 6,215	₱ 4,520	₱ 18,141	₱ 15,365
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 13 of Annex 5)			₱ 4.52	₱ 4.07*

* Restated to show the effect of stock rights in 2018

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In millions)

	Quarter Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
NET INCOME	₱ 6,215	₱ 4,520	₱ 18,141	₱ 15,365
OTHER COMPREHENSIVE INCOME				
Items that will not be reclassified to profit or loss:				
Change in remeasurement gain (loss) on retirement plan	65	(1)	64	(95)
Items that may be reclassified to profit or loss:				
Change in net unrealized loss on FVOCI	(1,509)	-	(3,198)	-
Change in net unrealized gain on AFS	-	802	-	3,310
Change in other comprehensive income (loss) of associates	57	(12)	(44)	8
Translation adjustment and others	(7,754)	345	(7,167)	689
Total items that may be reclassified to profit or loss	(9,206)	1,135	(10,409)	4,007
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD,				
NET OF TAX	(9,141)	1,134	(10,345)	3,912
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	(₱ 2,926)	₱ 5,654	₱ 7,796	₱ 19,277
Total Comprehensive Income attributable to :				
Equity holders of the Parent Company	(₱ 571)	₱ 4,774	₱ 9,073	₱ 17,141
Non-controlling interest	(2,355)	880	(1,277)	2,136
	(₱ 2,926)	₱ 5,654	₱ 7,796	₱ 19,277

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

As of September 30, 2018 and 2017

(In Million Pesos, Except Par Value and Number of Shares)

(Unaudited)

	Common Stock*	Capital Paid in Excess of Par Value	Surplus	Surplus Reserves	Treasury Stocks	Net Unrealized Loss on FVOCI/AFS Investments	Equity in Other Comprehensive Income of Associates	Remeasurement Losses on Retirement Plan	Translation Adjustment and Others	TOTAL	Other Equity Reserve	Non-Controlling Interest	Total Equity
Balance, January 1, 2018, as previously reported	₱63,603	₱42,139	₱116,786	₱1,810	(₱46)	(₱15,804)	₱22	(₱4,025)	(₱2,530)	₱201,955	(₱7,400)	₱9,535	₱204,090
Effect of PFRS 9 adoption	-	-	(4,985)	-	-	15,471	-	-	-	10,486	-	(141)	10,345
Balance, January 1, 2018, as restated	63,603	42,139	111,801	1,810	(46)	(333)	22	(4,025)	(2,530)	212,441	(7,400)	9,394	214,435
Total comprehensive income (loss) for the period	-	-	16,750	-	-	(3,082)	(44)	1	(4,552)	9,073	-	(1,277)	7,796
Transfer to surplus reserves	-	-	(101)	101	-	-	-	-	-	-	-	-	-
Cash dividends	-	-	(3,180)	-	-	-	-	-	-	(3,180)	-	(489)	(3,669)
Issuance of shares of stock	15,997	43,111	-	-	-	-	-	-	-	59,108	-	-	59,108
Movement on equity securities classified as FVOCI - net	-	-	40	-	-	-	-	-	-	40	-	-	40
Disposal of Parent Company shares held by mutual fund subsidiary	-	-	-	-	10	-	-	-	-	10	-	-	10
Parent Company shares held by a mutual fund subsidiary	-	-	-	-	(29)	-	-	-	-	(29)	-	-	(29)
Settlement of non-controlling interest acquired	-	-	-	-	-	-	-	-	-	-	7,400	-	7,400
Balance, September 30, 2018	₱79,600	₱85,250	₱125,310	₱1,911	(₱65)	(₱3,415)	(₱22)	(₱4,024)	(₱7,082)	₱277,463	-	₱7,628	₱285,091
Balance, January 1, 2017	₱63,603	₱42,139	₱101,900	₱1,653	(₱485)	(₱10,115)	₱54	(₱4,007)	₱1,260	₱196,002	-	₱9,551	₱205,553
Total comprehensive income for the period	-	-	13,191	-	-	3,224	8	(105)	823	17,141	-	2,136	19,277
Transfer to surplus reserves	-	-	(99)	99	-	-	-	-	-	-	-	-	-
Cash dividends	-	-	(3,180)	-	-	-	-	-	-	(3,180)	-	(116)	(3,296)
Disposal of Parent Company shares held by mutual fund subsidiaries	-	-	-	-	452	-	-	-	-	452	-	-	452
Parent Company shares held by mutual fund subsidiary	-	-	-	-	(8)	-	-	-	-	(8)	-	-	(8)
Balance, September 30, 2017	₱63,603	₱42,139	₱111,812	₱1,752	(₱41)	(₱6,891)	₱62	(₱4,112)	₱2,083	₱210,407	-	₱11,571	₱221,978

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

* **COMMON STOCK** at ₱20 par value

Authorized - 4,000,000,000 shares as of September 30, 2018 and 2017, respectively

Issued - 3,980,015,036 and 3,180,172,786 shares as of September 30, 2018 and 2017, respectively

PREFERRED STOCK at ₱20 par value

Authorized - 1,000,000,000 shares

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

	(Unaudited)	
	For the Nine Months Ended September 30	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Income before income tax	P 23,892	P 21,272
Adjustments for :		
Provision for credit and impairment losses	5,209	5,912
Trading and securities loss on FVOCI investments	97	-
Trading and securities gain on AFS investments	-	(564)
Depreciation and amortization	2,689	2,637
Share in net income of associates and a joint venture	(569)	(476)
Profits from assets sold	(964)	(631)
Net unrealized market valuation loss (gain) on financial assets at FVTPL	(4,544)	562
Gain on foreclosure of real estate and chattel	(536)	(775)
Amortization of software cost	376	373
Accretion of discount on subordinated debt and bonds payable	32	55
Dividends	(130)	(156)
Changes in operating assets and liabilities:		
Increase in the amounts of :		
FVTPL	(1,962)	(28,577)
Loans and receivables	(71,885)	(103,840)
Other assets	(5,587)	(333)
Increase (decrease) in the amounts of:		
Deposit liabilities	14,359	84,241
Bills payable-deposit liabilities	(12,673)	10,537
Manager's checks and demand drafts outstanding	112	302
Accrued interest and other expenses	1,757	(576)
Non-equity non-controlling interest	(1,124)	127
Other liabilities	(11,377)	(8,975)
Net cash used in operations	(62,828)	(18,885)
Dividends received	130	156
Income taxes paid	(6,971)	(5,672)
Net cash used in operating activities	(69,669)	(24,401)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
FVOCI investments	(95,872)	-
AFS investments	-	(104,553)
HTC investments	(17,579)	-
Property and equipment	(2,339)	(2,849)
Cash dividends from investees	10	6
Proceeds from sale of:		
FVOCI investments	88,150	-
AFS investments	-	85,609
Property and equipment	522	87
Investment in associates	-	190
Investment properties	1,658	2,122
Liquidating dividends from an associate	180	-
Increase in interbank loans receivable and securities purchased under resale agreements	2,546	(806)
Proceeds from maturity of HTC investments	6,952	-
Net cash used in investing activities	(15,772)	(20,194)
CASH FLOWS FROM FINANCING ACTIVITIES		
Settlements of bills payable	(3,589,870)	(2,093,665)
Availments of bills payable and securities sold under repurchase agreement	3,571,147	2,113,320
Net proceeds from issuance of shares of stock	59,108	-
Cash dividends paid	(3,669)	(3,296)
Proceeds from disposal of Parent Company shares by mutual fund subsidiaries	10	452
Proceeds from disposal of bonds payable	-	260
Acquisition of Parent Company shares by a mutual fund subsidiary	(29)	(8)
Settlements of bonds payable	-	(5,000)
Repayments of subordinated debts	-	(3,000)
Net cash provided by financing activities	36,697	9,063
NET DECREASE IN CASH AND CASH EQUIVALENTS	(48,744)	(35,532)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		
Cash and other cash items	27,631	26,553
Due from Bangko Sentral ng Pilipinas	261,959	238,806
Due from other banks	31,291	44,315
Interbank loans receivable and securities purchased under resale agreements	32,736	75,868
	353,617	385,542
CASH AND CASH EQUIVALENTS AT END OF PERIOD		
Cash and other cash items	24,315	21,245
Due from Bangko Sentral ng Pilipinas	234,518	264,587
Due from other banks	27,711	37,028
Interbank loans receivable and securities purchased under resale agreements	18,329	27,150
	P 304,873	P 350,010

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 over 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, 2017.

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) or (FVTPL) and available-for-sale (AFS) investments or fair value through other comprehensive income (FVOCI) that have been measured at fair value.

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

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

Statement of Compliance

The condensed consolidated financial statements have been prepared in compliance with the Philippine Financial Reporting Standards (PFRS).

Presentation of Financial Statements

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

Basis of Consolidation

The 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, 2018:

Subsidiary	Effective Percentage of Ownership	Country of Incorporation	Functional Currency
Financial Markets:			
Domestic:			
First Metro Investment Corporation (FMIC) and Subsidiaries	99.25	Philippines	PHP
Philippine Savings Bank (PSBank)	82.68	Philippines	PHP
Metrobank Card Corporation (A Finance Company) (MCC)	100.00	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. (MR USA)	100.00	United States of America (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 August 17, 2017, the New York State Department of Financial Services has approved the merger of MR USA and MRCI with MR USA being the surviving entity. On December 22, 2017, MR USA and MRCI have executed a Certificate of Merger and an Agreement and Plan of Merger. Said certification and agreement were filed with the Secretary of State's Offices in Delaware and in California on December 22 and December 27, 2017, respectively. Both Secretary of State's Offices has accepted and annotated such certification/agreement of merger.

On October 18, 2017, the Parent Company's BOD approved and the Parent Company has entered into an agreement with its JV partner ANZ Funds Pty. Ltd. (ANZ) to:

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

Notice by the end of the Dividend Exercise Period, the Put Option is deemed exercised by ANZ on the end of the Dividend Exercise Period.

On December 28, 2017, the BSP approved the acquisition of 40% of MCC. With this BSP approval, the purchase of the 20% stake in MCC is deemed completed for accounting purposes and in the Parent Company financial statements as of December 31, 2017, the Parent Company recognized the increase in its investment in MCC for ₱7.4 billion and the related liability. This 20% acquisition was completed on January 8, 2018.

In the 2017 parent company financial statements, the Put Option on the remaining 20% interest in MCC is a derivative with changes in value being recognized in profit or loss. As of December 31, 2017, the fair value of the Put Option is not material to the financial statements. In the consolidated financial statements, the Put Option on the 20% remaining interest in MCC is an obligation for the Group to purchase their own equity instruments for cash which gives rise to a financial liability and is reclassified from equity even if the obligation to acquire is conditional on ANZ exercising a right to sell. As of December 31, 2017, the Group recognized the consideration for the remaining 20% interest in MCC amounting to ₱7.4 billion as a liability and charged it to "Other equity reserves" under Equity in the consolidated financial statements. The acquisition of the remaining 20% interest in MCC was completed on September 4, 2018.

In the consolidated financial statements as of September 30, 2018 and December 31, 2017, the Group recognized equity reserves (included in "Translation adjustment and others") for the difference between the acquisition price and the acquired NCI of ₱5.3 billion and ₱2.7 billion, respectively.

On April 17, 2018, Metrobank Bahamas has advised The Central Bank of The Bahamas (CBTB) of its intention to discontinue its operations effective June 30, 2018.

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 included as part of "Translation adjustment and others" and attributed to the owners of the Parent Company.

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

- 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' gain (losses) previously recognized in other comprehensive income (OCI) to profit or loss or surplus, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

Entity with significant influence over the Group

GT Capital Holdings, Inc. (GT Capital) holds 36.36% and 36.09% of the total shares of the Bank as of September 30, 2018 and December 31, 2017, respectively.

Investments in Associates

On October 7, 2016, the BOD and stockholders of SMBC Metro Investment Corporation (SMBC Metro), an associate, in separate meetings approved the shortening of its corporate term until December 31, 2017 through an amendment of its Articles of Incorporation (AOI). On the same date, the BOD approved the closing of its business operations effective December 31, 2016. The amended AOI of SMBC Metro and its application for withdrawal of its secondary license as an Investment House was approved by the SEC on November 25, 2016 and January 31, 2017, respectively. On March 2, 2018, the Board of Liquidating Trustees of SMBC Metro declared the liquidation of its entire paid-up capital to its stockholders on record as of December 31, 2017 due to the expiration of its corporate term on the same date. On March 28, 2018, the Bank received a total amount of ₱180 million representing partial liquidation (Note 11).

Lepanto Consolidated Mining Company (LCMC), an associate of FMIC, disclosed to the PSE that on February 14, 2017, LCMC received a suspension order from the Department of Energy and Natural Resources (DENR) Secretary on its mining operation under Mineral Production Sharing Agreement No. 001-90-CAR and is given not more than three months from receipt to implement the appropriate mitigating measures. On the same date it received the suspension order, LCMC immediately filed a Notice of Appeal with the Office of the President wherein pursuant to the Administrative Order No. 22, Series of 2011, such filing will stay the execution of the Order, allowing the Company to continue its operations. A letter from the Office of the President dated April 7, 2017 confirmed, that in view of the timely filing of LCMC's Notice of Appeal, the execution of the suspension order dated February 8, 2017 is deemed automatically stayed.

On July 17, 2017, the BOD of LCMC approved to offer its stockholders the pre-emptive right to subscribe to one share for every 4.685 shares held. FMIC fully subscribed to such stock rights offer and still maintained its 13.45% ownership in LCMC. As of September 30, 2018 and December 31, 2017, LCMC-A shares are trading at ₱0.111 per share and ₱0.151 per share, respectively, while LCMC-B shares are trading at ₱0.111 per share and ₱0.153 per share, respectively.

Investment in a Joint Venture

On July 27, 2017, the BOD of PSBank has approved the sale of PSBank's 10% ownership in Sumisho Motor Finance Corporation (SMFC) to GT Capital for ₱189.96 million. This transaction has been presented and vetted by the Related Party Transaction Committee (RPTC) of PSBank. The amount was based on an independent valuation report, which was subjected to a third party fairness opinion. The divestment of SMFC shares was in line with PSBank's capital planning initiatives under Basel III.

Other Equity Reserves

Other equity reserves represents the charge to equity for an obligation of the Group to purchase their own equity instruments for cash which gives rise to a financial liability even if the obligation to purchase is conditional on the counterparty exercising a right to sell.

Non-Controlling Interest

Non-controlling interest represents the portion of profit or loss and the net assets of the fund 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.

Non-equity Non-controlling Interest

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

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

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, 2017 except those discussed under PFRS 9 adoption section.

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 FVTPL, the initial measurement of financial instruments includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVTPL, HTC investments, FVOCI investments, and loans and receivables while financial liabilities are classified as financial liabilities at FVTPL and financial liabilities carried at amortized cost. The classification is based on the contractual cash flow characteristics of the assets and the business model for managing those assets.

'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 FVTPL

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

Financial assets or financial liabilities at fair value through profit or loss

Financial assets or financial liabilities at FVTPL 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(loss) - 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.

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 'FVTPL' or FVOCI/AFS investments.

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 (reversal of) credit and impairment losses' in the statement of income.

Other financial liabilities

Issued financial instruments or their components, which are not designated at FVTPL, 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 FVTPL, are subsequently measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

PFRS 9 Adoption

Effective January 1, 2018, the Group adopted PFRS 9 which reflects all phases of the financial instruments and replaces PAS 39, Financial Instruments: Recognition and Measurement, and all previous versions of PFRS 9. This covers the following changes in accounting policies in 2018:

a. Classification and Measurement

The Group classifies debt instruments based on the contractual cash flow characteristics of the assets and the business model for managing those assets. These factors determine whether the financial assets are measured at amortized cost or hold-to-collect (HTC), FVOCI with recycling to profit or loss for securities belonging to portfolios managed under a "hold-to-collect-and-sell" business model, or FVTPL.

b. Impairment

The Group applies expected credit losses (ECL) for all loans and other debt financial assets not classified as at FVTPL, together with loan commitments and financial guarantee contracts.

ECL model represents credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. The objective is to record lifetime losses on all financial instruments which have experienced a significant increase in credit risk (SICR) since their initial recognition. ECL allowances is measured at amounts equal to either (i) 12-month ECL or (ii) lifetime ECL for those financial instruments which have experienced a SICR since initial recognition (General Approach). The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime ECL are credit losses that results from all possible default events over the expected life of a financial instrument.

Staging assessment

For non-credit-impaired financial instruments:

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

For credit-impaired financial instruments:

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

Definition of “default” and “cure”

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

Credit risk at initial recognition

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

Significant increase in credit risk

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

Modification

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

ECL parameters and methodologies

ECL is a function of the probability of default (PD), exposure at default (EAD) and loss given default (LGD), with the timing of the loss also considered, and is estimated by incorporating forward-looking economic information and through the use of experienced credit judgment. The PD represents the likelihood that a credit exposure will not be repaid and will go into default in either a 12-month horizon for Stage 1 or lifetime horizon for Stage 2. The PD for each individual instrument is modelled based on historic data and is estimated based on current market conditions and reasonable and supportable information about future economic conditions. The Group segmented its credit exposures based on homogenous risk characteristics and developed a corresponding PD methodology for each portfolio. The PD methodology for each relevant portfolio is determined based on the underlying nature or characteristic

of the portfolio, behavior of the accounts and materiality of the segment as compared to the total portfolio.

EAD is modelled on historic data and represents an estimate of the outstanding amount of credit exposure at the time a default may occur. For off-balance sheet and undrawn amounts, EAD includes an estimate of any further amounts to be drawn at the time of default.

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

Forward-looking information

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

c. Hedge Accounting

The Group aligns the accounting for hedge relationships more closely with an entity's risk management activities and permit hedge accounting to be applied more broadly to a greater variety of hedging instruments and risks eligible for hedge accounting.

As at January 1, 2018, the change in classification and measurement of financial instruments (specifically, recognition of HTC investment) and impairment resulted in decrease in Surplus by ₱5.0 billion and reversal of Net Unrealized Loss of ₱15.5 billion. The Group applied PFRS 9 retrospectively but not on comparative basis which is in compliance with the standard.

The Group has applied its existing governance framework to ensure that appropriate controls and validations are in place over key processes and judgments in implementing PFRS 9. The Group is continuously refining its internal controls and processes which are relevant in the proper implementation of the PFRS 9.

The following are the significant accounting policies on initial recognition and subsequent measurement of financial instruments applied by the Group in the December 31, 2017 financial statements:

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.

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 'Changes in net unrealized loss 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 (loss) - 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 (reversal of) 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 or reclassifies other than an insignificant amount of *HTM* investments, the entire category would be tainted and reclassified as AFS investments and the Group would be prohibited from classifying any financial assets under *HTM* category during the current year and two succeeding years thereafter 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 (reversal of) credit and impairment losses'. The effects of revaluation on foreign currency-denominated *HTM* investments are recognized in the statement of income.

Impairment of Financial Assets

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

Financial assets carried at amortized cost

For financial assets carried at amortized cost such as loans and receivables, due from other banks, and *HTM* investments, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not

individually significant. For individually assessed financial assets, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

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

Derecognition of Financial Assets and Liabilities

Financial assets

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

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

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

provision on the transferred asset, the extent of the Group's continuing involvement is measured in the same way as that which results from non-cash settled options.

Financial liabilities

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

Repurchase and reverse repurchase agreements

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

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

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.

Effective beginning on or after January 1, 2019

New Standard

PFRS 16, Leases

Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, *Leases*. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements. The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value. Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs. The Group is currently assessing the impact of adopting PFRS 16.

Amendments

Amendments to PFRS 9, Prepayment Features with Negative Compensation

The amendments to PFRS 9 allow debt instruments with negative compensation prepayment features to be measured at amortized cost or fair value through other comprehensive income. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

Amendments to PAS 28, Long-term Interests in Associates and Joint Ventures

The amendments to PAS 28 clarify that entities should account for long-term interests in an associate or joint venture to which the equity method is not applied using PFRS 9. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

Subject to Board of Accountancy's Approval

PAS 19, Plan Amendment, Curtailment or Settlement

The amendment requires the current service cost and the net interest for the period after the remeasurement be determined using the assumptions used for the remeasurement if a plan amendment, curtailment or settlement occurs.

Annual Improvements to PFRS 2015 to 2017 Cycle

PFRS 3 and PFRS 11 - Previously held interest in a joint operation

The amendments clarify when an entity remeasures previously held interests in a business that is classified as a joint operation. If the entity obtains control, it remeasures previously held interests in that business. If the entity only obtains joint control, it does not remeasure previously held interests in that business.

PAS 12 - Income tax consequences of payments on financial instruments classified as equity

The amendments clarify that the requirement to recognize the income tax consequences of dividends where the transactions or events that generated distributable profits are recognized apply to all income tax consequences of dividends.

PAS 23 - Borrowing costs eligible for capitalization

The amendments clarify that a specific borrowing that remains outstanding after the related asset is ready for its intended use becomes part of the general borrowings when calculating the capitalization rate on general borrowings.

Philippine Interpretation IFRIC 23, Uncertainty over Income Tax Treatments

Philippine Interpretation IFRIC 23 addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

The Group is currently assessing the impact of adopting this interpretation.

Effective beginning on or after January 1, 2021 (subject to Board of Accountancy's Approval)

PFRS 17, Insurance Contracts

PFRS 17 provides updated information about the obligation, risks and performance of insurance contracts, increases transparency in financial information reported by insurance companies, and introduces consistent accounting for all insurance contracts based on a current measurement model. The standard is effective for annual periods beginning on or after January 1, 2021. Early application is permitted but only if the entity also applies PFRS 9 *Financial Instruments* and PFRS 15 *Revenue from Contracts with Customers*.

Deferred effectivity

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

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture. On January 13, 2016, the FRSC postponed the original effective date of January 1, 2016 of the said amendments until the IASB has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

3. **Financial Risk Management**

Compared with December 31, 2017, there have been no changes in the financial risk exposures that materially affect the financial statements of the Group as of September 30, 2018. 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 2017 audited financial statements.

Risk management framework

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

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

Credit Risk

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

Liquidity Risk

Liquidity risk is defined as the current and prospective risk to earnings or capital arising from 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.

In the Parent Company, the 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 daily basis to estimate the Bank's short- and long-term funding needs under business-as-usual conditions. The expected cash flows of the Bank's assets, liabilities, and derivatives are aggregated into maturity groupings, and the net cash flow from each grouping determines the liquidity gaps. On a quarterly basis, scenario analysis is performed to determine the impact of stress events on the MCO report.

The Group's financial institution subsidiaries (excluding insurance companies) prepare their respective MCO reports. These are reported to the Parent Company's ROC monthly.

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.

Similarly, the Subsidiaries of the Parent Company independently quantify and manage their respective market risk exposures. Each institution has its respective risk management system and processes in place.

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 with a group-wide market risk profile perspective such as Group Trading VaR and EaR.

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 Parent Company measures and monitors the VaR daily and this value is compared against the set VaR limit.

VaR methodology assumptions and parameters

The Parent Company is using 260-day Historical Simulation Method to compute the VaR. This method assumes that market rates volatility in the future will follow the same movement that occurred within the specified historical period. In calculating VaR, the Parent Company uses a 99.00% confidence level and a one-day holding period. This means that, statistically, within a one-day horizon, the trading losses will exceed VaR in 1 out of 100 trading days.

Like any other model, the Historical Simulation Method has its own limitations. To wit, it cannot predict volatility levels which did not happen in the specified historical period. The validity of the VaR model is

verified through a daily back testing analysis, which examines how frequently both actual and hypothetical daily losses exceed VaR. The result of the daily back testing analysis is reported to the ALCO and ROC monthly.

Each subsidiary performs daily mark-to-market valuation and VaR calculations for their trading book exposures. Risk exposures are bounded by a system of risk limits and monitoring tools to effectively manage these risks.

The limitations of the VaR methodology are recognized by supplementing VaR limits with other position and sensitivity limit structures and by doing stress testing analysis. These processes address potential product concentration risks, monitor portfolio vulnerability and give the management an early advice if an actual loss goes beyond what is deemed to be tolerable to the bank, even before the VaR limit is hit.

Stress testing is performed by the Parent Company on a quarterly basis while enterprise-wide stress testing is conducted on an annual basis. The stress testing results of the Parent Company are reported to the ALCO and subsequently to the ROC and the BOD.

Market Risk - Banking Book

The Group has in place their risk management system and processes to independently quantify and manage their respective market risks in the banking book.

Movements in interest rates impact the Bank's earnings as interest earned and paid on rate-sensitive assets and liabilities are altered. To quantify this, the Parent Company uses the Earnings-at-Risk (EaR) which measures the possible decline on the Bank's net interest income as a result of adverse interest rates movement. It is a tool that is used to evaluate the sensitivity of the accrual portfolio to changes in interest rates in the adverse direction over the next twelve (12) months. The Parent Company generates and monitors its EaR exposure on a daily basis. On the other hand, the subsidiaries generate their respective EaR reports at least on a monthly basis.

Similarly, market risks also affect the Banking Book's economic value as these alter the present value and timing of future cash flows. To capture this, the Parent Company computes for the Banking Book Value-at-Risk (VaR) which measures the potential decline in the Bank's economic value as a result of adverse movement in interest rates.

To supplement EaR and the Banking Book VaR, the Parent Company performs Scenario Analysis on Net Interest Income (NII) and Net Unrealized Gain/Loss (NUGL) using multiple sensitivity shocks and scenarios, following Basel Committee on Banking Supervision's standards on interest rate risk in the banking book, as well as historical events.

EaR methodology assumptions and parameter

EaR calculation begins with the repricing gap where the Bank distributes rate-sensitive assets, liabilities and off-balance sheet positions into predefined tenor buckets according to time remaining to their maturity (if fixed rate) or repricing (if floating rate). Items lacking definitive repricing schedule (e.g., savings accounts) and items with actual maturities that could vary from contractual maturities (e.g., loans, deposits, securities with embedded option) are assigned to repricing time bands based on statistical analysis of historical patterns, past experience and/or expert judgement.

Changes in NII are computed by subjecting the repricing gap to various interest rate scenarios using the Historical Simulation (HS) approach on correlated interest rate movements. EaR is then derived as the 99th percentile biggest drop in NII.

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

Financial Instruments

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

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

Trading and investment securities - Fair values of debt securities (financial assets at FVTPL, FVOCI and HTC 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, except for those financial assets and financial liabilities whose carrying amount is a reasonable approximation of fair value.

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

	September 30, 2018 (Unaudited)				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets Measured at Fair Value					
Financial Assets					
Financial assets at FVTPL					
FVTPL investments					
Debt securities					
Government	₱8,121	₱8,121	₱-	₱-	₱8,121
Private	10,536	10,225	311	-	10,536
Treasury bills	2,543	2,543	-	-	2,543
Treasury notes and bonds	11,035	11,035	-	-	11,035
BSP	2	2	-	-	2
	32,237	31,926	311	-	32,237
Equity securities					
Quoted	7,146	7,146	-	-	7,146
Derivative assets					
Currency forwards	1,498	-	1,498	-	1,498
Interest rate swaps	1,908	-	1,908	-	1,908
Cross currency swaps	9,562	-	9,562	-	9,562
Put option	111	-	111	-	111
Call option	5	-	5	-	5
	13,084	-	13,084	-	13,084
	52,467	39,072	13,395	-	52,467
FVOCI investments					
Debt securities					
Government	26,687	26,282	405	-	26,687
Private	40,311	34,917	5,394	-	40,311
Treasury notes and bonds	33,875	33,875	-	-	33,875
	100,873	95,074	5,799	-	100,873
Equity securities	1,078	896	182	-	1,078
	101,951	95,970	5,981	-	101,951
	₱154,418	₱135,042	₱19,376	₱-	₱154,418
Assets for which Fair Values are Disclosed					
Financial Assets					
HTC investments					
Government	₱18,743	₱17,731	₱-	₱-	₱17,731
Private	6,038	5,267	492	-	5,759
Treasury notes and bonds	240,568	202,420	-	-	202,420
	265,349	225,418	492	-	225,910
Loans and receivables - net					
Receivables from customers					
Commercial loans	940,192	-	-	927,755	927,755
Residential mortgage loans	104,271	-	-	104,244	104,244
Auto loans	117,534	-	-	130,484	130,484
Trade	62,917	-	-	62,917	62,917
Others	83,720	-	-	82,684	82,684
	1,308,634	-	-	1,308,084	1,308,084
Unquoted debt securities	6	-	-	6	6
Sales contract receivable	56	-	-	89	89
	1,308,696	-	-	1,308,179	1,308,179
Other assets					
Residual value of leased asset:	1,118	-	-	1,013	1,013
Miscellaneous	187	-	-	259	259
	1,305	-	-	1,272	1,272
	1,575,350	225,418	492	1,309,451	1,535,361
Non-financial assets					
Investment properties	7,635	-	-	11,842	11,842
	₱1,582,985	₱225,418	₱492	₱1,321,293	₱1,547,203

September 30, 2018 (Unaudited)					
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Liabilities Measured at Fair Value					
Financial Liabilities					
Derivative liabilities					
Currency forwards	₱1,886	₱-	₱1,886	₱-	₱1,886
Interest rate swaps	1,147	-	1,147	-	1,147
Cross currency swaps	4,518	-	4,518	-	4,518
Put option	8	-	8	-	8
Call option	20	-	20	-	20
	₱7,579	₱-	₱7,579	₱-	₱7,579
Liabilities for which Fair Values are Disclosed					
Financial Liabilities					
Deposit liabilities					
Time	₱552,255	₱-	₱-	₱556,700	₱556,700
LTNCD	35,110	24,423	-	7,608	32,031
	587,365	24,423	-	564,308	588,731
Bills payable and SSURA	196,439	-	-	192,998	192,998
Bonds payable	2,914	-	-	2,939	2,939
Subordinated debts	26,608	22,125	-	3,308	25,433
Other liabilities					
Deposits on lease contracts	1,583	-	-	1,343	1,343
	₱814,909	₱46,548	₱-	₱764,896	₱811,444

December 31, 2017 (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	₱5,310	₱5,310	₱-	₱-	₱5,310
Private	9,560	8,884	676	-	9,560
Treasury bills	1,401	1,401	-	-	1,401
Treasury notes and bonds	13,383	13,383	-	-	13,383
BSP	2	2	-	-	2
	29,656	28,980	676	-	29,656
Equity securities					
Quoted	7,862	7,862	-	-	7,862
Derivative assets					
Currency forwards	1,671	-	1,671	-	1,671
Interest rate swaps	635	-	635	-	635
Cross currency swaps	3,889	-	3,889	-	3,889
Put option	161	-	161	-	161
Call option	12	-	12	-	12
Embedded derivatives in non-financial contract	1	-	1	-	1
	6,369	-	6,369	-	6,369
	43,887	36,842	7,045	-	43,887

(forward)

December 31, 2017 (Audited)					
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
AFS investments					
Debt securities					
Government	₱38,812	₱34,659	₱4,153	₱-	₱38,812
Private	53,754	47,641	6,113	-	53,754
Treasury bills	115	115	-	-	115
Treasury notes and bonds	249,431	249,431	-	-	249,431
	342,112	331,846	10,266	-	342,112
Equity Securities					
Quoted	1,625	1,625	-	-	1,625
	343,736	333,471	10,265	-	343,736
	₱387,624	₱370,313	₱17,311	₱-	₱387,624
Assets for which Fair Values are Disclosed					
Financial Assets					
Loans and receivables-net					
Receivables from customers					
Commercial loans	₱905,640	₱-	₱-	₱894,297	₱894,297
Residential mortgage loans	98,855	-	-	99,183	99,183
Auto loans	116,207	-	-	140,184	140,184
Trade loans	40,874	-	-	40,874	40,874
Others	84,943	-	-	84,486	84,486
	1,246,519	-	-	1,259,024	1,259,024
Unquoted debt securities	866	-	-	915	915
Sales contract receivable	91	-	-	125	125
	1,247,476	-	-	1,260,064	1,260,064
Other assets					
Residual value of leased assets	1,054	-	-	997	997
Miscellaneous	180	-	-	289	289
	1,234	-	-	1,286	1,286
	1,248,710	-	-	1,261,350	1,261,350
Non-financial assets					
Investment properties	7,717	-	-	12,185	12,185
	₱1,256,427	₱-	₱-	₱1,273,535	₱1,273,535
Liabilities Measured at Fair Value					
Financial Liabilities					
Financial liabilities at FVPL					
Derivative liabilities					
Currency forwards	₱2,067	₱-	₱2,067	₱-	₱2,067
Bond forwards	-	-	-	-	-
Interest rate swaps	501	-	501	-	501
Cross currency swaps	2,759	-	2,759	-	2,759
Put option	1	-	1	-	1
Call option	24	-	24	-	24
Non-equity non-controlling interest	8,002	-	8,002	-	8,002
	₱13,354	₱-	₱13,354	₱-	₱13,354
Liabilities for which Fair Values are Disclosed					
Financial Liabilities					
Deposit liabilities					
Time	₱547,721	₱-	₱-	₱547,991	₱547,991
LTNCD	30,025	28,740	-	-	28,740
Bills payable and SSURA	227,835	-	-	227,276	227,276
Bonds payable	2,910	-	-	2,992	2,992
Subordinated debts	26,580	22,254	-	3,557	25,811
Other liabilities					
Deposits on lease contract	1,472	-	-	1,302	1,302
	₱836,543	₱50,994	₱-	₱783,118	₱834,112

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 are either 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 are either 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 interest income and interest 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 may vary from period to period and 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, 2018 and 2017.

	Consumer Banking	Corporate Banking	Investment Banking	Treasury	Branch Banking	Others	Total
Period Ended September 30, 2018							
(Unaudited)							
Results of Operations							
Net interest income (expense)							
Third party	₱13,296	₱28,579	₱-	₱7,401	(₱429)	₱2,152	₱50,999
Intersegment	(351)	(21,413)	-	305	27,996	(6,537)	-
Net interest income after intersegment transaction	12,945	7,166	-	7,706	27,567	(4,385)	50,999
Non-interest income	4,978	869	329	1,342	3,493	5,810	16,821
Revenue - net of interest expense	17,923	8,035	329	9,048	31,060	1,425	67,820
Non-interest expense	10,774	2,998	24	1,649	16,972	12,080	44,497
Income (loss) before share in net income of associates and a joint venture	7,149	5,037	305	7,399	14,088	(10,655)	23,323
Share in net income of associates and a joint venture	-	55	-	-	-	514	569
Provision for income tax	(1,596)	(322)	-	(2,100)	(75)	(1,658)	(5,751)
Non-controlling interest in net income of consolidated subsidiaries	-	-	-	-	-	(1,391)	(1,391)
Net income (loss)	₱5,553	₱4,770	₱305	₱5,299	₱14,013	(₱13,190)	₱16,750

(forward)

	Consumer Banking	Corporate Banking	Investment Banking	Treasury	Branch Banking	Others	Total
Statement of Financial Position							
Total assets	₱209,399	₱989,687	₱-	₱436,511	₱143,465	₱347,991	₱2,127,053
Total liabilities	₱69,088	₱954,471	₱-	₱452,338	₱243,329	₱122,736	₱1,841,962
Other Segment Information							
Capital expenditures	₱372	₱50	₱-	₱84	₱43	₱2,387	₱2,936
Depreciation and amortization	₱444	₱100	₱-	₱19	₱1,187	₱1,315	₱3,065
Provision for credit and impairment losses	₱4,994	₱45	₱-	₱-	₱67	₱103	₱5,209
Period Ended September 30, 2017 (Unaudited)							
Results of Operations							
Net interest income (expense)							
Third party	₱11,475	₱21,533	₱-	₱8,584	₱1,667	₱2,055	₱45,314
Intersegment	(197)	(8,741)	-	(1,134)	11,995	(1,923)	-
Net interest income after intersegment transaction	11,278	12,792	-	7,450	13,662	132	45,314
Non-interest income	4,968	659	159	1,750	2,850	5,786	16,172
Revenue - net of interest expense	16,246	13,451	159	9,200	16,512	5,918	61,486
Non-interest expense	9,460	4,341	18	1,053	15,204	10,614	40,690
Income (loss) before share in net income of associates and a joint venture	6,786	9,110	141	8,147	1,308	(4,696)	20,796
Share in net income of associates and a joint venture	-	46	-	-	-	430	476
Provision for income tax	(1,570)	(177)	-	(2,070)	(13)	(2,077)	(5,907)
Non-controlling interest in net income of consolidated subsidiaries	-	-	-	-	-	(2,174)	(2,174)
Net income (loss)	₱5,216	₱8,979	₱141	₱6,077	₱1,295	(₱8,517)	₱13,191
Statement of Financial Position							
Total assets	₱187,904	₱853,525	₱-	₱453,761	₱143,232	₱352,108	₱1,990,530
Total liabilities	₱67,586	₱815,763	₱-	₱473,165	₱225,716	₱186,322	₱1,768,552
Other Segment Information							
Capital expenditures	₱719	₱27	₱-	₱64	₱60	₱2,721	₱3,591
Depreciation and amortization	₱428	₱101	₱-	₱14	₱948	₱1,519	₱3,010
Provision for (reversal of) credit and impairment losses	₱4,247	₱1,755	₱-	(₱426)	₱139	₱197	₱5,912

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. Long-Term Negotiable Certificates of Deposit (LTNCD)

As of September 30, 2018 and December 31, 2017, total outstanding LTNCDs of the Group amounted to ₱35.10 billion and ₱30.03 billion, respectively. Significant terms of the LTNCDs issued by the Parent Company have been disclosed in the 2017 audited financial statements.

In August 2018, PSBank issued LTNCDs with an aggregate principal amount of ₱5.08 billion due on February 9, 2024, with fixed interest rate of 5.0% per annum.

7. Securities Sold Under Repurchase Agreement

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

	September 30, 2018 (Unaudited)		December 31, 2017 (Audited)	
	Transferred Securities	SSURA	Transferred Securities	SSURA
Government debt securities				
HTC investments	₱51,126	₱35,551	₱-	₱-
FVOCI/AFS investments	19,519	15,613	85,003	64,575
FVTPL investments	4,261	4,191	-	-
	₱74,906	₱55,355	₱85,003	₱64,575

8. Bonds Payable

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

Issue Date	Maturity Date	Interest Rate	Redemption Period	Face Value	Carrying value	
					September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
August 10, 2012	August 10, 2019	5.750%	After 5 th year	₱3,000	₱2,914	₱2,910

Significant terms of the bonds issued by FMIC have been disclosed in the 2017 audited financial statements.

9. Subordinated Debts

Details of the Group's subordinated debt follow:

Maturity Date	Face Value	September 30, 2018 (Unaudited)		December 31, 2017 (Audited)	
		Carrying Value	Market Value	Carrying Value	Market Value
<u>Parent Company</u>					
2024	June 27, 2024	₱16,000	₱15,981	₱15,863	₱15,962
2025	August 8, 2025	6,500	6,482	6,261	6,475
PSBank-2024	August 23, 2024	3,000	2,981	2,222	2,979
MCC-2023	December 20, 2023	1,170	1,164	1,087	1,164
		₱26,670	₱26,608	₱25,433	₱26,580
					₱25,811

Significant terms of the Peso Notes outstanding as of December 31, 2017 have been disclosed in the 2017 audited financial statements.

10. Capital Stock

The movement in issued shares follows:

	Shares		Amount	
	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
Authorized				
Common stock - ₱20.00 par value	4,000,000,000	4,000,000,000		
Preferred stock - ₱20.00 par value	1,000,000,000	1,000,000,000		
Common stock issued and outstanding				
Balance at beginning of the year	3,180,172,786	3,180,172,786	₱63,603	₱63,603
Issuance of stock rights	799,842,250	-	15,997	-
Balance at the end of the period	3,980,015,036	3,180,172,786	₱79,600	₱63,603

As of September 30, 2018 and December 31, 2017, treasury shares totaling 801,230 and 560,100, respectively, represent shares of the Parent Company held by mutual fund subsidiary of FMIC.

On January 17, 2018, the BOD of the Parent Company approved the SRO by way of issuance of up to a maximum of 819,827,214 common shares which is equivalent to the remaining unissued portion of the authorized capital stock for the purpose of raising additional capital of up to ₱60.0 billion. This was noted by the BSP with the issuance of a letter of no objection to the Rights Issue on January 29, 2018. On April 4, 2018, following the regulatory approvals, the Parent Company concluded the ₱60 billion SRO, involving 799,842,250 common shares with par value of ₱20.00 priced at ₱75.00 per share and listed on the PSE on April 12, 2018.

Details of the Bank's cash dividend distributions in 2018 and 2017 follow:

Date of Declaration	Per Share	Total Amount (In Millions)	Record date	Payment date
February 21, 2018	₱1.00	₱3,180	March 8, 2018	March 16, 2018
February 22, 2017	₱1.00	₱3,180	March 9, 2017	March 23, 2017

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 2017 audited financial statements.

11. Related Party Transactions

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

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

The Parent Company has a RPTC and a Related Party Transactions Management Committee (RPTMC), both of which are created to assist the BOD in ensuring that transactions with related parties are reviewed to assess risks and are subjected to appropriate restrictions to ensure that these are conducted at arm's-length terms and that corporate or business resources of the Parent Company are not misappropriated or misapplied. After appropriate review, RPTMC (through RPTC) and RPTC disclose all information and endorses to the BOD with recommendations, the proposed related party transactions. The members of the RPTC are appointed annually by the BOD, composed of at least three (3) Board non-executive members, two (2) of whom should be independent directors, including the Chairperson. Currently, RPTC is composed of three (3) independent directors (including the Committee's Chairman); the head of Internal Audit Group (as Resource Person); and the Compliance Officer (as the Committee Secretary) and meets monthly or as the need arises. On the other hand, RPTMC members are appointed annually by the President, composed of four (4) members. RPTC's and RPTMC'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; (j) extent that such transaction or

relationship would present an improper conflict of interest; and (k) the availability of others sources of comparable products or services. Further, no director or officer participates in any discussion of a related party transaction for which he, she, or any member of his or her immediate family is a related party, 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 capital accounts 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, 2018 and December 31, 2017, 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 15.95% and 10.14%, 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, 2018 and December 31, 2017, the Parent Company has no subsidiaries and affiliates engaged in energy and power generation.

Details on significant related party transactions of the Group as of September 30, 2018, December 31 and September 30, 2017 follow (transactions with subsidiaries have been eliminated in the interim condensed consolidated financial statement):

Category	Amount	Terms and Conditions/Nature
<u>Transactions Affecting Statements of Financial Position</u>		
September 30, 2018 (Unaudited)		
Entities with Significant Influence		
<u>Outstanding Balance:</u>		
Deposit liabilities*	₱431	With annual fixed interest rates ranging from 0.00% to 2.25% including time deposits with maturity terms from 14 days to 33 days
Bills payable	202	Peso borrowings subject to annual fixed interest rates ranging from 3.88% with maturity terms of 30 days

Category	Amount	Terms and Conditions/Nature
Volume:		
Deposit liabilities	415	Generally similar to terms and conditions above
Bills payable	202	Generally similar to terms and conditions above
Subsidiaries		
Outstanding Balance:		
Interbank loans receivable*	₱4,570	Peso and foreign currency-denominated lending which earn annual fixed interest rates ranging from 2.38% to 4.69% with maturity terms from 1 day to 184 days with no impairment
Receivables from customers*	11,315	Secured - ₱20.1 million and unsecured - ₱11.3 billion with minimal expected credit loss and annual fixed interest rate of 3.43% to 5.0% and maturity terms from 3 days to 3 years
Accounts receivable	775	Non-interest bearing receivables on service fees, underwriting fees, remittance, rental fees and common use service area fees
Derivative assets	30	Fair value of forwards and swaps bought with various terms
Deposit liabilities*	4,213	With annual fixed interest rates ranging from 0.00% to 1.25% including time deposits with maturity terms from 3 days to 357 days
Bills payable*	219	Peso borrowings subject to annual fixed interest rates ranging from 2.25% to 4.00% with maturity terms from 15 days to 182 days
Bonds payable*	81	Issued by FMIC with interest rate of 5.75% and maturity term of 5 years
Treasury stock	65	Parent Company's shares held by FMIC's mutual fund subsidiary
Dividends declared	2,027	Dividend declared by PSBank and MCC
Volume:		
Interbank loans receivable	1,131	Generally similar to terms and conditions above
Receivables from customers	11,080	Generally similar to terms and conditions above
Accounts receivable	275	Generally similar to terms and conditions above
Deposit liabilities	(2,998)	Generally similar to terms and conditions above
Bills payable	(669)	Generally similar to terms and conditions above
Contingent Derivatives	1,885	Outright forward exchange bought and swap bought with various terms
Securities transactions		
Purchases	6,046	Outright purchases of securities
Sales	11,026	Outright sale of securities
Foreign currency		
Buy	32,694	Outright purchases of foreign currency
Sell	31,926	Outright sale of foreign currency
Associates		
Outstanding Balance:		
Receivable from customers*	654	Unsecured with minimal expected credit loss and annual fixed interest rates ranging from 4.33% to 5.40% and maturity terms from 346 days to 360 days
Accounts Receivable	3	Non-interest bearing receivable on rental fees
Investment in Associates	180	Liquidating dividends from SMBC Metro
Deposit liabilities*	1,440	With annual fixed interest rates ranging from 0.00% to 1.63% including time deposits with maturity terms from 30 days to 35 days
Dividends declared	10	Dividend declared by Northpine Land, Inc. (NLI)
Volume:		
Receivable from customers	654	Generally similar to terms and conditions above
Accounts Receivable	1	Generally similar to terms and conditions above
Deposit liabilities	315	Generally similar to terms and conditions above
Securities transactions		
Outright sales	1,324	Outright sale of securities
Foreign currency		
Buy	941	Outright purchases of foreign currency
Sell	1,072	Outright sale of foreign currency
Other Related Parties		
Outstanding Balance:		
Receivables from customers*	20,915	Secured - ₱20.8 billion and unsecured - ₱117.50 billion, with minimal expected credit loss and with annual fixed interest rates ranging from 3.70% to 4.75% and maturity terms from 30 days to 5 years
Accounts receivable	5	Credit card receivables; current/non-revolving
Assets held under joint operations	259	Parcels of land and former branch sites of the Parent Company contributed to joint operations

Category	Amount	Terms and Conditions/Nature
Deposit liabilities*	₱10,832	With annual fixed rates ranging from 0.00% to 3.00% including time deposits with maturity terms from 3 days to 359 days
Bills payable*	81	Peso-denominated borrowings with annual fixed interest rates ranging from 3.25% to 4.00% and maturity terms from 28 days to 92 days
Contingent		
Others	3	Bank guaranty with indemnity agreement
Volume:		
Receivables from customers	1,212	Generally similar to terms and conditions above
Accounts Receivable	1	Generally similar to terms and conditions above
Deposit liabilities	(16,138)	Generally similar to terms and conditions above
Bills payable	(116)	Generally similar to terms and conditions above
Securities transactions		
Outright sales	170	Outright sale of FVTPL securities and FVOCI investments
Foreign currency		
Buy	339	Outright purchases of foreign currency
Sell	934	Outright sale of foreign currency
Key Personnel		
Outstanding Balance:		
Receivables from customers	85	Secured - ₱59.1 million, unsecured - ₱25.9 million, no impairment. With annual fixed interest rate ranging from 0.00% to 10.00% and maturity terms from 1 year to 15 years
Deposit liabilities	193	With various terms and with minimum annual interest rate of 0.00%
Volume:		
Receivables from customers	9	Generally similar to terms and conditions above
Deposit liabilities	29	Generally similar to terms and conditions above
December 31, 2017 (Audited)		
Entities with Significant Influence Over the Group		
Outstanding Balance:		
Deposit liabilities*	16	With annual fixed interest rates ranging from 0.00% to 0.25%
Volume:		
Deposit liabilities	(2,119)	Generally similar to terms and conditions above
Bills payable	(303)	Peso borrowing in 2016 subject to annual fixed interest rate of 2.00% with maturity term of 17 days
Foreign currency		
Sell	7	Outright sale of foreign currency
Subsidiaries		
Outstanding Balance:		
Interbank loans receivable*	3,439	Peso and foreign currency-denominated lending which earn annual fixed interest rates ranging from 1.72% to 3.50% with maturity terms from 5 days to 94 days, no impairment
Receivables from customers*	235	Secured and unsecured amounted to ₱140.0 million and ₱94.6 million, respectively; no impairment. With annual fixed interest rates ranging from 2.90% to 4.00% and maturity terms from 48 days to 359 days
Accounts receivable	500	Non-interest bearing receivables on service fees, remittance, rental fees and common use service area fees
Deposit liabilities*	7,211	With annual fixed interest rates ranging from 0.00% to 1.50% including time deposits with maturity terms from 4 days to 360 days
Bills payable	888	Peso borrowings subject to annual fixed interest rates ranging from 1.13% to 4.63% with maturity terms from 15 days to 33 days
Bonds payable*	81	Issued by FMIC with interest rate of 5.75% and maturity term of 5 years
Treasury stock	46	Parent Company's shares held by FMIC's mutual fund subsidiary
Dividends declared	3,649	Dividends declared by PSBank, FMIC, MB Bahamas and MR Singapore

Category	Amount	Terms and Conditions/Nature
Volume:		
Interbank loans receivable	₱(2,655)	Generally similar to terms and conditions above
Receivables from customers	(2,129)	Generally similar to terms and conditions above
Accounts receivable	163	Generally similar to terms and conditions above
Deposit liabilities	2,433	Generally similar to terms and conditions above
Bills Payable	881	Generally similar to terms and conditions above
Bonds Payable	(439)	Generally similar to terms and conditions above
Contingent		
Derivatives	75	Outright forward exchange bought with various terms
Securities transactions		
Purchases	24,503	Outright purchases of securities
Sales	28,765	Outright sale of securities
Foreign currency		
Buy	1,063,463	Outright purchases of foreign currency
Sell	1,037,786	Outright sale of foreign currency
Associates		
Outstanding Balance:		
Accounts receivable	2	Non-interest bearing receivable on rental fees
Deposit liabilities*	1,125	With annual fixed interest rates ranging from 0.00% to 1.25% including time deposits with maturity terms from 4 days to 90 days
Dividends declared	6	Dividends declared by NLI
Volume:		
Accounts receivable	1	Generally similar to terms and conditions above
Deposit liabilities	374	Generally similar to terms and conditions above
Securities transactions		
Outright purchases	299	Outright purchases of securities
Outright sales	200	Outright sale of securities
Foreign currency		
Buy	174	Outright purchases of foreign currency
Sell	25,804	Outright sale of foreign currency
Other Related Parties		
Outstanding Balance:		
Receivables from customers*	19,703	Secured - ₱4.4 billion and unsecured - ₱15.3 billion, no impairment With annual fixed interest rates ranging from 1.80% to 8.50% and maturity terms from 30 days to 5 years
Accounts receivable	4	Credit card receivables, current and non-revolving
Assets held under joint operations	259	Parcels of land and former branch sites of the Parent Company contributed to joint operations
Deposit liabilities*	26,970	With annual fixed rates ranging from 0.00% to 3.75% including time deposits with maturity terms from 4 days to 360 days
Bills payable*	197	Peso-denominated borrowings subject to annual fixed interest rates ranging from 2.00% to 2.75% with maturity terms from 30 days to 122 days
Contingent		
Unused commercial LCs	102	LC transactions with various terms
Volume:		
Receivable from customers	11,525	Generally similar to terms and conditions above
Accounts receivable	1	Generally similar to terms and conditions above
Deposit liabilities	6,564	Generally similar to terms and conditions above
Bills payable	(517)	Generally similar to terms and conditions above
Securities transactions		
Outright purchases	249	Outright purchases of securities
Outright sales	686	Outright sale of securities
Foreign currency		
Buy	11,626	Outright purchases of foreign currency
Sell	83,219	Outright sale of foreign currency
Key Personnel		
Outstanding Balance:		
Receivables from customers*	76	Secured and unsecured amounted to ₱51.9 million and ₱23.8 million, respectively, no impairment. With annual fixed interest rates ranging from 0.00% to 10.00% and maturity terms from 1.5 years to 15 years
Deposit liabilities	164	With various terms and with minimum annual interest rate of 0.00%
Volume:		
Receivables from customers	(4)	Generally similar to terms and conditions above
Deposit liabilities	(9)	Generally similar to terms and conditions above

Category	Amount	Terms and Conditions/Nature
Transactions Affecting Statements of Income		
September 30, 2018 (Unaudited) - Amount		
Entities with Significant Influence		
Interest expense	₱35	Interest expense on deposit liabilities and bills payable
Subsidiaries		
Interest income	277	Interest income on receivables from customers and interbank loans receivables
Service charges, fees and commissions	312	Income on transactional fees, including underwriting fees
Trading and securities gain - net	11	Net gain from securities transactions
Foreign exchange gain - net	80	Net gain from foreign exchange transactions
Leasing income	60	Income from leasing agreements with various lease terms
Miscellaneous income	195	Information technology and other fees
Interest expense	15	Interest expense on deposit liabilities, bills payable and bonds payable
Associates		
Interest income	6	Income on receivables from customers
Leasing income	30	Income from leasing agreements with various lease terms
Interest expense	1	Interest expense on deposit liabilities
Other Related Parties		
Interest income	444	Interest income on receivables from customers
Foreign exchange gain -net	1	Net gain from foreign exchange transactions
Leasing income	16	Income from leasing agreements with various lease terms
Interest expense	543	Interest expense on deposit liabilities and bills payable
Key Personnel		
Interest income	3	Interest income on receivables from customers
September 30, 2017 (Unaudited) - Amount		
Entities with Significant Influence		
Interest expense	11	Interest expense on deposit liabilities and bills payable
Subsidiaries		
Interest income	109	Interest income on receivables from customers and interbank loans receivables
Service charges, fees and commissions	76	Income on transactional fees
Trading and securities loss - net	(8)	Net loss from securities transactions
Foreign exchange gain - net	82	Net gain from foreign exchange transactions
Leasing income	70	Income from leasing agreements with various lease terms
Miscellaneous income	280	Information technology and fees
Interest expense	37	Interest expense on deposit liabilities, bills payable and bonds payable
Miscellaneous expense	25	Other fees
Associates		
Leasing income	15	Income from leasing agreements with various lease terms
Interest expense	1	Interest expense on deposit liabilities
Other Related Parties		
Interest income	251	Interest income on receivables from customers
Foreign exchange gain-net	1	Net gain from foreign exchange transactions
Leasing income	15	Income from leasing agreements with various lease terms
Profit from assets sold	56	Gain on sale of condominium units and parking spaces
Interest expense	269	Interest expense on deposit liabilities and bills payable
Key Personnel		
Interest income	2	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 FVTPL and FVOCI 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, 2018 and December 31, 2017, government bonds with total face value of ₱60.0 million (classified under HTC investments) and ₱50.0 million (classified under AFS investments), respectively, are pledged by PSBank to the Parent Company to secure the latter's payroll account with PSBank. Also, as of September 30, 2018 and December 31, 2017, the Parent Company has assigned to PSBank government

securities with total face value of ₱3.1 billion classified under HTC investments and AFS investments, respectively, 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 ₱56.7 million and ₱48.6 million in September 30, 2018 and 2017, respectively. As of September 30, 2018 and 2017, the Parent Company sold securities totaling ₱1.7 billion and ₱779.7 million, respectively, to its related party retirement plans and recognized minimal trading loss, respectively and has also purchased securities totaling ₱197.8 million and ₱30.6 million as of September 30, 2018 and 2017, respectively. Further, as of September 30, 2018 and December 31, 2017, the total outstanding deposit liabilities of the Group to these related party retirement funds amounted to ₱380.2 million and ₱855.6 million, respectively. Interest expense on deposit liabilities amounted to ₱14.4 million and ₱8.8 million in September 30, 2018 and 2017, respectively.

As of September 30, 2018 and December 31, 2017, the related party retirement plans also hold investments in the equity shares of various companies within the Group amounting to ₱140.5 million and ₱218.9 million, respectively, with unrealized trading losses of ₱38.7 million and unrealized trading gains of ₱32.2 million, respectively, and investments in mutual funds and trust funds of various companies within the Group amounting to ₱4.4 billion and ₱745.0 million, respectively, with unrealized trading gains of ₱68.3 million and ₱19.4 million, respectively. As of September 30, 2018 and 2017 realized net trading losses amounted to ₱7.3 million and realized trading gains amounted to ₱1.2 million, respectively.

12. Commitments and Contingent Liabilities

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

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

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Trust Banking Group accounts	₱432,573	₱450,492
Commitments		
Credit card lines	186,730	160,057
Undrawn - facilities to lend	8,810	1,965
Underwriting	1,140	-
Unused commercial letters of credit	45,483	44,759
Bank guaranty with indemnity agreement	11,950	13,555
Outstanding shipside bonds/airway bills	6,219	5,248
Credit line certificate with bank commission	5,742	6,351
Inward bills for collection	2,347	2,824
Late deposits/payments received	1,429	472
Confirmed export letters of credits	863	246
Outward bills for collection	721	682
Outstanding guarantees	135	92
Others	8,705	6,076
	₱712,847	₱692,819

As discussed in 2017 audited FS, 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 ROP, 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. The case was settled on April 11, 2017.

Upon its own discovery, the Bank immediately caused the arrest of its Corporate Service Management Division Head, Ma. Victoria S. Lopez on July 17, 2017 for qualified theft through falsification of commercial documents. Both the Motion to Fix Bail and Motion for Reconsideration were denied. She is currently detained at the Makati City Jail. On July 24, 2017, another criminal complaint for qualified theft through falsification of commercial documents and violation of Section 55 of the General Banking Law (GBL) was filed against her and her cohorts for the abstraction of ₱900.0 million before the RTC of Makati City. On December 5, 2017, a third criminal case for the qualified theft through falsification of commercial documents and violation of Section 55 of GBL was filed against her, her cohorts and family members relative to the abstraction of ₱850.0 million. These mentioned major criminal cases are pending trial with the courts of Makati City. On the civil case, RTC Makati City granted the preliminary writ of attachment against her, her family, cohorts and corporations, for the collection of the said sum of money, interests and penalties, damages and other costs. This case is scheduled for judicial dispute resolution and pre-trial after the Court has resolved the pending incidents. In addition, foreign proceedings are ongoing on the cases which were filed in the United States of America to preserve and recover their identified properties; and in Singapore to preserve and recover funds in identified accounts. Accounts receivable classified under 'Loans and Receivables' includes total identified claims of ₱1.75 billion with full provisioning. Relative to this incident, the Monetary Board (MB) approved the imposition of certain sanctions to the Bank and added that the MB took into consideration the strong financial condition and immediate corrective actions of the Bank as well as its safety and soundness given the medium to long-term initiatives that improve governance, controls and compliance. The Bank does not expect this isolated incident to have long term material impact on its financial statements. Further, the Bank is reinforcing its commitment to the highest standards of integrity and upholds the protection of its customers as its main priority.

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

13. Financial Performance

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

	For the Period Ended September 30		For the Year Ended December 31, 2017
	2018	2017	
	(Unaudited)		(Audited)
a. Net income attributable to equity holders of the Parent Company	₱16,750	₱13,191	₱18,223
b. Weighted average number of outstanding common shares of the Parent Company	3,708	3,243*	3,243*
c. Basic/diluted earnings per share (a/b)	₱4.52	₱4.07*	₱5.62*

* Restated to show the effect of stock rights granted and exercised in 2018.

As of September 30, 2018 and 2017 and December 31, 2017, 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
	2018	2017	December 31, 2017
	(Unaudited)		(Audited)
Return on average equity	9.32%	8.66%	9.16%
Return on average assets	1.06%	0.91%	0.92%
Net interest margin on average earning assets	3.88%	3.79%	3.75%

14. Other Matters

The Group has no significant matters to report on the following during the period ended September 30, 2018:

- 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 cyclicity of interim operations;
- c. Issuances, repurchases and repayments of debt and equity securities except for the issuance of ₱60 billion stock rights by the Parent Company and issuance of LTNCD amounting to ₱5.08 billion for PSBank as discussed in Notes 10 and Note 6, respectively;
- 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 by the Bank as discussed in Note 10; 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 as discussed in Note 2.

15. Subsequent Event

- a. On October 4, 2018, the Parent Company issued LTNCD with an aggregate principal amount of ₱8.68 billion due on April 4, 2024, with fixed interest rate of 5.375% per annum. The LTNCD issuance is pursuant to the authority granted by the BSP on July 19, 2018.
- b. On October 11 and October 12, 2018, Metrobank Bahamas has surrendered its securities and banking licenses, respectively, to the Central Bank of The Bahamas. Metrobank Bahamas has been placed into a voluntary liquidation.
- c. On October 15, 2018, the BOD of PSBank approved the SRO by way of issuance of up to a maximum of 184,747,509 common shares which is equivalent to the remaining unissued portion of the authorized capital stock or approximately ₱8.0 billion in fresh capital. This was noted by the BSP with the issuance of a letter of no objection to the rights issued on October 19, 2018. The SRO issuance shall be further subject to other regulatory approvals as well as market and other conditions. Target issuance will be first quarter of 2019.
- d. On October 15, 2018, the BOD of PSBank declared a 7.50% regular cash dividend for the third quarter of 2018 amounting to ₱180.19 million or ₱0.75 per share, payable on November 14, 2018 to all stockholders of record as of October 30, 2018.
- e. On October 29, 2018, Orix Metro issued a total of ₱2.60 billion fixed rate notes (₱1.70 billion at 7.0156% p.a. due on April 29, 2020 and ₱895.20 million at 7.4463% p.a. due on October 29, 2020) for working capital and funding requirement purposes.
- f. On November 9, 2018, the Parent Company issued ₱10.0 billion fixed rate bonds out of its ₱100.0 Billion Bond and Commercial Paper Program. The bonds bear an interest rate of 7.15% per annum and will mature on November 9, 2020.

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
FINANCIAL INDICATORS
AS OF AND FOR THE PERIOD ENDED SEPTEMBER 30, 2018 AND 2017

	2018	2017
a) Liquidity Ratio	34.55%	38.79%
b) Loans to Deposits Ratio	86.25%	78.44%
c) Debt to Equity Ratio	663.86%	840.54%
d) Asset to Equity Ratio	766.61%	946.04%
e) Return on Average Equity	9.32%	8.66%
f) Return on Average Assets	1.06%	0.91%
g) Net Interest Margin on Average Earning Assets	3.88%	3.79%
h) Operating Efficiency Ratio	57.93%	56.56%
i) Capital Adequacy Ratio	17.76%	16.04%
j) Common Equity Tier 1 Ratio	15.23%	13.28%

METROPOLITAN BANK & TRUST COMPANY
SEC FORM 17 – Q
FOR THE PERIOD ENDED SEPTEMBER 30, 2018

**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, 2018 (Unaudited)				
	Group	Metrobank	FMIC	PSBank	MCC
Earnings per share	₱4.52	₱4.52	₱0.97	₱8.45	₱3.59
Return on equity	9.32%	9.05%	2.99%	11.70%	35.52%
Return on assets	1.06%	1.29%	0.88%	1.19%	6.34%
Operating efficiency ratio	57.93%	62.92%	161.55%	64.32%	30.88%
Non-performing loans ratio	1.16%	0.69%	Nil	2.39%	1.62%

	For the Period Ended September 30, 2017 (Unaudited)				
	Group	Metrobank	FMIC	PSBank	MCC
Earnings per share	₱4.07*	₱4.07*	₱2.17	₱7.82	₱3.64
Return on equity	8.66%	8.66%	7.29%	11.94%	47.33%
Return on assets	0.91%	1.11%	2.01%	1.20%	7.55%
Operating efficiency ratio	56.56%	61.52%	42.49%	63.47%	29.69%
Non-performing loans ratio	1.07%	0.68%	Nil	1.14%	1.65%

* Restated to show the effect of stock rights issued in 2018.

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. As of September 30, 2018 and 2017, the Parent Company had no shares of stock that had a dilutive effect on its basic earnings per share.

The increase in the Group’s EPS from ₱4.07 to ₱4.52 was the effect of higher net income attributable to the equity holders of the Parent Company from ₱13.19 billion for the period ended September 30, 2017 to ₱16.75 billion for the same period in 2018.

Return on Equity

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

ROE of the Group for the period ended September 30, 2018 was higher at 9.32% compared with 8.66% for the same period in 2017 due to the net effect of the 26.98% increase in the net income attributable to equity holders of the Parent Company and the 17.96% increase in the average equity primarily on account of the ₱59.1 billion net proceeds from the stock rights issued by the Parent Company in April 2018.

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 up to 1.06% for the period ended September 30, 2018 from 0.91% for the same period in 2017 as a result of the 26.98% increase in net income attributable to the equity holders of the Parent Company and the 8.81% increase in the average total assets.

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, 2018, the Group's operating efficiency ratio increased to 57.93% from 56.56% for the same period in 2017 resulting from higher operating income by 10.30% compared with the 12.97% increase in operating expenses.

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, 2018 and 2017, NPL ratio of the Group was at 1.16% and 1.07%, 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, 2018, the contractual maturity profile shows that the Bank has at its disposal about ₱818.0 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 63.41% of the ₱1.30 trillion total deposits maturing during the same period. These cash inflows exclude securities in FVOCI 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 69.14% of the total deposits maturing during the same period. On the other hand, historical balances of deposits showed that no substantial portion has been withdrawn in one year.

Events That Will Trigger Material Direct or Contingent Financial Obligation

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

Material Off-Balance Sheet Transactions, Arrangements or Obligations

The summary of contingencies and commitments at their peso-equivalent contractual amounts arising from off-balance sheet items are discussed in Annex 5 under Note 12 - Commitments and Contingent Liabilities of the General Notes to the Interim Condensed Consolidated Financial Statements. Likewise, the summary of obligations are discussed in Note 6 - LTNCD; Note 8 - Bonds Payable; Note 9 - Subordinated Debts and Note 10 - Capital Stock.

Material Commitments for Capital Expenditures

For the year 2018, the Bank estimates to incur capital expenditures of about ₱3.0 to ₱5.0 billion, of which 60% is estimated to be incurred for information technology.

Material Events or Uncertainties

The registrant has nothing to report on the following for the period ended September 30, 2018:

1. Any known trends or demands, commitments, events or uncertainties that will have a material impact on liquidity or that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations, except as disclosed in Annex 5 under Note 14 - Other Matters; and Note 15 - Subsequent Events of the General Notes to the Interim Condensed Consolidated Financial Statements;
2. Any seasonal aspects that had a material effect on the financial condition or results of operations; and
3. Any significant element of income or loss that did not arise from continuing operations.

Material Changes in Financial Statements Accounts

Financial Condition

September 30, 2018 (Unaudited) vs. December 31, 2017 (Audited)

The Metrobank Group posted unaudited consolidated total assets of ₱2.13 trillion and consolidated total liabilities of ₱1.84 trillion as of September 30, 2018. Compared with the audited figures as of December 31, 2017, total assets went up by ₱46.76 billion or 2.25% while total liabilities went down by ₱34.24 billion or 1.82%. Moreover, equity attributable to equity holders of the Parent Company was higher by ₱75.51 billion or 37.39% from ₱201.96 billion to ₱277.46 billion.

Cash and Other Cash Items decreased by ₱3.32 billion or 12.0% due to the lower level of cash requirements of the Parent Company compared with that of year-end due to the holiday seasons. Due from BSP which represents 11.03% of the Group's total assets went down by ₱27.44 billion or 10.48% due to lower reserve requirement. Due from Other Banks decreased by ₱3.58 billion or 11.44% as a result of the net movements in the balances maintained with various local and foreign banks. Interbank Loans Receivable and SPURA went down by ₱16.95 billion or 37.28% due to the net effect of the ₱17.25 billion decrease in interbank loans receivable and the ₱0.30 billion increase in SPURA.

Total investment securities which consisted of FVTPL, FVOCI (AFS in 2017) and HTC and which represents 19.73% and 18.64% of the Group's total assets as of September 30, 2018 and December 31, 2017, respectively, went up by ₱31.97 billion or 8.24%. As a result of the adoption of the classification and measurement requirements of PFRS 9 effective January 1, 2018, the Group classified debt securities held under AFS investments as of December 31, 2017 as either at amortized cost for securities belonging to portfolios managed under a HTC business model or at FVOCI.

Loans and Receivables representing 62.35% and 60.83% of the Group's total assets as of September 30, 2018 and December 31, 2017, respectively, went up by ₱60.67 billion or 4.79% due to higher loan portfolio level contributed by all segments partially reduced by the increase in allowance for credit losses resulting from PFRS 9 adoption. Investments in Associates and a Joint Venture went up by ₱0.50 billion or 8.64% due to share in net income of associates of FMIC and PSBank. Deferred Tax Assets (DTA) increased by ₱0.82 billion or 8.90% attributable to allowance for credit losses.

Other Assets increased by ₱4.42 billion or 42.25% from ₱10.47 billion to ₱14.89 billion primarily due to the net effect of the increases in prepaid expenses, software costs, documentary stamp taxes and miscellaneous assets (inclusive of the funding for retirement) and the decreases in interoffice float items and creditable withholding taxes.

Deposit liabilities represent 83.73% and 81.44% of the consolidated total liabilities as of September 30, 2018 and December 31, 2017, respectively, wherein low cost deposits represent 61.92% and 62.19% of the Group's total deposits, respectively. The Group's deposit level, sourced mainly by the Bank,

PSBank and MBCL reached ₱1.54 trillion as of September 30, 2018, an increase of ₱14.36 billion or 0.94% from the December 31, 2017 level.

Bills Payable and SSURA representing 10.66% and 12.14% of the Group's total liabilities as of September 30, 2018 and December 31, 2017, respectively, went down by ₱31.40 billion or 13.78% due to settlement of borrowing with the BSP and lower deposit substitutes and SSURA totaling to ₱49.89 billion net of higher borrowings from other banks of ₱18.50 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 ₱2.23 billion or 41.61%. Income taxes payable decreased by ₱1.28 billion or 37.92% while Accrued Interest and Other Expenses went up by ₱1.76 billion or 25.20% due to increases in accruals of other bank expenses and interests on deposit liabilities. Deferred Tax Liabilities increased by ₱0.07 billion or 24.91%. Non-equity Non-controlling Interest representing the portion of net income and net assets of the mutual fund subsidiaries of FMIC not attributed to the Group went down by ₱1.12 billion or 14.05% on account of the net decline in income of these mutual funds.

Other Liabilities decreased by ₱18.99 billion or 32.26% primarily due to the funding of the retirement liability in 2018, lower bills purchased contra (₱3.88 billion), accounts payable (₱0.48 billion) and payment of ₱14.8 billion to ANZ Funds Pty Ltd. (ANZ) in two tranches, ₱7.4 billion in January 2018 and the remaining ₱7.4 billion in September 2018, representing the 40% acquisition of Metrobank Card Corporation (A Finance Company) (MCC) which was recognized and classified under miscellaneous liabilities as of December 31, 2017.

Other Equity Reserves and Non-Controlling Interest decreased by ₱7.40 billion and by ₱1.91 billion, respectively, due to the acquisition by the Parent Company of the remaining 20% stake of ANZ to MCC in September 2018.

Equity attributable to equity holders of the Parent Company increased by ₱75.51 billion or 37.39% due to the net effect of the ₱59.1 billion net proceeds from the stock rights issued by the Parent Company on April 12, 2018, net income reported during the period, net impact of PFRS 9 adoption on Surplus and net unrealized loss on FVOCI/AFS investments, and the ₱3.18 billion cash dividends declared and paid during the year. The Group also recognized additional equity reserves (included in "Translation adjustment and others") for the difference between the acquisition price and the acquired remaining non-controlling interest of 20% in MCC.

Results of Operations

Quarter Ended September 2018 vs. Quarter Ended September 2017 (Unaudited)

Unaudited net income attributable to equity holders of the Parent Company reached ₱5.74 billion for the quarter ended September 30, 2018, ₱2.05 billion or 55.45% higher compared with the ₱3.70 billion net income reported for the same quarter of the previous year.

Interest income improved by ₱4.27 billion or 20.70% due mainly to the higher interest income on loans and receivables by ₱4.15 billion and the ₱0.15 billion increase in interest income on trading and investment securities. Meanwhile, the increases in interest expense on deposit liabilities by ₱1.62 billion or 48.90% and interest expense on bills payable and SSURA by ₱0.66 billion or 41.53% accounted for the ₱2.28 billion or 46.50% increase in interest expense. These resulted in a ₱1.98 billion or 12.63% improvement in net interest income.

Other operating income went down by ₱0.67 billion or 10.65% from ₱6.27 billion for the third quarter of 2017 to ₱5.60 billion for the same quarter this year. The variance was due to the decline in net trading and securities and foreign exchange gain by ₱0.61 billion or 46.71% and miscellaneous income by ₱0.18 billion or 8.98% net of the increase in fee-based income (service charges, fees and commissions) by ₱0.12 billion or 4.21%.

Provision for credit and impairment losses for the third quarter of 2018 was at ₱1.74 billion compared with ₱3.41 billion for the same period in 2017 or decreased by ₱1.67 billion or 48.93%. Total operating

expenses increased by ₱1.57 billion or 13.32% as a result of the increases in compensation and fringe benefits by ₱0.66 billion or 13.35%, occupancy and equipment-related expenses by ₱97 million or 13.23% and miscellaneous expenses by ₱0.81 billion or 13.30% (significant increase came from taxes and licenses as a result of changes on tax rates, particularly on documentary stamp taxes, brought about by the implementation of the TRAIN law in 2018). Provision for income tax was lower by ₱0.28 billion or 12.19% due to net movements in deferred income tax, corporate and final taxes.

Income attributable to non-controlling interests went down by ₱0.35 billion or 42.91% due to decrease in ownership of minority particularly on MCC.

Total comprehensive income went down by ₱8.58 billion from ₱5.65 billion income for the third quarter of 2017 to a loss of ₱2.93 billion for the same period in 2018 mainly due to the net effect of the increase in net income; the net unrealized loss recognized this year on FVOCI investments compared with the net unrealized gain on AFS investments recognized in 2017; and the decrease in translation adjustments and others. As a result, total comprehensive income attributable to equity holders of the Parent Company went down to ₱571 million or by ₱5.35 billion from ₱4.77 billion in 2017.

Period Ended September 2018 vs. Period Ended September 2017 (Unaudited)

Unaudited net income attributable to equity holders of the Parent Company for the period ended September 30, 2018 improved by 26.98% to ₱16.75 billion from the ₱13.19 billion net income reported in the same period in 2017.

Interest income went up by ₱11.22 billion or 18.99% from ₱59.09 billion to ₱70.31 billion resulting from the higher interest income on loans and receivable by ₱10.86 billion and increase in interest income on trading and investment securities by ₱0.49 billion while interest income on deposit with banks and others dropped by ₱0.13 billion. On the other hand, interest expense increased by ₱5.54 billion or 40.19% from ₱13.78 billion to ₱19.31 billion coming from higher interest expenses on deposit liabilities by ₱3.84 billion or 41.91% and on bills payable and other borrowings by ₱1.69 billion or 36.78%. These resulted in a 12.55% or ₱5.69 billion growth in net interest income.

Other operating income of ₱17.39 billion was higher by ₱0.74 billion or 4.46% compared with ₱16.65 billion for the same period last year due to the increase in fee-based income (service charges, fees and commissions) by ₱1.01 billion or 12.42% and miscellaneous income by ₱0.69 billion or 12.57% net of the decline in net trading and securities and foreign exchange gains by ₱0.95 billion or 31.22%.

Total operating expenses increased by ₱4.51 billion or 12.97% from ₱34.78 billion to ₱39.29 billion with higher compensation and fringe benefits by ₱1.66 billion or 11.55%, occupancy and equipment-related expenses by ₱0.19 billion or 8.71%, and miscellaneous expenses by ₱2.66 billion or 14.60% (significant increase came from taxes and licenses as a result of changes on tax rates, particularly on documentary stamp taxes, brought about by the implementation of the TRAIN law in 2018). Provision for credit and impairment losses decreased by ₱0.70 billion from ₱5.91 billion to ₱5.21 billion while provision for income tax was lower by ₱0.16 billion from ₱5.91 billion to ₱5.75 billion due to net movements in deferred income tax, corporate and final taxes.

Income attributable to non-controlling interests went down to ₱1.39 billion from ₱2.17 billion or by ₱0.78 billion or 36.02% due to decrease in ownership of minority particularly on MCC.

Total comprehensive income went down by ₱11.48 billion from ₱19.28 billion to ₱7.80 billion for the period ended September 30, 2017 and 2018, respectively, due to the net effect of the increase in net income; the net unrealized loss recognized this year on FVOCI investments compared with the net unrealized gain recognized last year on AFS investments; and the decrease in translation adjustments and others. Total comprehensive income attributable to equity holders of the Parent Company for the period ended September 30, 2018, went down to ₱9.07 billion or by ₱8.07 billion from ₱17.14 billion for the same period in 2017.

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

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

AS OF SEPTEMBER 30, 2018

NO. OF DAYS OUTSTANDING	AMOUNT
1-90	₱ 4,497
91-180	439
181-360	3,705
OVER 360	3,871
GRAND TOTAL	₱ 12,512