

MANAGEMENT REPORT

A. Business Overview

PBB was incorporated as a Philippine corporation and registered with the SEC on January 28, 1997 as “Total Savings Bank” and was granted the authority to operate as a thrift bank under the MB Resolution No. 29 dated January 8, 1997. The BSP issued a Certificate of Authority on February 6, 1997. On December 16, 1997, the SEC approved the change of corporate name of the Bank to “Philippine Business Bank (A Savings Bank)”, which the shareholders believe better reflects the Bank’s business thrust and focus.

The Bank’s focus is to become the bank of choice of the SME market segment. The BSP defines small and medium enterprises to be any business concern with assets between ₱3 million to ₱100 million, excluding the land value on which the entity’s office, plant and equipment are situated.

This focus on the SME market is driven by the size and potential of this particular market. According to a recent data from the Department of Trade and Industry, *SMEs* account for 99.6 percent of total registered enterprises. The Bank believes that the SME segment is the major source of entrepreneurship and economic dynamism which provides trade, manufacturing and outsourcing and services and helps contribute to community and local development. Lastly, the Bank believes that the SME segment can be considered underserved with most financial institutions focusing on the banking requirements of large corporations and/or the consumer sector.

To become the bank of choice of the SME market, PBB has increased its branch presence in several commercial and industrial centres of the country and recruited branch and account officers with extensive client networks in these specific communities. The Bank’s network grew from two (2) branches in 1997 to 134 branches as of December 31, 2015 with most branches located in areas with high concentration of small and medium businesses such as Caloocan, Malabon, Navotas, Valenzuela and Quezon City as well as in highly urbanized cities outside Metro Manila such as Cebu, Davao and Bacolod. PBB believes that client proximity, understanding of its targets’ banking requirements, the reputation of its branch and account management staff within their respective communities, and the overall reputation of PBB, are among the key factors which have driven and will continue to drive its growth.

Products and Services

PBB is a thrift bank that offers a range of commercial and consumer or retail banking products, trust services, and other related financial services such as mail and telegraphic transfers, safety deposit facilities, payment services, among others.

Commercial banking services include term loans, working capital credit lines, bills purchase and discounting lines. PBB is the first thrift bank to be allowed by the BSP to issue foreign currency denominated letters of credit. The Bank also offers specialized loans for agriculture and special programs of the Development Bank of the Philippines, the Social Security System, and other agencies.

Consumer banking loans include auto financing, home financing, and salary or personal loans.

As part of its commercial and consumer banking activities, PBB offers various deposit products to both its commercial and individual clients. These products include Peso denominated current and savings accounts, foreign currency denominated savings accounts and both Peso and foreign currency time deposits.

The Bank’s treasury manages the liquidity of PBB and is a key component in revenue and income generation through its investment and trading activities.

Products and services offered by PBB’s trust operations include PBB’s “Diamond Fund”, a unit investment trust fund, investment management arrangements for both individual and commercial clients, escrow agency, security, safekeeping and depository arrangements, a funds management of employee benefit and pre-need plans, among other typical trust products and services.

Distribution Methods of the Products and Services

The Bank utilizes branches for the distribution of its deposit products. As for its loan products, the Bank has an Account Management Group and located in its Head Office and the Branch Lending Group with account officers in some branches. The Bank’s Trust products are handled by its Trust Department while Treasury products are marketed by its Treasury Marketing and Sales Department of the Treasury Group.

Employees

As of December 31, 2015, the Bank has a total of 1,246 employees broken down into the following categories:

Executives	62
Managers – Operations and Support	287
Managers – Branch / Marketing	142
Staff	755
Total	1,246

For the ensuing twelve (12) months, the Bank anticipates to have additional 336 employees broken down as follows:

Executives	3
Managers – Operations and Support	111
Managers – Branch / Marketing	40
Staff	182
Total	336

There is no collective bargaining agreement between the Bank and any of its employees. None of the Bank’s employees are affiliated with any labor union.

Market Information

The common shares of PBB have been listed on the PSE on February 2013. The table below shows the high and low prices of PBB shares transacted at the PSE for year 2014 and 2015.

Quarter	2014		2015		2016	
	High	Low	High	Low	High	Low
1Q	19.20	33.30	21.00	18.02	14.52	14.50
2Q	24.40	23.70	18.16	18.00		
3Q	23.92	21.85	16.70	16.50		
4Q	21.00	21.60	17.00	16.76		
Last Traded Price					14.88 as of April 15, 2016	

High and Low price of the Registrant's shares as of March 31, 2016 (last practicable trading day) were Php14.52 and Php14.50, respectively.

Holdings

As of the March 31, 2016, PBB's public listing date, the following are the holders of record of the Bank's common shares as set forth in the following table:

Name	Citizenship	Holdings	Rank
Alfredo M. Yao	Filipino	199,865,258	37.26%
PDC Nominee Corporation - Filipino	Filipino	160,651,564	29.95%
Zest-O Corporation	Filipino	135,044,103	25.17%
Francis T. Lee	Filipino	22,087,500	4.12%
PDC Nominee Corporation - Non Filipino	Foreign	9,428,583	1.76%
Leticia M. Yao	Filipino	1,350,447	0.25%
Erlinda M. Yao	Filipino	1,350,447	0.25%
Jeffrey S. Yao	Filipino	1,350,447	0.25%
Armando M. Yao	Filipino	714,286	0.13%
Roberto L. Obiedo	Filipino	421,875	0.08%
James G. Dy	Filipino	390,625	0.07%
Siot Keng Go Dy	Filipino	312,500	0.06%
Roberto Lee Obiedo	Filipino	312,500	0.06%
Peter Y. See	Filipino	312,500	0.06%
Wilbert G. Uy	Filipino	312,500	0.06%
Arvin Uy Ting or Irene Inee lo Ting	Filipino	273,437	0.05%
Antonio D. Tan &/or Caridad Tan	Filipino	270,090	0.05%
Jimmy wai Piu Ng	Filipino	216,072	0.04%
Johnny Chan	Filipino	156,250	0.03%
Reynato Keh Lim &/or Susana Dy Lim	Filipino	156,250	0.03%
Others		1,481,189	0.28%
Total		536,458,423	100.00%

Dividends

PBB is authorized under Philippine laws to declare dividends, subject to certain requirements. The Board is authorized to declare dividends only from its unrestricted retained earnings and these dividends may be payable in cash, shares or property, or a combination of thereof as may be determined by the Board. A cash dividend declaration does not require any further approval from shareholders. The declaration of stock dividends is subject to the approval of shareholders holding at least two-thirds of PBB's outstanding capital stock. The Board may not declare dividends which will impair its capital.

Pursuant to Republic Act 8791 and as provided for in the Manual of Regulations Banks, PBB cannot declare dividends greater than its accumulated net profits then on hand, deducting therefrom its losses and bad debts. PBB cannot likewise declare dividends, if at the time of its declaration it has not complied with the following:

- a) Its clearing account with BSP is not overdrawn;
- b) BSP's liquidity floor requirement for government funds;
- c) BSP's minimum capitalization requirement and risk-based capital ratio;
- d) Prescribed EFCDU/FCDU cover consisting of 30 per cent liquidity cover and 100 percent asset cover
- e) Statutory and liquidity reserves requirement;
- f) It has no past due loans or accommodation with BSP or any institutions;
- g) It has no net losses from operations in any one or two fiscal years immediately preceding the date of dividend declaration;
- h) It has not committed any of the major violations enumerated in the Manual.

The Manual provides that for banks whose shares are listed in the Philippine Stock Exchange, the bank may give immediate notice of such dividend declaration to SEC and PSE; provided that no record date shall be fixed for such dividend declaration pending verification by the appropriate department of the BSP.

As of this date the Bank has not adopted a specific dividend policy which defines a minimum percentage of net earnings to be distributed to its common shareholders.

PBB did not declare dividends for its common shares for the years ended 2009 to 2011.

On July 16, 2012, the Bank's shareholders and Board of Directors approved the declaration of stock dividends amounting to ₱2.0 billion from its unrestricted retained earnings. In the same meeting, the

Board also approved the payment of cash dividends to the preferred shareholders in the total amount of ₱100.35 million. Payment of these dividends were approved by BSP and SEC. On November 16, 2012, the Bank obtained approval for the issuance of 200,000,000 new common shares each at a par value of ₱10.00, in relation to this stock dividend declaration and the payment of cash dividends to the preferred stockholders.

There were no recent sales of unregistered or exempt Securities, including recent issuance of securities constituting an exempt transaction.

There has been no Stock Options offered by the Bank.

Corporate Governance

Philippine Business Bank, Inc. commits to the highest standards of good corporate governance in realizing its vision and mission. The Bank believes that sound corporate practices based on fairness, accountability and transparency is essential in achieving growth and stability as well as enhancing investor confidence.

The Bank aims to create and sustain value for its various stakeholders. To achieve this, the Bank's Board of Directors, senior management and employees understand that compliance with regulations and best practice standards is everybody's responsibility. The Bank accomplishes this by adopting measures designed to align the shareholders' and senior management's objectives with that of the employees.

The Board of Directors conducts its functions as a full Board and through its six (6) committees, namely: Executive, Trust, Corporate Governance and Nomination, Audit, Risk Management and Manpower, Compensation and Remuneration. Board-approved Corporate Governance policies are contained in the Manual of Corporate Governance which is based on the Corporate Code of the Philippines, Securities Regulations Code, SEC Revised Code of Corporate Governance and relevant provisions of the Bangko Sentral ng Pilipinas Manual of Regulations for Banks. Every member of the organization of Philippine Business Bank, Inc. is informed of these policies.

The Bank's Code of Ethics ensures that all employees adhere to the highest standards of quality, honesty, transparency and accountability. To further emphasize its commitment to integrity, the Philippine Business Bank, Inc., under its Whistle Blowing Policy, encourages employees to report, in good faith, to Senior Management any misconduct within their respective business units. The policy protects in confidence the identity of the employee who disclosed the suspected offence within the organization.

Philippine Business Bank, Inc. values the contribution of its employees in fostering a culture of good corporate governance. The Human Resource Group and the Personnel Committee ensure that interests and concerns of personnel are heard and addressed.

Going beyond adherence to regulatory framework, Philippine Business Bank, Inc. fosters a culture of partnership within its organization to ensure that long-term success and performance of the Bank are achieved.

The Corporate Governance and Nomination Committee leads the Bank in defining corporate governance policies and attaining best practices. As one of its strategic governance roles, the Corporate Governance and Nomination Committee reviews and evaluates the qualification of individuals nominated to the Board as well as those nominated to other positions requiring appointment by the Board. The Committee is responsible for the periodic administration of performance evaluation of the Board and its committees. It conducts an annual evaluation of its performance in accordance with the criteria provided in the 2009 SEC Code of Corporate Governance and the Bangko Sentral ng Pilipinas Manual of Regulations for Banks. The Committee is assisted by the Compliance Office led by the Chief Compliance Officer in the implementation of its mandates.

The Committee, consisting of two (2) independent directors (one of whom acts as chairperson) and one (1) regular director meets every two months.

In 2012, PBB revised its Corporate Governance Manual in compliance with the revised Corporate Governance Framework mandated upon all banks by the Bangko Sentral ng Pilipinas through Circular Nos. 749 and 757. PBB submitted its Revised Corporate Governance Manual to the SEC on December 3, 2012.

There were no violations or deviations against the provisions of the Corporate Governance Manual noted in 2012.

Undertaking

The Bank will provide without charge its Annual Report on SEC Form 17-A to its stockholders upon receipt of a written request addressed to Atty. Roberto S. Santos, Corporate Secretary, 3/F PBB Corporate Center, 350 Rizal Avenue corner 8th Avenues, Grace Park, Caloocan City.

B. Management Discussion and Analysis

Overview

PBB is a savings bank whose principal banking activities are focused on the corporate and SME markets. Among the Bank's principal products are corporate and consumer loans, deposit products, treasury and trust products and trade financing, among others. The Bank was formed in 1997 and today, has a network of 134 branches and 88 ATMs located all over the country.

Based on Chamber of Thrift Banks ("CTB") statistics as of December 30, 2015, the Bank is ranked 5th in terms of assets, loans and deposits out of a total of 69 CTB members.

As of December 31, 2015, the Bank's Tier 1 capital adequacy ratio and total capital adequacy ratio was 17.7% and 17.0%, respectively. Return on assets and return on equity were 0.8% and 6.1%, respectively.

Factors Affecting the Bank's Results of Operations

Set out below are the most significant factors which have affected the Bank's operating results in the past and which are expected to affect the Bank's results in the future. Factors other than those set forth below may also have a significant impact on the Bank's results of operations and financial condition in the future.

Interest Rates

Fluctuations in the interest rates in the market can have a material impact on the Bank by affecting its interest income, cost of funding as well as the general performance of the Bank's loan portfolio and other assets. The profitability of the Bank depends on its ability to manage its assets and liabilities particularly during periods when interest rates are volatile. An increase in interest rates may adversely affect earnings as it results in a higher cost of funds for the Bank and portfolio value of its assets.

Regulatory Environment

The Philippine banking industry is a highly regulated sector whose operations are under the supervision of the BSP. The BSP formulates and implements regulatory policies and guidelines on capital adequacy, lending limits, anti-money laundering, management, loan loss provisioning and other aspects of a bank's operations and monitors compliance thereon through on-site and off-site examinations of banks.

Competition

The Philippine banking sector is highly competitive and the Bank is subject to significant levels of competition from domestic and foreign banks. These banks may have more capital and other financial resources, larger branch network or higher brand recognition, among others, than the Bank. Some financial institutions may be able to offer more products and services, have higher lending limits, offer lower lending rate or possess stronger balance sheets. Competition has affected and will continue to affect the Bank's funding costs as well as the ability of the Bank to market its products and services and implement its business plans and adversely impact PBB's results of operations and financial condition.

Philippine and Global economic environment

The Bank's business and operations and assets are based in the Philippines and hence, the results of operations and performance and quality and growth of PBB's assets depend, to a large extent, on the performance of the Philippine economy. The Philippine economy, in turn, has also been adversely affected by the downturn in the global financial markets as well as the slowdown in the U.S.

economy. Monetary policies worldwide formulated in response to the financial crisis resulted in a decline in interest rates. Interest rates in the Philippines have recently declined which could affect the Bank's income and margins.

Key Performance Indicators

CAR: Capital Adequacy Ratio is at 17.7%, higher than BSP's minimum requirement of 10.0%.

Asset Quality: There was an increase with regard to non-performing loans, from 1.5% in 2014 to 2.9% this year.

Profitability: Return on Average Equity (ROAE) decreased from 6.9% in 2014 to 6.1% this year.

Liquidity: The Bank's loans-to-deposits ratio (BSP formula) as of December 31, 2015 declined from 112.2% last year to 75.0% this year.

Asset efficiency: The Return on Average Assets (ROAA) decreased, from 1.0% in December 2014 to 0.8% in December 2015.

The following table shows the Top 5 key performance indicators for the past three (3) calendar years ending December 31, 2015:

Performance Indicator	2013	2014	2015
ROAE	17.63%	6.90%	6.10%
ROAA	2.51%	0.99%	0.80%
CAR	24.46%	20.95%	17.70%
Loans – Deposit Ratio (BSP Formula)	109.67%	122.22%	75.03%
NPL Ratio (BSP Formula)	2.37%	1.57%	2.88%

Critical Accounting Policies

For information on the Bank's significant accounting judgments and estimates, please refer to notes 2 and 3 of the Bank's financial statements included as attachment of SEC17-A.

Description of Comprehensive Statement of Income

Revenues

Interest Income - Interest income is interest generated from PBB's loans and receivables. The Bank also generates interest income from amounts due from other banks, investment securities and securities purchased under resale agreements.

Interest Expense - Interest expense refers to interest paid or accrued on deposits, bills payable and other fund borrowings.

Net Interest Income - Net interest income is equal to interest income after deducting interest expense.

Impairment Losses - Impairment losses refer to estimated losses in the Bank's loan portfolio, investment securities, investment properties and other risk assets.

Other Income

Other income is composed of the following:

Trading gains – net - This line item comprises results arising from trading activities which include gains and losses from changes in fair value of financial assets held for trading as well as gains from the sale of trading and investment securities.

Services charges, fees and commissions - The Bank earns service charges, fees and commissions from various financial services it provides to its customers. These fees include investment fund fees, custodian fees, commission income, credit related fees, asset management fees, portfolio and advisory fees.

Miscellaneous Income - Miscellaneous income also comprises foreign exchange gain, gain on asset foreclosures and dacion transactions, trust fees, gain on sale of assets and miscellaneous items.

Other Expenses

Other expenses are the Bank's general and administrative expenses composed primarily of salaries and employee benefits, taxes and licenses, rent and fees, depreciation and amortization and other operating costs.

Tax Expense

Tax expense relates mainly to the corporate income tax payable by the Bank which is composed of a two per cent (2%) minimum corporate income tax and a regular income tax of 30 per cent. The Bank is also subject to final taxes of 7.5 per cent (on the Bank's FCDU deposits with other institutions), 10 per cent (on onshore income from FCDU transactions), and 20 per cent (final withholding tax on tax-paid income).

A. Financial Performance

For the calendar year ended December 31, 2015 and 2014:

	For the calendar period ended			
	<u>12/31/2015</u>	<u>12/31/2014</u>	<u>Variance</u>	<u>%</u>
Interest income	₱ 3,140,643,449	₱ 2,835,896,095	₱ 304,747,354	10.7
Interest expense	(758,318,335)	(600,616,735)	(157,701,600)	26.3
Net interest income	₱ 2,382,325,114	₱ 2,235,279,360	₱ 147,045,754	6.6

Interest income grew by 10.7% from ₱2.8 billion to ₱3.1 billion this year due to higher loan volumes booked this year. Interest expense also increased by 26.3% as the volume of deposits increased from ₱46.6 billion in 2014 to ₱55.1 billion in 2015.

The Bank's net interest income increased from ₱2.2 billion in 2014 to ₱2.4 billion in 2015. The growth was a direct result of the increase in interest income from ₱2.8 billion in 2014 to ₱3.1 billion in 2015, 10.7% growth year-over-year (YoY) while interest expense grew by ₱157.7 million from ₱600.6 million in 2014 to ₱758.3 million in 2015.

As a result, PBB's net interest income totaled ₱2.4 billion for the year 2015.

	For the calendar period ended			
	12/31/2015	12/31/2014	Variance	%
Core income				
Net interest income	₱ 2,382,325,114	₱ 2,235,279,360	₱ 147,045,754	6.6
Service charges, fees and commissions	132,425,882	127,487,177	4,938,705	3.9
Miscellaneous	73,430,963	144,153,797	(70,722,834)	(49.1)
	2,588,181,959	2,506,920,334	81,261,625	3.2
Non-interest expenses	(1,780,166,990)	(1,573,216,261)	(206,950,729)	13.2
Core income	808,014,969	933,704,073	(125,689,104)	(13.5)

Despite the increase in net interest income, its core income decreased by 13.5% from ₱933.7 million to ₱808.0 million. However, on a recurring basis core income would increase by 2.5% owing to a one time gain in miscellaneous income in 2014.

Service charges, fees and commissions expanded to ₱132.4 million, or a 3.9% growth YoY, while Miscellaneous income decreased by ₱70.7 million resulting in ₱73.4 million.

Non-interest expenses grew by 13.2% YoY as the Bank continued its expansion of its branch network and added manpower to handle its expanding business volume.

	For the calendar period ended			
	12/31/2015	12/31/2014	Variance	%
Core income	₱ 808,014,969	₱ 933,704,073	(₱ 125,689,104)	(13.5)
Trading gains (losses)	69,474,667	34,827,391	34,647,276	99.5
Pre-tax, pre-provision income	877,489,636	968,531,464	(91,041,828)	(9.4)
Loan loss provisions	(172,050,358)	(189,887,127)	17,836,769	(9.4)
Taxes	(203,297,274)	(242,439,233)	39,141,959	(16.1)
Net income	502,142,004	536,205,104	(34,063,100)	(6.4)

The Bank's trading gains totaled ₱69.5 million, higher than last year's gain of ₱34.8 million, a 99.5% increase. As a result pre-tax pre-provision income rose to ₱887.9 million. PBB continues to set aside a certain portion of its income for impairment losses to cover its non-performing loans. The Bank decreased its provision by ₱17.8 million from ₱189.9 million in 2014 to ₱172.1 million in 2015.

Net income amounted to ₱502.1 million, which is 6.4% lower YoY from ₱536.2 million.

For the calendar year ended December 31, 2014 and 2013:

	For the calendar period ended			
	12/31/2014	12/31/2013	Variance	%
Interest income	₱ 2,835,896,095	₱ 2,231,764,242	₱ 604,131,853	27.1
Interest expense	(600,616,735)	(499,607,169)	101,009,566	20.2
Net interest income	₱ 2,235,279,360	₱ 1,732,157,073	₱ 503,122,287	29.0

Interest income grew by 27.1% from ₱2.2 billion to ₱2.8 billion this year due to the increase in loan volume booked during the period which increased by 26.9% YoY. Interest expense also increased by 20.2% as the volume of deposits increased from ₱37.9 billion in 2013 to ₱46.6 billion in 2014, a 23.1% increase.

Consequently, net interest income for the year also improved by 29.0% from ₱1.7 billion the previous year to ₱2.2 billion.

	For the calendar periods ended:			
	12/31/2014	12/31/2013	Variance	%
Core income				
Net interest income	₱ 2,235,279,360	₱ 1,732,157,073	₱ 503,122,287	29.0
Service charges, fees and commissions	127,487,177	73,829,527	53,657,650	72.7
Miscellaneous	144,153,797	38,228,379	105,925,418	277.1
	2,506,920,334	1,844,214,979	662,705,355	35.9
Non-interest expenses	(1,573,216,261)	(1,355,020,586)	218,195,675	16.1
Core income	₱ 933,704,073	₱ 489,194,393	₱ 444,509,680	90.9

The Bank's core business continued to perform well on the back of a robust lending business as core income for the year totaled to ₱935.5 million, a 91.2% growth from last year's core income of ₱489.2 million.

Net interest income for the period is at ₱2.2 billion, or an increase of 29.0% as interest income on loans and receivables grew by ₱551.4 million, a 30.4 % growth year-over-year (YoY), while interest expense on deposit liabilities increased by ₱107.6 million, a 21.9% growth YoY. Non-interest expenses increased by ₱216.4 million or 16.0%.

Service charges, fees and commissions increased to ₱127.5 million, or a 72.7% growth YoY, while Miscellaneous income grew to ₱144.1 million or 277.1%.

Meanwhile, non-interest expenses grew by 16.1% YoY as the Bank continued its expansion of its branch network and added manpower to handle its expanding business volume.

As a result, core income net of operating expenses increased by 90.9% amounting to ₱933.7 million YoY.

Core income	₱	933,704,073	₱	489,194,393	₱	444,509,680	90.9
Trading Gains		34,827,330	calendar period	604,751,032	(	781,945,641)	(95.7)
Pre-tax pre provision income		968,531,404		1,093,945,425	(	337,435,961)	(25.8)
Loan loss provisions	(	189,887,127)	(	178,193,789)		11,693,338	6.6
Taxes	(	242,439,233)	(	123,727,024)		118,712,209	95.9
Net income	₱	536,205,104	₱	1,004,046,612	₱	(467,841,508)	(46.6)

On the other hand, the Bank's trading gains amounted to ₱34.8 million which is lower than last year's gain of ₱816.8 million, a 95.7% decrease. Thus, pre-tax pre-provision income dropped by 25.7% YoY from ₱1.305 billion last year to ₱970.3 million in 2014. The Bank increased its provisioning by 6.6% from ₱178.2 million to ₱189.9 million

Net income amounted to ₱536.2 million, which is 46.6% lower YoY from ₱1.004 billion in 2013, because of the decrease in the income from trading activities. However, it is worthy to note that as the core income for the period increased, total comprehensive income also increased by 180.6%, from last year's loss of ₱370 million to this year's profit of ₱1.040 billion.

Results of Operations

For the year ended December 31, 2015 vs. December 31, 2014

- PBB's interest income increased from ₱2.8 billion in 2014 to ₱3.1 billion in 2015 largely due to the increase in loan volume to ₱41.7 billion in 2015 from ₱40.1 billion in 2014. Another factor is the increase of securities purchased under reverse repurchase agreements from ₱545.8 thousand in 2014 to ₱1.9 million in 2015. Interest due from BSP increased from ₱37.2 million in 2014 to ₱69.7 million due to the increase in volume of Deposit from BSP to cover deposit liability reserves.
- Overall interest expense expanded from ₱600.6 million in 2014 to ₱758.3 million in 2015, up 26.3% or ₱ 157.7 million generally because of the significant boost in the general deposit of 18.01%. Volume of deposit expanded from ₱46.6 billion in 2014 to ₱55.0 billion in 2015.
- Service charges, fees and commissions increased by 3.9% YoY, while Miscellaneous income declined by ₱70.7 million or 49.1%.
- Trading gains increased by ₱34.6 million resulting in ₱69.5 million for this year.
- Service charges, fees and commissions expanded to ₱132.4 million, or a 3.9% growth YoY, while Miscellaneous income decreased by ₱70.7 million resulting in ₱73.4 million. This decrease in miscellaneous income caused the 13.5% decrease in the core income.
- Non-interest expenses grew by 13.2% YoY as the Bank continued its expansion of its branch network and added manpower to handle its expanding business volume.

- Net income amounted to ₱502.1 million, which is 6.4% lower YoY from last year's ₱536.2 million.

For the year ended December 31, 2014 vs. December 31, 2013

- This year, the Bank's core income, which is composed of the Bank's net interest income, service charges, fees and commissions, and miscellaneous income amounted to ₱935.5 million. This is an increase of ₱503.1 million from last year's core income. Net income amounted to ₱536.2 million, which is 46.6% lower from ₱1.004 billion in 2013 due to the decrease in the income from trading activities, total comprehensive income improved by 180.6% from a loss last year to a total gain of ₱1.040 billion.
- Interest income grew by 27.1% from ₱2.2 billion in December 2013 to ₱2.8 billion in 2014 due to the increase in loan volume booked during the period which increased by 26.9% YoY.
- Service charges, fees and commissions by 72.7% YoY, while Miscellaneous income grew to ₱144.1 million or 277.1%.
- Trading gains amounted to ₱34.8 million, lower than last year's gain of ₱816.8 million, a 95.7% decrease.
- Manpower costs increased by 22.1% from ₱392.7 million in 2013 to ₱479.6 million in 2014 as a result of continued business expansion

For the year ended December 31, 2013 vs. year ended December 31, 2012

- PBB's interest income increased from ₱1.7 billion to ₱2.2 billion due mainly to the increased in the volume of loans booked during the period and the consistent yields at an average effective interest rate of 2% - 22% p.a. Loan volume increased from ₱20.869 billion in 2012 to ₱31.6 billion in 2013. Interest income from investment and trading securities increased from ₱347 million in 2012 to ₱368.6 million in 2013 due to general market conditions of higher interest rates. Interest due from BSP increased from ₱22.5 million in 2012 to ₱45.5 million in 2013 due to increase in volume of Deposit from BSP to cover deposit liability reserves.
- Total interest expense decreased from ₱608.0 million in 2012 to ₱489.3 million in 2013 or ₱118.8 million or 19.5% due to the decrease in interest rates even with the increase in the overall deposit of 43.2%. This represents lower interest costs on increased volume of deposit from ₱26.4 billion in 2012 to ₱37.9 billion in 2013 or ₱11.4 million.
- PBB NIM's rate improves to 4.5% from 3.8% due to the increase in interest income from ₱1.7 billion in 2012 to ₱2.2 billion in 2013 or ₱524.9 million or 30.6% while interest expense decreased by ₱135.7 million or 21.4% from ₱635.3 million in 2012 to ₱499.6 million in 2013.

As a result net interest income increased by ₱600.6 million or 61.6% from ₱1.1 billion in 2012 to ₱1.7 billion in 2013.

- The bank continued to set aside certain impairment losses in 2013 to cover its non-performing loans. The bank increased its provisions by ₱105.8 million or 146.1% from ₱72.4 million in 2012 to ₱178.2 million in 2013. This makes up to more than 92% cover for its non-performing loans during the year 2013.
- PBB's other income increased by 4.9% or ₱43.9 million from ₱884.9 million in 2012 to ₱928.8 million in 2013, due mainly to trading income of ₱816.8 million from treasury activities. The bank was able to take the market opportunities and realize exceptional gains from its investment portfolio.
- Other Expenses increased by 15.5% or ₱182.0 million from ₱1.2 billion in 2012 to ₱1.4 billion in 2013. The increase in operating expenses, specifically to occupancy, salaries and wages, insurance, travelling and depreciation were due to the branch expansion program of the bank
- As a result PBB's net profit increased by 53.7% or ₱351.7 million from ₱654.6 million in 2012 to ₱1.0 billion in 2013.

Cash Flows

The following table sets forth selected information from PBB's statements of cash flows for the periods indicated:

	For period ended December 31		
	2013 (audited)	2014 (audited)	2015 (audited)
Cash and cash equivalents, beginning of the year	4,509.17	5,004.36	7,760.03
Net cash provided by (used in) operating activities	1,622.93	1,962.78	5,878.80
Net cash provided by (used in) investing activities	(3,567.91)	741.16	(1,552.36)
Net cash provided by (used in) financing activities	2,440.17	53.27	(308.57)
Net increase (decrease) in cash and cash equivalents	495.19	2,787.21	4,017.89
Cash and cash equivalents, end of the year	5,004.36	7,760.03	11,777.92

Net Cash Flow Provided By (Used In) Operating Activities

Net cash flow provided by operating activities is composed of deposits generated and loans and receivables. As of December 31, 2015, net cash used in operating activities amounted to ₱5.9 billion. During this time, the Bank increased its loans and receivables by ₱1.6 billion while its deposits grew by ₱8.4 billion. As of the years ended December 31, 2014 and 2013, cash flow from operating activities was ₱1.6 billion and ₱1.5 billion respectively.

Net Cash Flow Provided By (Used In) Investing Activities

Net cash flow provided by or used in investing activities involves the purchase and sale of available for sale securities and held-to-maturity investments and capital expenditure and proceeds from the disposal of investment and other properties. As of December 31, 2015 net cash used in investing activities amounted to ₱1.6 billion, with funds generated mainly from the proceeds from sale of investments and other property amounting to ₱838.5 million less net acquisition of bank premises and FFE and net acquisitions of available for sale securities. In 2014, net cash proceeds from investing activities amounted to ₱1.1 billion, with funds generated mainly from the proceeds from sale of investment and other properties amounting to ₱1.5 billion less net acquisitions of bank premises and FFE and net acquisitions of available for sale securities. In 2013, cash outflow from investing activities amounted to ₱3.4 billion with funds generated primarily by the sale of investment and other properties amounting to ₱15.4 billion less net acquisitions of bank premises and FFE and net acquisitions of available for sale securities.

Net Cash Flow Provided By (Used In) Financing Activities

Net cash flow provided by financing activities is mainly composed of availments of the Bank's credit lines and stockholders' equity infusion. As of December 31, 2015, PBB recorded a use of cash flow from financing activities of ₱308.6 million to payoff bills payables. As of December 31, 2014 PBB recorded net cash provided by financing activities of ₱53.3 million arising from net borrowings of ₱115.6 million net of cash dividend payment of ₱62.3 million. As of December 31, 2013 PBB recorded net cash provided by financing activities of ₱2.4 billion arising from share issuance amounting to ₱3.0 billion net of bills payment of ₱571.6 million. In 2012, PBB recorded net cash provided by financing activities of ₱918.7 million with funds arising from the Bank's loan availments. In the same period, the Bank generated funds of ₱375.0 million from the payment of subscriptions receivables from its preferred shareholders.

Capital Resources

The Bank is required to comply with the capital adequacy requirements based on the requirements for stand-alone thrift banks under BSP's Circular No. 688 issued in May 26, 2010.

The following table sets out details of the Bank's capital resources and capital adequacy ratios (as reported to the BSP).

₱ millions	As of the years ended December 31		
	2013	2014	2015
Tier 1 capital	8,154	8,678	8,709
Tier 2 capital	284	406	376
Gross qualifying capital	8,437	9,085	9,085
Less: required deductions	257	297	-
Total qualifying capital	8,180	8,787	9,805
Risk weighted assets	33,444	43,706	51,340
Tier 1 capital ratio	23.8	20.1	17.0
Total capital ratio	24.5	19.2	19.1

Capital Expenditure

The Bank's capital expenditure for the year ended December 31, 2013 was ₱78.342 million while ₱123.371 million was spent for the year ended December 31, 2012. These expenses were comprised of acquisitions of bank premises, furniture, fixture and equipment used mainly for the Bank's expansion program.

Financial position

December 31, 2015 vs December 31, 2014

The Bank's assets reached ₱65.6 billion, a 13.4% increase as compared to ₱57.9 billion last year. A major source came from loans and receivables which grew by ₱1.6 billion or 4.1% from ₱40.110bn in December 31, 2014 to ₱41.7 billion in December 31, 2015 as a result of deployment of funds to borrowing clients.

Cash and Other Cash items improved by ₱105.3 million or 9.0% from ₱1.2 billion in December 31, 2014 to ₱1.3 billion in December 2015 due to significant increase in the number of branches.

Due from BSP grew by ₱3.1 billion or 68.46% from ₱4.6 billion in December 31, 2014 to ₱7.7 billion in December 31, 2015.

Due from other banks increased by ₱794.4 million or 39.1% from ₱2.0 billion in December 31, 2014 to ₱2.8 billion in December 31, 2015 this is an increase in excess cash in vault of branches deposited to our depository bank for transfer to BSP.

Bank Premises grew by ₱46.9 million or 9.1% from ₱515.766m in December 31, 2014 to ₱562.6 million in December 31, 2015 due to branch expansion.

Investment Properties declined by 4.2% or ₱30.0 million from ₱705.7 million in December 31, 2014 to ₱675.771m in December 31, 2015.

Other resources increased by 87.34% or ₱796.7 million from ₱912.1 million in December 31, 2015 to ₱1.7 billion in December 31, 2014.

Liabilities amounted to P57.1 billion as of December 31, 2015. This is ₱87.3 million or 14.6% higher as compared to December 31, 2014 level of ₱49.8 billion. This is due to increase in the number of branches and aggressive deposit campaign.

Bills Payable decreased by ₱308.6 million or 99.7% from ₱309.5 million in December 2014 to ₱956,250 in December 2015.

Accrued expenses and other liabilities decreased by 27.82% or ₱807.9 million from P2.9 billion in December 31, 2015 to P2.1 billion in December 31, 2014.

December 31, 2014 vs. December 31, 2013:

As of December 31, 2014, the Bank's assets reached ₱57.8 billion, a 22.7% increase as compared to ₱47.2 billion last year.

Loans and receivables increased by 26.9% from ₱31.6 billion to ₱40.1 billion this year as funds were deployed to borrowing clients. NPL ratio improved significantly from 2.37% last year to this year's ratio of 1.57%. CAR is at 20.95%.

Deposit liabilities grew by 23.1% due to an aggressive deposit campaign while total equity increased by 14.2% from ₱ 7.0 billion to ₱8.0 billion in December 2014.

December 31, 2013 vs. December 31, 2012

PBB's assets reached ₱46.9 billion as of December 31, 2013. This is 41.6% higher as compared to ₱33.1 billion as of December 31, 2012. Significant changes (more than 5%) in assets were registered in the following accounts:

Cash and Other Cash items increased by ₱299.8 million or 68.8% due to significant increase in the number of branches.

Due from BSP grew by ₱524.0 million or 17.1% due to increased deposits to BSP as a result of very liquid position during the year 2013.

Due from other banks decreased by ₱328.6 million or 32.9% from ₱1,000.1 million in December 31, 2012 to ₱671.5 million in December 31, 2013 this is due to transfer of excess cash in vault deposited to our depository bank and transferred our demand deposit account with BSP

Loans and Receivables grew by ₱10.7 billion or 51.4% from ₱20.9 billion in December 31, 2012 to ₱31.6 billion in December 31, 2013 as a result of deployment of funds to borrowing clients.

Bank Premises grew by ₱78.3 million or 19.7% from ₱398.5 million in December 31, 2012 to ₱476.8 in December 31, 2013 due to branch expansion.

Investment Properties decreased by 18.9% or ₱103.6 million from ₱549.2 million in December 31, 2012 to ₱445.7 million in December 31, 2013 due to sale of foreclosed property during the year.

Other resources decreased by 19.8% or ₱196.9 million from ₱993.4 million in December 31, 2012 to ₱796.5 million in December 31, 2013.

PBB's liabilities amounted to ₱37.9 billion as of December 31, 2013. This is ₱11.4 billion or 43.2% higher as compared to December 31, 2012 level of ₱26.4 billion.

Bills Payable decreased by ₱571.6 million or 74.7% from ₱765.5 million in December 2012 to ₱193.9 million in December 2013.

Accrued expenses and other liabilities increased by 36.7% or ₱552.2 million from ₱1.5 billion in December 31, 2012 to ₱2.1 billion in December 31, 2013.

Known trends, demands, commitments, events or uncertainties

There are no known demands, commitments, events or uncertainties that will have a material impact on the Bank's liquidity within the next twelve (12) months.

Events that will trigger direct or contingent financial obligation

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

Material off-balance sheet transactions, arrangements or obligations

There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Bank with unsolicited entities or other persons created during the reporting period other than those disclosed in the financial statements.

Significant Elements of Income or Loss

Significant elements of the consolidated net income for the period ended December 31, 2015 and 2014 came from its continuing operations.

Seasonal Aspects

There are no seasonal aspects that had a material effect on the Bank's financial position and results of operations.

Capital Expenditure

The Bank's capital expenditure for the year ended December 31, 2013 was ₱78.342 million while ₱123.371 million was spent for the year ended December 31, 2012. These expenses were comprised

of acquisitions of bank premises, furniture, fixture and equipment used mainly for the Bank's expansion program.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

The accompanying financial reporting package (FRP) of Philippine Business Bank (“PBB” or the “Bank”) which comprise the Bank’s financial position as of March 31, 2016 and December 31, 2015 and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the three-months periods ending March 31, 2016 and March 31, 2015 have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

A. Management’s Discussion and Analysis

	For the three-months ended			
	3/31/2016	3/31/2015	Variance	%
Core income				
Net interest income	₱ 589,448,304	₱ 602,239,601	(₱ 12,791,297)	(2.1)
Service charges, fees and commissions	23,854,417	21,435,356	2,419,061	11.3
Miscellaneous	18,837,980	16,707,678	2,130,302	12.8
	632,140,701	640,382,635	(8,241,934)	(1.3)
Non-interest expenses	(473,706,962)	(419,934,344)	(53,772,618)	12.8
Core income	158,433,739	220,448,291	(62,014,552)	(28.1)

The Bank’s core lending business weakened as core income before non-interest expense decreased by 1.3% to ₱632.1 million.

Net interest income for the three month period declined by 2.1% as the interest income from loans and other receivables decreased by ₱29.5 million, an 4.4% drop Year-over-Year (YoY) while interest expenses increased by ₱13.5 million, a 7.8% growth YoY, due to higher deposit liabilities.

Service charges, fees and commissions grew by ₱2.4 million, or 11.3% YoY. Moreover, miscellaneous income improved by ₱2.1 million or 12.8%, leading core revenue to ₱632.1 million, down 1.3%. This decline in core income was mainly due to the lower net interest income.

On the other hand, non-interest expenses grew by 12.8% YoY principally as an effect of the increase in business volumes and the ensuing increment in the support function requirements from the Bank's continuing expansion of its branch network.

As a result, core income net of operating expenses declined 28.1% or ₱62.0 million YoY, as the Bank’s net interest income declined coupled with the increase in non-interest expenses.

	For the three-months ended				
	3/31/2016	3/31/2015	Variance	%	
Core income	₱ 158,433,739	₱ 220,448,291	(₱ 62,014,552)	(28.1)	
Trading gains (losses)	50,721,806	30,034,842	20,686,964	68.9	
Pre-tax pre-provision profit	209,155,545	250,483,133	(41,327,588)	(16.5)	
Loan loss provision	(5,000,000)	(75,925,000)	70,925,000	(93.4)	
Taxes	(42,122,914)	(33,648,328)	(8,474,586)	25.2	
Net income	162,032,631	140,909,805	21,122,826	15.0	

Due to the decline in core income, the Bank's pre-tax pre-provision profit was reduced to ₱209.2 million, a 16.5% decrease YoY. Nevertheless, the Bank's trading gains increased by ₱20.7 million resulting in ₱50.7 million trading gains this year.

The Bank increased its provisioning by ₱70.9 million for the initial three months of the year which resulted in net income of ₱162.0 million, 15% higher YoY from last year's ₱140.9 million.

Annualized Return on Equity (ROE) stood at 7.49% in March 31, 2016 from 6.10% in December 31, 2015 and Return on Assets (ROA) stood at 1.02% from 0.81%.

B. Key Performance Indicators

Capital Adequacy Ratio: CAR, which is a measure of a bank's financial strength, stood at 18.72% by the end of the first quarter which is 1.72 percentage points higher than the previous quarter.

Asset Quality: The Bank's non-performing loans (NPL) ratio increased to 3.37% as of March 31, 2016 from 2.88% in December 31, 2015, which was mainly due to the consolidation of Kabalikat Rural Bank, Inc.

Profitability: Return on Equity (ROE) increased from 6.10% in December 31, 2015 to 7.49% in March 31, 2016. Net interest margin improved from 4.03% in December 31, 2015 to 4.11% in March 31, 2016.

Liquidity: The Bank's loans-to-deposit ratio as of March 31, 2016 was at 78.96% from 75.03% in December 31, 2015.

Cost efficiency: Cost-to-income ratio increased to 69.37% as of the end of March while in December 31, 2015, the ratio was at 66.98%.

C. Discussions on Key Variable and Other Qualitative and Quantitative Factors

Vertical and Horizontal Analysis

Financial Condition (March 31, 2016 vs. December 31, 2015)

- PBB's assets reached ₱61.9 billion as of March 31, 2016. This is 5.7% lower compared to ₱65.6 billion as of December 31, 2015. Significant changes (more than 5%) in

assets were registered in the following accounts:

- a. Cash and Other Cash items declined by ₱250.1 million or 19.6% due to cash management and to reduce non-interest bearing assets.
 - b. Due from BSP decreased by ₱2.8 billion or 35.9% due to lower generation of deposits in the first three months of the year.
 - c. Due from Other Banks decreased by ₱959.1 million or 33.9%.
 - d. Investment Securities at fair value through profit or loss increased by ₱1.2 billion or 1,525.2% due to acquisition of various government securities.
 - e. Available-For-Sale securities decreased by ₱159.9 million.
 - f. Real and Other Properties Owned increased by 2.3% or ₱15.4 million due to the transfer of past due accounts to foreclosed properties during first the three months of 2016.
- PBB's liabilities amounted to ₱53.0 billion as of March 31, 2016. This is ₱406.9 million or 7.1% lower than December 31, 2015 level of ₱57.1 billion, largely due to a decrease in Demand Deposit.
 - High cost liability in the form of Bills Payable was reduced to zero from ₱956.3 thousand in December 2015.

Significant Elements of Income or Loss

Significant elements of the net income of the Bank for the period ended September 30, 2015 came from its operations. A significant portion came from the core business of interest income on loans and trading gains/losses from the sale of Peso securities.

Known trends, demands, commitments, events or uncertainties

There are no known demands, commitments, events or uncertainties that will have a material impact on the Bank's liquidity within the next twelve (12) months.

Events that will trigger direct or contingent financial obligation

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

Material off-balance sheet transactions, arrangements or obligations

There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Bank with unsolicited entities or other persons created during the reporting period other than those disclosed in the financial statements.

Significant Elements of Income or Loss

Significant elements of the consolidated net income for the nine months period ended September 30, 2015 and 2014 came from its continuing operations.

Seasonal Aspects

There are no seasonal aspects that had a material effect on the Bank's financial position and results of operations.

PHILIPPINE BUSINESS BANK, INC. A SAVINGS BANK
UNAUDITED STATEMENTS OF FINANCIAL POSITION
MARCH 31, 2016 AND DECEMBER 31, 2015
(Amounts in Philippine Pesos)

	<u>Unaudited</u> <u>March 31, 2016</u>	<u>Audited</u> <u>December 31, 2015</u>
<u>RESOURCES</u>		
CASH AND OTHER CASH ITEMS	P 1,029,161,279	P 1,279,302,155
DUE FROM BANGKO SENTRAL NG PILIPINAS	4,915,035,461	7,672,637,783
DUE FROM OTHER BANKS	1,866,928,292	2,825,982,401
TRADING AND INVESTMENT SECURITIES		
At Fair Value Through Profit or Loss	1,234,180,459	75,942,639
Available-For-Sale	2,934,667,724	3,094,538,311
Held-To-Maturity	6,072,245,011	5,948,727,495
LOANS AND OTHER RECEIVABLES - Net	40,797,694,088	41,737,830,222
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	580,522,414	562,634,722
INVESTMENT PROPERTIES - Net	691,160,434	675,770,624
OTHER RESOURCES - Net	<u>1,752,535,814</u>	<u>1,708,795,604</u>
TOTAL RESOURCES	<u>P 61,874,130,976</u>	<u>P 65,582,161,956</u>
<u>LIABILITIES AND EQUITY</u>		
DEPOSIT LIABILITIES		
Demand	P 810,979,533	P 2,318,743,667
Savings	18,618,513,519	19,346,525,011
Time	<u>31,752,526,633</u>	<u>33,350,950,832</u>
Total Deposit Liabilities	51,182,019,685	55,016,219,510
BILLS PAYABLE	-	956,250
ACCRUED EXPENSES AND OTHER LIABILITIES	<u>1,861,612,910</u>	<u>2,095,433,359</u>
Total Liabilities	53,043,632,595	57,112,609,119
EQUITY	<u>8,830,498,381</u>	<u>8,469,552,837</u>
TOTAL LIABILITIES AND EQUITY	<u>P 61,874,130,976</u>	<u>P 65,582,161,956</u>

PHILIPPINE BUSINESS BANK, INC. A SAVINGS BANK
UNAUDITED STATEMENTS OF INCOME
FOR THREE MONTHS ENDED MARCH 31, 2016, AND MARCH 31, 2015
(Amounts in Philippine Pesos)

	<u>2016</u>	<u>2015</u>
INTEREST INCOME		
Loans and other receivables	P 635,423,518	P 664,964,081
Investment and trading securities	125,168,284	99,044,794
Securities purchased under reverse repurchase agreements	-	-
Due from Bangko Sentral ng Pilipinas and other banks	<u>16,963,095</u>	<u>12,806,001</u>
	<u>777,554,897</u>	<u>776,814,876</u>
INTEREST EXPENSE		
Deposit liabilities	188,093,807	156,063,676
Bills payable	<u>12,786</u>	<u>18,511,599</u>
	<u>188,106,593</u>	<u>174,575,275</u>
NET INTEREST INCOME	589,448,304	602,239,601
IMPAIRMENT LOSSES	<u>5,000,000</u>	<u>75,925,000</u>
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES	<u>584,448,304</u>	<u>526,314,601</u>
OTHER INCOME		
Trading gains - net	50,721,806	30,034,842
Service charges, fees and commissions	23,854,417	21,435,356
Miscellaneous	<u>18,837,980</u>	<u>16,707,678</u>
	<u>93,414,203</u>	<u>68,177,876</u>
OTHER EXPENSES		
Salaries and other employee benefits	147,954,812	136,535,796
Taxes and licenses	83,780,959	44,835,092
Management and other professional fees	24,032,848	19,043,509
Depreciation and amortization	41,569,716	35,956,524
Insurance	29,783,994	25,175,715
Representation and entertainment	8,257,295	7,334,147
Miscellaneous	<u>138,327,338</u>	<u>151,053,561</u>
	<u>473,706,962</u>	<u>419,934,344</u>
PROFIT BEFORE TAX	204,155,545	174,558,133
TAX EXPENSE	<u>42,122,914</u>	<u>33,648,328</u>
NET PROFIT	<u>P 162,032,631</u>	<u>P 140,909,805</u>
Earnings Per Share		
Basic	<u>P 0.30</u>	<u>P 0.26</u>
Diluted	<u>P 0.30</u>	<u>P 0.26</u>

PHILIPPINE BUSINESS BANK, INC. A SAVINGS BANK
UNAUDITED STATEMENTS OF COMPREHENSIVE INCOME
FOR THREE MONTHS ENDED MARCH 31, 2016, AND MARCH 31, 2015
(Amounts in Philippine Pesos)

	2016	2015
NET PROFIT	P 162,032,631	P 140,909,805
OTHER COMPREHENSIVE INCOME		
Fair value gain on available-for-sale securities during the year - net	150,353,476	221,744
Fair value loss (gain) recycled to profit or loss	-	57,244,732
Realized fair value (gains) losses of AFS securities disposed during the year - net	19,125,290	
Amortization of fair value loss on reclassified securities	(2,866,464)	2,688,679
	166,612,302	60,155,155
TOTAL COMPREHENSIVE INCOME	P 328,644,933	P 201,064,960

PHILIPPINE BUSINESS BANK, INC. A SAVINGS BANK
 UNAUDITED STATEMENTS OF CHANGES IN EQUITY
 FOR THREE MONTHS ENDED MARCH 31, 2016, AND MARCH 31, 2015
 (Amounts in Philippine Pesos)

	Capital Stock		Additional Paid-in Capital	Surplus		Unrealized Fair Value Gains (Losses) on Available-for-sale Securities	Accumulated Actuarial Gains (Losses)	Total Equity
	Preferred Stock	Common Stock		Appropriated	Unappropriated			
BALANCE AS OF JANUARY 1, 2016	P 620,000,000	P 5,364,584,375	P 1,998,396,816	P 4,799,387	P 1,087,656,774	(P 577,298,405)	(P 28,586,105)	P 8,469,552,842
Prior period adjustment	-	-	-	(1,387,487)	36,288,817	-	(2,600,725.00)	P 32,300,605
Proceeds from capital stock issuance	-	-	-	-	-	-	-	-
Stock dividends	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-
Total comprehensive income (loss)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>162,032,631</u>	<u>166,612,303</u>	<u>-</u>	<u>328,644,934</u>
BALANCE AS OF MARCH 31, 2016	<u>P 620,000,000</u>	<u>P 5,364,584,375</u>	<u>P 1,998,396,816</u>	<u>P 3,411,900</u>	<u>P 1,285,978,222</u>	<u>(P 410,686,102)</u>	<u>(P 31,186,830)</u>	<u>P 8,830,498,381</u>
BALANCE AS OF JANUARY 1, 2015	P 620,000,000	P 4,291,667,500	P 1,998,289,444	P -	P 1,768,430,192	(P 519,742,021)	(P 29,655,290)	P 8,128,989,825
Prior period adjustment	-	-	-	-	-	-	-	-
Proceeds from capital stock issuance	-	-	-	-	-	-	-	-
Stock dividends	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	-	-	-	-
Total comprehensive income (loss)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>140,909,805</u>	<u>60,155,155</u>	<u>-</u>	<u>201,064,960</u>
BALANCE AS OF MARCH 31, 2014	<u>P 620,000,000</u>	<u>P 4,291,667,500</u>	<u>P 1,998,289,444</u>	<u>-</u>	<u>P 1,909,339,997</u>	<u>(P 459,586,866)</u>	<u>(P 29,655,290)</u>	<u>P 8,330,054,785</u>

PHILIPPINE BUSINESS BANK, INC. A SAVINGS BANK
UNAUDITED STATEMENTS OF CASH FLOWS
FOR THREE MONTHS ENDED MARCH 31, 2016, AND MARCH 31, 2015
(Amounts in Philippine Pesos)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	P 204,155,545	P 174,558,133
Adjustments for:		
Depreciation and amortization	41,569,716	35,956,524
Impairment losses	5,000,000	75,925,000
	-	-
Operating profit before working capital changes	250,725,261	286,439,657
Decrease (increase) in financial assets at fair value through profit or loss	(1,158,237,820)	(1,009,704,416)
Increase (decrease) in hold-to-maturity	(123,517,516)	(163,016,690)
Increase in loans and other receivables	935,136,134	852,735,760
Decrease (increase) in other resources	(42,240,210)	(174,529,078)
Increase (decrease) in deposit liabilities	(3,834,199,825)	515,440,278
Increase (decrease) in accrued expenses and other liabilities	(215,574,159)	(344,190,874)
Increase (decrease) in capital accounts	-	-
Cash generated from (used in) operations	(4,187,908,135)	(36,825,363)
Cash paid for income taxes	(29,568,593)	(22,502,634)
Net Cash From (Used in) Operating Activities	(4,217,476,728)	(59,327,997)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of available-for-sale (AFS) securities	2,106,373,672	615,246,804
Proceeds from sale of AFS securities	(1,779,890,783)	(1,184,176,307)
Proceeds from sale of investment and other properties	(15,389,810)	43,695,046
Net acquisitions of bank premises, furniture, fixtures and equipment	(59,457,408)	(65,168,950)
	-	-
Net Cash From (Used In) Investing Activities	251,635,671	(590,403,407)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net borrowings (payments) of bills payable	(956,250)	(1,715,839)
	-	-
Net Cash From (Used in) Financing Activities	(956,250)	(1,715,839)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
	(3,966,797,307)	(651,447,243)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		
Cash and other cash items	1,279,302,155	1,174,011,464
Due from Bangko Sentral ng Pilipinas	7,672,637,783	4,554,441,827
Due from other banks	2,825,982,401	2,031,581,088
Securities purchased under reverse repurchase agreements	-	-
	11,777,922,339	7,760,034,379
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		
Cash and other cash items	1,029,161,279	895,723,499
Due from Bangko Sentral ng Pilipinas	4,915,035,461	4,758,691,719
Due from other banks	1,866,928,292	1,454,171,918
Securities purchased under reverse repurchase agreements	-	-
	P 7,811,125,032	P 7,108,587,136

PHILIPPINE BUSINESS BANK, INC., A SAVINGS BANK
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2016 AND DECEMBER 31, 2015
(Amounts in Philippine Pesos or As Otherwise Indicated)

1. CORPORATE MATTERS

1.1 Incorporation and Operations

Philippine Business Bank, Inc., A Savings Bank (the Bank or PBB) was incorporated in the Philippines on January 28, 1997 to engage in the business of thrift banking. It was authorized to engage in foreign currency deposit operations on August 27, 1997 and in trust operations on November 13, 2003. As a banking institution, the Bank's operations are regulated and supervised by the Bangko Sentral ng Pilipinas (BSP). In this regard, the Bank is required to comply with rules and regulations of the BSP such as those relating to maintenance of reserve requirements on deposit liabilities and those relating to adoption and use of safe and sound banking practices, among others, as promulgated by the BSP. The Bank's activities are subject to the provisions of the General Banking Law of 2000 (Republic Act No. 8791) and other relevant laws. On April 1, 2010, PBB is the first savings bank in the Philippines that obtained the BSP approval to issue foreign letters of credit and pay/accept/negotiate import/export drafts/bills of exchange under Republic Act Nos. 8791 and 7906 and the Manual of Regulations for Banks.

On January 9, 2013, the Philippine Stock Exchange (PSE) approved the Bank's application for the listing of its common shares. The approval covered the initial public offering (IPO) of 101,333,400 unissued common shares of the Bank at P31.50 per share and the listing of those shares in the PSE's main board on February 19, 2013 (see Note 21.1).

As of March 31, 2016 and December 31, 2015, the Bank operates within the Philippines with 138 and 134 branches, respectively, located nationwide.

The Bank's registered address, which is also its principal place of business, is at 350 Rizal Avenue Extension corner 8th Avenue, Grace Park, Caloocan City.

1.2 Approval of the Financial Statements

The financial statements of the Bank as of and for the quarter ended March 31, 2016 (including the comparative financial statements as of December 31, 2015 and for the years ended March 31, 2016 and March 31, 2015) were authorized for issue by the Bank's Board of Directors (BOD) on April 13, 2016.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized below and in the succeeding pages. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 *Basis of Preparation of Financial Statements*

(a) *Statement of Compliance with Philippine Financial Reporting Standards*

The financial statements of the Bank have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC), from the pronouncements issued by the International Accounting Standards Board, and approved by the Philippine Board of Accountancy.

The financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

(b) *Presentation of Financial Statements*

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Bank presents a statement of comprehensive income separate from the statement of profit or loss.

The Bank presents a third statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are not required to be disclosed.

(c) *Functional and Presentation Currency*

These financial statements are presented in Philippine pesos, the Bank's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the financial statements of the Bank are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the Bank operates. The financial statements of the Bank's foreign currency deposit unit (FCDU) which is reported in its functional currency, the United States (US) dollar, are translated to Philippine peso based on Philippine Dealing System closing rates (PDSCR) at the end of reporting period (for the statement of financial position accounts) and at the average PDSCR for the period (for profit and loss accounts).

2.2 Adoption of New and Amended PFRS

(a) Effective in 2015 that are Relevant to the Bank

In 2015, the Bank adopted for the first time the following amendment and annual improvements to PFRS which are mandatorily effective for annual periods on or after July 1, 2014 for the Bank's annual reporting period beginning January 1, 2015:

PAS 19 (Amendment)	:	Employee Benefits – Defined Benefit Plans – Employee Contributions
Annual Improvements	:	Annual Improvements to PFRS (2010-2012 Cycle) and PFRS (2011-2013 Cycle)

Discussed below are the relevant information about these amended standard and improvements.

- (i) PAS 19 (Amendment), *Employee Benefits – Defined Benefit Plans – Employee Contributions*. The amendment clarifies that if the amount of the contributions to defined benefit plans from employees or third parties is dependent on the number of years of service, an entity shall attribute the contributions to periods of service using the same attribution method (i.e., either using the plan's contribution formula or on a straight-line basis) for the gross benefit. The amendment did not have a significant impact on the Bank's financial statements since the Bank's defined benefit plan does not require employees or third parties to contribute to the benefit plan.
- (ii) Annual Improvements to PFRS. Annual improvements to PFRS (2010-2012 Cycle) and PFRS (2011-2013 Cycle) made minor amendments to a number of PFRS. Among those improvements, the following amendments are relevant to the Bank but had no material impact on the Bank's financial statements as these amendments merely clarify the existing requirements:

Annual Improvements to PFRS (2010-2012 Cycle)

- PFRS 3 (Amendment), *Business Combinations*. The amendment clarifies that an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity in accordance with PAS 32, *Financial Instruments – Presentation*. It also clarifies that all non-equity contingent consideration should be measured at fair value at the end of each reporting period, with changes in fair value recognized in profit or loss.
- PFRS 8 (Amendment), *Operating Segments*. The amendment requires disclosure of the judgments made by management in applying the aggregation criteria to operating segments. This includes a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics. It further clarifies the requirement to disclose for the reconciliations of segment assets to the entity's assets if that amount is regularly provided to the chief operating decision maker.

- PAS 16 (Amendment), *Property, Plant and Equipment* and PAS 38 (Amendment), *Intangible Assets*. The amendments clarify that when an item of property, plant and equipment and intangible assets is revalued, the gross carrying amount is adjusted in a manner that is consistent with a revaluation of the carrying amount of the asset.
- PAS 24 (Amendment), *Related Party Disclosures*. The amendment clarifies that an entity providing key management services to a reporting entity is deemed to be a related party of the latter. It also clarifies that the information required to be disclosed in the financial statements are the amounts incurred by the reporting entity for key management personnel services that are provided by a separate management entity and not the amounts of compensation paid or payable by the management entity to its employees or directors.

Annual Improvements to PFRS (2011-2013 Cycle)

- PFRS 3 (Amendment), *Business Combinations*. It clarifies that PFRS 3 does not apply to the accounting for the formation of any joint arrangement under PFRS 11, *Joint Arrangement*, in the financial statements of the joint arrangement itself.
- PFRS 13 (Amendment), *Fair Value Measurement*. The amendment clarifies that the scope of the exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis (the portfolio exception) applies to all contracts within the scope of and accounted for in accordance with PAS 39, *Financial Instruments: Recognition and Measurement*, or PFRS 9, *Financial Instruments*, regardless of whether they meet the definition of financial assets or financial liabilities as defined in PAS 32.
- PAS 40 (Amendment), *Investment Property*. The amendment clarifies the interrelationship of PFRS 3 and PAS 40 in determining the classification of property as an investment property or owner-occupied property, and explicitly requires an entity to use judgment in determining whether the acquisition of an investment property is an acquisition of an asset or a group of asset in accordance with PAS 40 or a business combination in accordance with PFRS 3.

(b) Effective in 2015 that are not Relevant to the Bank

Among the annual improvements to PFRS, which are mandatory for accounting periods beginning on or after July 1, 2014, only PFRS 2 (Amendment), *Shared-based Payment – Definition of Vesting Condition* is not relevant to the Bank's financial statements.

(c) *Effective Subsequent to 2015 but not Adopted Early*

There are new PFRS, amendments and annual improvements to existing standards effective for annual periods subsequent to 2015, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions and; unless otherwise stated, none of these are expected to have significant impact on the Bank's financial statements:

- (i) PAS 1 (Amendment), *Presentation of Financial Statements – Disclosure Initiative* (effective from January 1, 2016). The amendment encourages entities to apply professional judgment in presenting and disclosing information in the financial statements. Accordingly, it clarifies that materiality applies to the whole financial statements and an entity shall not reduce the understandability of the financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. It further clarifies that in determining the order of presenting the notes and disclosures, an entity shall consider the understandability and comparability of the financial statements.
- (ii) PAS 16 (Amendment), *Property, Plant and Equipment* and PAS 38 (Amendment), *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization* (effective from January 1, 2016). The amendment in PAS 16 clarifies that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment. In addition, amendment to PAS 38 introduces a rebuttable presumption that an amortization method that is based on the revenue generated by an activity that includes the use of an intangible asset is not appropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of an intangible asset are highly correlated.
- (iii) PFRS 11 (Amendment), *Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations* (effective from January 1, 2016). This amendment requires the acquirer of an interest in a joint operation in which the activity constitutes a business as defined in PFRS 3 to apply all accounting principles and disclosure requirements on business combinations under PFRS 3 and other PFRSs, except for those principles that conflict with the guidance in PFRS 11.
- (iv) PFRS 9 (2014), *Financial Instruments* (effective from January 1, 2018). This new standard on financial instruments will eventually replace PAS 39 and PFRS 9 (2009, 2010 and 2013 versions). This standard contains, among others, the following:
 - three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments;
 - an expected loss model in determining impairment of all financial assets that are not measured at fair value through profit or loss (FVTPL), which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset; and,

- a new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

In accordance with the financial asset classification principle of PFRS 9 (2014), a financial asset is classified and measured at amortized cost if the asset is held within a business model whose objective is to hold financial assets in order to collect the contractual cash flows that represent solely payments of principal and interest (SPPI) on the principal outstanding. Moreover, a financial asset is classified and subsequently measured at fair value through other comprehensive income if it meets the SPPI criterion and is held in a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets. All other financial assets are measured at FVTPL.

In addition, PFRS 9 (2014) allows entities to make an irrevocable election to present subsequent changes in the fair value of an equity instrument that is not held for trading in other comprehensive income.

The accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether or not they are closely related, and, in most arrangements, does not require separation from the host contract.

For liabilities, the standard retains most of the PAS 39 requirements, which include amortized cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The amendment also requires changes in the fair value of an entity's own debt instruments caused by changes in its own credit quality to be recognized in other comprehensive income rather than in profit or loss.

The Bank is currently assessing the impact of PFRS 9 (2014) on the financial statements of the Bank to determine whether the effect of PFRS 9 (2014) is significant or not to the financial statements and it is conducting a comprehensive study of the potential impact of this standard to the financial statements and operations of the Bank prior to its mandatory adoption date.

- (v) Annual Improvements to PFRS (2012-2014 Cycle) effective for annual periods beginning on or after January 1, 2016. Among those improvements, the following amendments are relevant to the Bank but management does not expect those to have material impact on the Bank's financial statements:
- PFRS 5 (Amendment), *Non-current Assets Held for Sale and Discontinued Operations*. The amendment clarifies that when an entity reclassifies an asset (or disposal group) directly from being held for sale to being held for distribution (or vice-versa), the accounting guidance in paragraphs 27-29 of PFRS 5 does not apply. It also states that when an entity determines that the asset (or disposal group) is no longer available for immediate distribution or that the distribution is no longer highly probable, it should cease held-for-distribution accounting and apply the guidance in paragraphs 27-29 of PFRS 5.

- PFRS 7 (Amendment), *Financial Instruments – Disclosures*. The amendment provides additional guidance to help entities identify the circumstances under which a contract to “service” financial assets is considered to be a continuing involvement in those assets for the purposes of applying the disclosure requirements of PFRS 7. Such circumstances commonly arise when, for example, the servicing is dependent on the amount or timing of cash flows collected from the transferred asset or when a fixed fee is not paid in full due to non-performance of that asset.
- PAS 19 (Amendment), *Employee Benefits*. The amendment clarifies that the currency and term of the high quality corporate bonds which were used to determine the discount rate for post-employment benefit obligations shall be made consistent with the currency and estimated term of the post-employment benefit obligations.

2.3 Business Combinations

Business acquisitions are accounted for using the acquisition method of accounting.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of a business combination over the Bank’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired entity or net assets. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed (see Note 2.19).

Negative goodwill which is the excess of the Bank’s interest in the net fair value of net identifiable assets acquired over acquisition cost is charged directly to profit or loss.

For the purpose of impairment testing, goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The cash-generating units or groups of cash-generating units are identified according to operating segment.

If the business combination is achieved in stages, the acquirer is required to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in profit or loss or other comprehensive income, as appropriate.

Any contingent consideration to be transferred by the Bank is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with PAS 37, *Provision, Contingent Liabilities and Contingent Assets*, either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

2.4 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Bank’s chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments.

In identifying its operating segments, management generally follows the Bank's products and services as disclosed in Note 7.

Each of these operating segments is managed separately as each of these services requires different technologies and resources as well as marketing approaches. All inter-segment transfers are carried out at arm's length prices.

The measurement policies of the Bank used for segment reporting under PFRS 8 is the same as those used in its financial statements. In addition, corporate resources which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

There have been no changes from prior periods in the measurement methods used to determine reported segment profit or loss.

The Bank's operations are organized according to the nature of the products and services provided. Financial performance on operating segments is presented in Note 7.

2.5 Financial Assets

Financial assets are recognized when the Bank becomes a party to the contractual terms of the financial instrument. For purposes of classifying financial assets, an instrument is considered as an equity instrument if it is non-derivative and meets the definition of an equity for the issuer in accordance with the criteria under PAS 32. All other non-derivative financial instruments are treated as debt instruments.

(a) Classification, Measurement and Reclassification of Financial Assets

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories: financial assets at FVTPL, loans and receivables, held-to-maturity (HTM) investments and available-for-sale (AFS) securities. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. Except for derivative financial instruments and financial assets designated at FVTPL, the designation of financial assets is re-evaluated at the end of each reporting period and at which date, a choice of classification or accounting treatment is available, which is subject to compliance with specific provisions of applicable accounting standards.

Regular purchases and sales of financial assets are recognized on their settlement date. All financial assets that are not classified as at FVTPL are initially recognized at fair value, plus any directly attributable transaction costs. Financial assets carried at FVTPL are initially recorded at fair value and the related transaction costs are recognized in profit or loss.

A more detailed description of the four categories of financial assets is as follows:

(i) Financial Assets at FVTPL

This category includes financial assets that are either classified as held for trading or that meets certain conditions and are designated by the Bank to be carried at FVTPL upon initial recognition. All derivatives fall into this category, except for those designated and effective as hedging instruments.

Financial assets at FVTPL are measured at fair value, and changes therein are recognized in profit or loss. Financial assets (except derivatives and financial instruments originally designated as financial assets at FVTPL) may be reclassified out of fair value through profit or loss category if they are no longer held for the purpose of being sold or repurchased in the near term.

(ii) *Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money or services directly to a debtor with no intention of trading the receivables. Included in this category are financial assets arising from direct loans to customers, securities purchased under reverse repurchase agreements (SPURRA), unquoted debt securities, sales contract receivables and all receivables from customers and other banks.

The Bank's financial assets categorized as loans and receivables are presented as Cash and Other Cash Items, Due from BSP, Due from Other Banks, Loans and Other Receivables, and Other Resources (specifically Security deposits, Petty cash fund and Foreign currency notes and coins on hand) in the statement of financial position. For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, due from BSP and other banks and SPURRA.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment losses, if any.

(iii) *HTM Investments*

This includes non-derivative financial assets with fixed or determinable payments and a fixed date of maturity. Investments are classified as HTM if the Bank has the positive intention and ability to hold them until maturity. Investments intended to be held for an undefined period are not included in this classification.

If the Bank were to sell other than an insignificant amount of HTM investments, the whole category would be tainted and reclassified to AFS securities under PFRS, and the Bank will be prohibited from holding investments under the HTM investments category for the next two financial reporting years after the year the tainting occurred. The tainting provision under PFRS will not apply if the sales or reclassifications of HTM investments are so close to maturity or the financial asset's call date that changes in the market rate of interest would not have a significant effect on the financial asset's fair value; occur after the Bank 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 control of the Bank, is nonrecurring and could not have been reasonably anticipated by the Bank. The Bank currently holds listed sovereign bonds and corporate bonds designated into this category.

Subsequent to initial recognition, the HTM investments are measured at amortized cost using the effective interest method, less impairment losses, if any.

(iv) *AFS Securities*

This category includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Bank's AFS securities include government securities, corporate bonds and equity securities.

All financial assets within this category are subsequently measured at fair value. Gains and losses from changes in fair value are recognized in other comprehensive income and are reported as part of the Revaluation Reserves account in equity, except for interest and dividend income, impairment losses and foreign exchange differences on monetary assets, which are recognized in profit or loss.

When the financial asset is disposed of or is determined to be impaired, the cumulative fair value gains or losses recognized in other comprehensive income is reclassified from equity to profit or loss and is presented as reclassification adjustment within other comprehensive income even though the financial assets has not been derecognized.

(b) *Impairment of Financial Assets*

The Bank assesses at each reporting 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 impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (events) has (have) an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about certain loss events, including, among others: (i) significant financial difficulty of the issuer or debtor; (ii) a breach of contract, such as a default or delinquency in interest or principal payments; (iii) it is probable that the borrower will enter bankruptcy or other financial reorganization; (iv) the disappearance of an active market for that financial asset because of financial difficulties; or, (v) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

(i) *Carried at Amortized Cost – Loans and Receivables and HTM Investments*

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the Bank includes the asset in a group of financial asset with similar credit risk characteristics and collectively assesses them for impairment. 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 of impairment.

If there is objective evidence that an impairment loss on loans and other receivables or HTM investments carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit loss that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss. If loans and other receivables or HTM investments have a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price. 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 foreclosures less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past due status and other relevant factors). 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.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank. 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 for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures, including approval from the management and the BOD, have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date of the impairment is reversed. The amount of the reversal is recognized in profit or loss.

When possible, the Bank 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.

(ii) Carried at Fair Value – AFS Financial Assets

The Bank assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as AFS securities, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for AFS securities, 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 profit or loss – is removed from equity and recognized in profit or loss.

Impairment losses recognized in the statement of profit or loss on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as AFS securities increases and the increase can be objectively related to an event occurring after the impairment loss was recognized the impairment loss is reversed through profit or loss.

Reversal of impairment losses is recognized in other comprehensive income, except for financial assets that are debt securities which are recognized in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

(iii) Carried at Cost – AFS Financial Assets

The Bank assesses at the end of each reporting period whether there is objective evidence that any of the unquoted equity securities which are carried at cost, may be impaired. The amount of impairment loss is the difference between the carrying amount of the equity security and the present value of the estimated future cash flows discounted at the current market rate of return of a similar asset. Impairment losses on assets carried at cost cannot be reversed.

(c) *Items of Income and Expense Related to Financial Assets*

All income and expenses, including impairment losses relating to financial assets are recognized in the statement of profit or loss.

Non-compounding interest and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured.

(d) *Derecognition of Financial Assets*

The financial assets are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

2.6 *Derivative Financial Instruments*

The Bank uses derivative financial instruments to manage its risks associated with fluctuations in foreign currency. Such derivative financial instruments are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The Bank's derivative instruments provide economic hedges under the Bank's policies but are not designated as accounting hedges. Consequently, any gains or losses arising from changes in fair value are taken directly to profit or loss for the period.

2.7 *Offsetting Financial Instruments*

Financial assets and financial liabilities are offset and the resulting net amount is reported in the statement of financial position when there is a legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and must be legally enforceable for both entity and all counterparties to the financial instruments.

2.8 *Financial Liabilities*

Financial liabilities include Deposit Liabilities, Bills Payable and Accrued Expenses and Other Liabilities (excluding tax-related payables and post-employment benefit obligation) and are recognized when the Bank becomes a party to the contractual terms of the instrument. All interest-related charges are recognized as Interest Expense in the statement of profit or loss.

Deposit liabilities and bills payable are recognized initially at their fair value, which is the issuance proceeds (fair value of consideration received) net of direct issue costs, and are

subsequently measured at amortized cost using effective interest method for maturities beyond one year, less settlement payments. Any difference between proceeds net of transaction costs and the redemption value is recognized in the profit or loss over the period of the borrowings.

Accrued expenses and other liabilities are recognized initially at their fair value and subsequently measured at amortized cost, using effective interest method for maturities beyond one year, less settlement payments.

In 2014 and 2013, dividend distributions to shareholders are recognized as financial liabilities upon declaration by the Group and subsequent approval of the BSP. In 2015, BSP approval is no longer necessary on dividend recognition in accordance with the liberalized rules for banks and quasi-banks on dividend declaration.

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

2.9 Other Resources

Other resources pertain to other assets controlled by the Bank as a result of past events. These are recognized in the financial statements when it is probable that the future economic benefits will flow to the Bank and the asset has a cost or value that can be measured reliably.

2.10 Bank Premises, Furniture, Fixtures and Equipment

Land is stated at cost. Bank premises, furniture, fixtures and equipment are carried at acquisition cost less accumulated depreciation and amortization and any impairment losses.

The cost of an asset comprises its purchase price and directly attributable cost of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred.

Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

Building	50 years
Furniture, fixtures and equipment	5-7 years
Transportation equipment	5 years

Leasehold improvements are amortized over the term of the lease or the estimated useful life of the improvements of 5 to 20 years, whichever is shorter.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.19).

Fully depreciated and fully amortized assets are retained in the accounts until they are no longer in use and no further charge for depreciation and amortization is made in respect of those assets.

The residual values, estimated useful lives and method of depreciation and amortization of Bank premises, furniture, fixtures and equipment (except land) are reviewed and adjusted if

appropriate, at the end of each reporting period.

An item of bank premises, furniture, fixtures and equipment, including the related accumulated depreciation, amortization and impairment loss, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year the item is derecognized.

2.11 Investment Properties

Investment properties pertain to land and buildings or condominium units acquired by the Bank, in settlement of loans from defaulting borrowers through foreclosure or dacion in payment. These properties are held by Bank either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the supply of services or for administrative purposes.

Investment properties are stated at cost, less accumulated depreciation and any impairment losses (see Note 2.19). The cost of an investment property comprises its purchase price and directly attributable costs incurred such as legal fees, transfer taxes and other transaction costs.

Investment properties except land are depreciated over a period of five to ten years. Depreciation and impairment loss are recognized in the same manner as in bank premises, furniture, fixtures and equipment.

Investment properties, including the related accumulated depreciation and any impairment losses, are derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of investment properties is recognized in profit or loss under the Gain or loss on sale of properties under Miscellaneous Income or Expenses in the statement of profit or loss, in the year of retirement or disposal.

2.12 Intangible Assets

Intangible assets include goodwill, acquired branch licenses and computer software included as part of other resources which is accounted for under the cost model. The cost of the asset is the amount of cash or cash equivalents paid or the fair value of the other considerations given to acquire an asset at the time of its acquisition.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. Capitalized costs are amortized on a straight-line basis over the estimated useful life lives of these intangible assets are considered finite. In addition, intangible assets are subject to impairment testing as described in Note 2.19. Costs associated with maintaining computer software and those costs associated with research activities are recognized as expense in profit or loss as incurred.

Goodwill represents the excess of the cost of acquisition over the fair value of the net assets acquired and branch licenses at the date of acquisition. Goodwill and branch licenses are classified as intangible assets with indefinite useful life, and thus, not subject to amortization but to an annual test for impairment (see Note 2.19). For purposes of impairment testing, goodwill and branch licenses are allocated to cash-generating units and are subsequently carried at cost less any allowance for impairment losses.

When an intangible asset is disposed of, the gain or loss on disposal is determined as the difference between the proceeds and the carrying amount of the asset and is recognized in profit or loss.

2.13 Provisions and Contingencies

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example, legal disputes or onerous contracts.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pre-tax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to the Bank that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements. On the other hand, any reimbursement that the Bank is virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

2.14 Equity

Capital stock represents the nominal value of the common and preferred shares that have been issued.

Additional paid-in capital includes any premium received on the issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital.

Appropriated surplus pertains to appropriations made by the Bank for a portion of the Bank's income from trust operations in compliance with BSP regulations.

Unappropriated surplus includes all current and prior period results of operations as disclosed in the statement of profit or loss, less appropriated surplus and dividends declared.

Revaluation reserves comprise remeasurements of post-employment defined benefit plan and unrealized fair value gains (losses) on mark-to-market valuation of AFS securities, net of amortization of fair value gains or losses on reclassified financial assets.

2.15 Related Party Transactions and Relationships

Related party transactions are transfers of resources, services or obligations between the Bank and its related parties, regardless whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercises significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Bank; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank and close members of the family of any such individual; and (d) the Bank's funded retirement plan.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

2.16 Revenue and Expense Recognition

Revenue is recognized to the extent that it is probable that the revenue can be reliably measured; it is probable that future economic benefits will flow to the Bank; and the costs and expenses incurred and to be incurred can be measured reliably. Cost and expenses are recognized in profit or loss upon utilization of the assets or services or at the date these are incurred. In addition, the following specific recognition criteria must also be met before revenue is recognized:

(a) Interest Income and Expense

Interest income and expense are recognized in the statement of profit or loss for all financial instruments using the effective interest method.

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

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount future cash flows for the purpose of measuring the impairment loss.

(b) *Trading Gains or Losses*

Trading gains or losses are recognized when the ownership of the security is transferred to the buyer and is computed as the difference between the selling price and the carrying amount of the security. Trading gains or losses also include result from the mark-to-market valuation of the securities classified as FVTPL at the valuation date and gain or loss from foreign exchange trading.

(c) *Service Charges, Fees and Commissions*

Service charges, fees and commissions are generally recognized on an accrual basis when the service has been provided. Other service fees are recognized based on the applicable service contracts, usually on a time-appropriate basis.

2.17 Leases

The Bank accounts for its leases as follows:

(a) *Bank as Lessee*

Leases, which do not transfer to the Bank substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments (net of any incentive received from a lessor) are recognized as expense in profit or loss on a straight-line basis over the lease term. Associated costs, such as insurance and repairs and maintenance, are expensed as incurred.

(b) *Bank as Lessor*

Leases, which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset, are classified as operating leases. Lease income from operating leases is recognized in profit or loss on a straight-line basis over the lease term.

The Bank determines whether an arrangement is, or contains, a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

2.18 Foreign Currency Transactions and Translation

The accounting records of the Bank's regular banking unit are maintained in Philippine pesos while the FCDU are maintained in US dollars. Foreign currency transactions during the period are translated into the functional currency at exchange rates, which approximate those prevailing on transaction dates.

Foreign exchange gains and losses resulting from the settlement of foreign currency denominated transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Changes in the fair value of monetary financial assets denominated in foreign currency classified as AFS securities are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in the carrying amount are recognized in other comprehensive income.

2.19 Impairment of Non-financial Assets

The Bank's premises, furniture, fixtures and equipment, investment properties, goodwill, branch licenses, computer software, other properties held for sale (classified as part of Miscellaneous under Other Resources) and other non-financial assets are subject to impairment testing. Intangible assets with an indefinite useful life or those not yet available for use are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, assets are tested for impairment either individually or at the cash-generating unit level.

An impairment loss is recognized for the amount by which the asset or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value in use, based on an internal discounted cash flow evaluation. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors. Impairment loss is charged pro rata to the other assets in the cash generating unit.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the cash generating units' recoverable amount exceeds its carrying amount.

2.20 Employee Benefits

The Bank provides post-employment benefits to employees through a defined benefit plan and defined contribution plan, and other employee benefits which are recognized as follows:

(a) Post-employment Defined Benefit Plan

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Bank, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Bank's defined benefit post-employment plan covers all regular full-time employees. The post-employment plan is tax-qualified, non-contributory and administered by a trustee bank.

The liability recognized in the statement of financial position for defined benefit post-employment plans is the present value of the defined benefit obligation (DBO) at the end of the reporting period less the fair value of plan assets. The DBO is calculated annually by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows using interest rates based on zero coupon government bonds as published by Philippine Dealing & Exchange Corp. (PDEX) that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest) are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Interest Expense account in the statement of profit or loss.

Past-service costs are recognized immediately in profit or loss in the period of a plan amendment or curtailment.

(b) Post-employment Defined Contribution Plan

A defined contribution plan is a post-employment plan under which the Bank pays fixed contributions into an independent entity (e.g. Social Security System and Philhealth). The Bank has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred and are normally of a short-term nature.

(c) Termination Benefits

Termination benefits are payable when employment is terminated by the Bank before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognizes termination benefits at the earlier of when it can no longer withdraw the offer of such benefits and when it recognizes costs for a restructuring that is within the scope of PAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

(d) Bonus Plans

The Bank recognizes a liability and an expense for employee bonuses, based on a formula that is fixed regardless of the Bank's income after certain adjustments and does not take into consideration the profit attributable to the Bank's shareholders. The Bank recognizes a provision where it is contractually obliged to pay the benefits, or where there is a past practice that has created a constructive obligation.

(e) Compensated Absences

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of the reporting period. They are included in the Accrued Expenses and Other Liabilities account in the statement of financial position at the undiscounted amount that the Bank expects to pay as a result of the unused entitlement.

2.21 Income Taxes

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the reporting period. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is accounted for using the liability method, on temporary differences at the end of each reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carry forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Deferred tax assets and deferred tax liabilities are offset if the Bank has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred taxes relate to the same entity and the same taxation authority.

2.22 Earnings Per Share

Basic earnings per share (EPS) is determined by dividing net profit by the weighted average number of common shares subscribed and issued during the period, after retroactive adjustment for any stock dividend declared in the current period.

The diluted EPS is also computed by dividing net profit by the weighted average number of common shares subscribed and issued during the period. However, net profit attributable to common shares and the weighted average number of common shares outstanding are adjusted to reflect the effects of potentially dilutive convertible preferred shares as approved by the Securities and Exchange Commission. Convertible preferred shares are deemed to have been converted to common shares at the issuance of preferred shares. As of December 31, 2015 and 2014, the Bank has no convertible preferred shares.

2.23 Trust and Fiduciary Operations

The Bank acts as trustee and in other fiduciary capacity that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and their income arising thereon are excluded from these financial statements, as these are neither resources nor income of the Bank.

2.24 Events After the End of the Reporting Period

Any post-year-end event that provides additional information about the Bank's financial position at the end of the reporting period (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Bank's financial statements in accordance with PFRS requires management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates.

3.1 Critical Management Judgments in Applying Accounting Policies

In the process of applying the Bank's accounting policies, management has made the following judgments, apart from those involving estimation, which have the most significant effect on the amounts recognized in the financial statements:

(a) Classifying Financial Assets as HTM Investments

In classifying non-derivative financial assets with fixed or determinable payments and fixed maturity, such as bonds, as HTM investments, the Bank evaluates its intention and ability to hold such investments up to maturity. Management has confirmed its intention and determined its ability to hold the investments up to maturity.

If the Bank fails to keep these investments at maturity other than for the allowed specific circumstances as discussed in the succeeding paragraph, it will be required to reclassify the entire class to AFS securities. The investments would therefore be measured at fair value and not at amortized cost. However, the tainting provision will not apply if the sales or reclassifications of HTM investments are so close to maturity or the financial asset's call date that changes in the market rate of interest would not have a significant effect on the financial asset's fair value; occur after the Bank 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 control of the Bank, is nonrecurring and could not have been reasonably anticipated by the Bank.

(b) *Impairment of AFS Securities*

The determination when an investment is other-than-temporarily impaired requires significant judgment. In making this judgment, the Bank evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

Based on the recent evaluation of information and circumstances affecting the Bank's AFS securities, management concluded that no assets are impaired as of March 31, 2106 and December 31, 2015. Future changes in those information and circumstance might significantly affect the carrying amount of the assets.

(c) *Distinguishing Investment Properties and Owner-occupied Properties*

The Bank determines whether a property qualifies as investment property. In making this judgment, the Bank considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to properties but also to other assets used in the production or supply process.

Some properties may comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in providing services or for administrative purposes. If these portions can be sold separately (or leased out separately under finance lease), the Bank accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in providing services or for administrative purposes.

Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Bank considers each property separately in making its judgment.

(d) *Classifying of Acquired Properties and Determining Fair Value of Investment Properties and Other Properties Held-for-Sale*

The Bank classifies its acquired properties (foreclosed properties) as Bank Premises, Furniture, Fixtures and Equipment if used in operations, as other properties held for sale presented as part of Miscellaneous under Other Resources if the Bank expects that the properties (properties other than land and building) will be recovered through sale rather than use, as Investment Properties if the Bank intends to hold the

properties for capital appreciation or as financial assets in accordance with PAS 39. At initial recognition, the Bank determines the fair value of the acquired properties based on valuations performed by both internal and external appraisers. The appraised value is determined based on the current economic and market conditions as well as the physical condition of the property.

(e) *Distinguishing Operating and Finance Leases*

The Bank has entered into various lease agreements. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities.

As of March 31, 2015 and December 31, 2015, the Bank has determined that all its leases are operating leases.

(f) *Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish the difference between provisions and contingencies. Policies on recognition and disclosure of provisions and contingencies are discussed in Note 2.13.

In dealing with the Bank's various legal proceedings, its estimate of the probable costs that may arise from claims and contingencies has been developed in consultation and coordination with the Bank's internal and outside counsels acting in defense for the Bank's legal cases and are based upon the analysis of probable results.

Although the Bank does not believe that its dealing on these proceedings will have material adverse effect on the Bank's financial position, it is possible that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies conducted relating to those proceedings.

3.2 Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of resources and liabilities within the next reporting period:

(a) *Evaluating Impairment of Financial Assets (HTM Investments and Loans and Other Receivables)*

The Bank reviews its HTM investments and loans and other receivable to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in profit or loss, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the portfolio before the decrease can be identified with an individual item in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers or issuers in a group, or national or local economic conditions that correlate with defaults on assets in the group, including, but not limited to, the length of the Bank's relationship with the customers, the customers' current credit status, average age of accounts, collection experience and historical loss experience.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The carrying value of loans and other receivables and the analysis of the related allowance for impairment on such financial assets are shown in Notes 14. There are no impairment losses recognized on HTM investments in March 31, 2016, December 31, 2015 and 2014.

(b) *Fair Value of Financial Instruments*

Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the end of the reporting period.

(c) *Estimating Useful Lives of Bank Premises, Furniture, Fixtures and Equipment, Investment Properties Except Land, Branch Licenses and Computer Software*

The Bank estimates the useful lives of bank premises, furniture, fixtures and equipment, investment properties except land, branch licenses and computer software based on the period over which the assets are expected to be available for use. The estimated useful lives of bank premises, furniture, fixtures and equipment, investment properties and computer software are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

The Bank's branch licenses were regarded as having an indefinite useful lives considering there is no foreseeable limit to the period over which such assets are expected to generate net cash inflows for the Bank. The assessment of having indefinite useful lives is reviewed periodically and is updated whether events and circumstances such as the period of control over these assets and legal or similar limits on the use of these assets continue to support such assessment.

The carrying amounts of bank premises, furniture, fixtures and equipment and investment properties are analyzed in Notes 15 and 16, respectively. Based on management assessment, there is no change in the estimated useful lives of these assets during the year. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(d) *Determining Realizable Amount of Deferred Tax Assets*

The Bank reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

(e) *Determination of Fair Value of Investment Properties*

The Bank's investment properties are composed of parcels of land and buildings and improvements, which are held for capital appreciation or held-for-lease, and are measured using cost model. The estimated fair value of investment properties disclosed is determined on the basis of the appraisals conducted by professional appraiser applying the relevant valuation methodologies as discussed therein.

For investment properties with appraisal conducted prior to the end of the current reporting period, management determines whether there are significant circumstances during the intervening period that may require adjustments or changes in the disclosure of fair value of those properties.

A significant change in key inputs and sources of information used in the determination of the fair value disclosed for those assets may result in adjustment in the carrying amount of the assets reported in the financial statements if their fair value will indicate evidence of impairment.

(f) *Estimating Impairment Losses of Non-financial Assets*

Except for intangible assets with indefinite useful lives (i.e. goodwill and acquired branch licenses), PFRS requires that an impairment review be performed when certain impairment indications are present. The Bank's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.19. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

There are no impairment losses recognized in goodwill, acquired branch licenses, bank premises, furniture, fixtures and equipment.

(g) *Valuation of Post-employment Benefits*

The determination of the Bank's obligation and cost of post-employment benefit plan is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates, expected rate of salary increases and employee turnover. A significant change in any of these actuarial assumptions may generally affect the recognized expense and the carrying amount of the post-employment benefit obligation in the next reporting period.

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

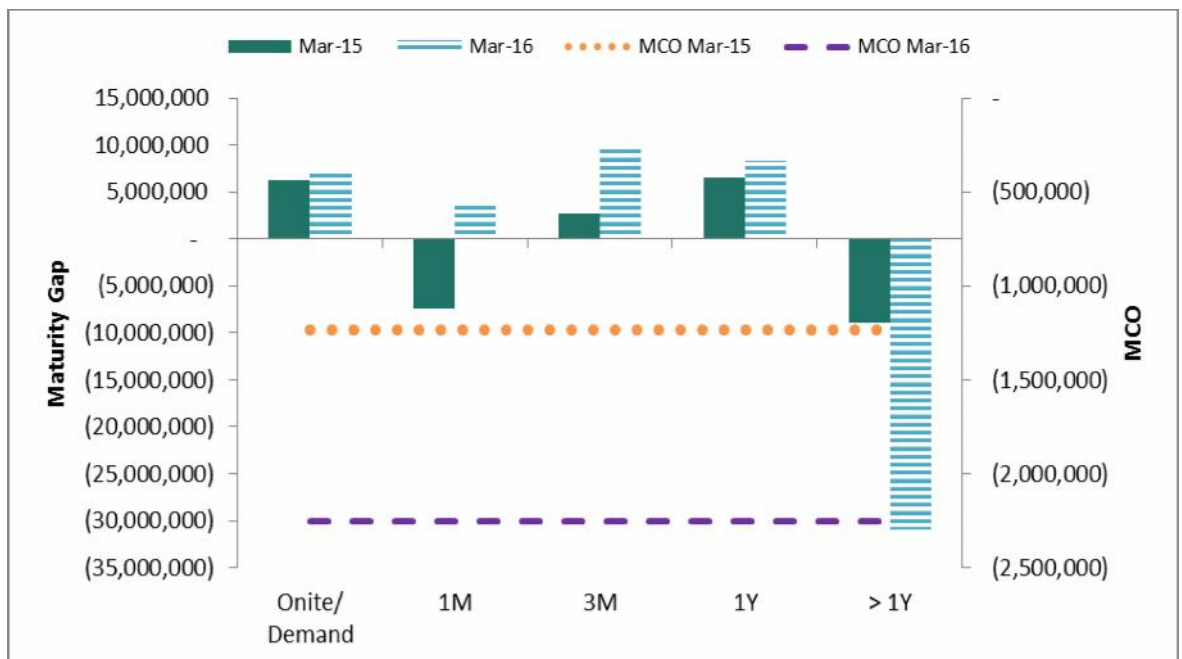
The Bank's financial risks sums up the credit and market risk exposures as a result of its dealings and inventory of financial instruments inherent in its banking functions. The Bank's BOD formulates the corporate risk policy, sets risk tolerances and appetite and provide risk oversight function through the Risk Management Committee (RiskCom), which in turn supervises the Chief Risk Officer and Head of the Risk Management Center in the development and implementation of risk policies, processes and guidelines. The Bank's policy in managing its financial risks is embodied in the BOD-approved Risk Management Manuals.

4.1 Liquidity Risks

Liquidity risk is the risk to income and capital as a result of the Bank failing its commitment for funds as they fall due. The Bank manages its liquidity risk through the management's monitoring of various liquidity ratios, Treasury's weekly and regular assessment of liquidity gaps, and the maturity ladder. To control liquidity gap risks, a quantitative ceiling to the net outflow of funds of the bank called Maximum Cumulative Outflow (MCO) limit is observed per currency based on the recommendation of management, which model and assumptions are reviewed by the Asset and Liability Committee (ALCO) and the RiskCom prior to the confirmation by the BOD.

Additional measures to mitigate liquidity risks include reporting of funding concentration, available funding sources, and liquid assets analysis. More frequent analysis of projected funding source and requirements as well as pricing strategies is discussed thoroughly during the weekly Asset and Liability Committee meetings.

The analysis of the cash flow gap analysis of resources, liabilities, capital funds and off-statement financial position items as of March 31, 2016 and March 31, 2015 is presented below (amounts in thousands).



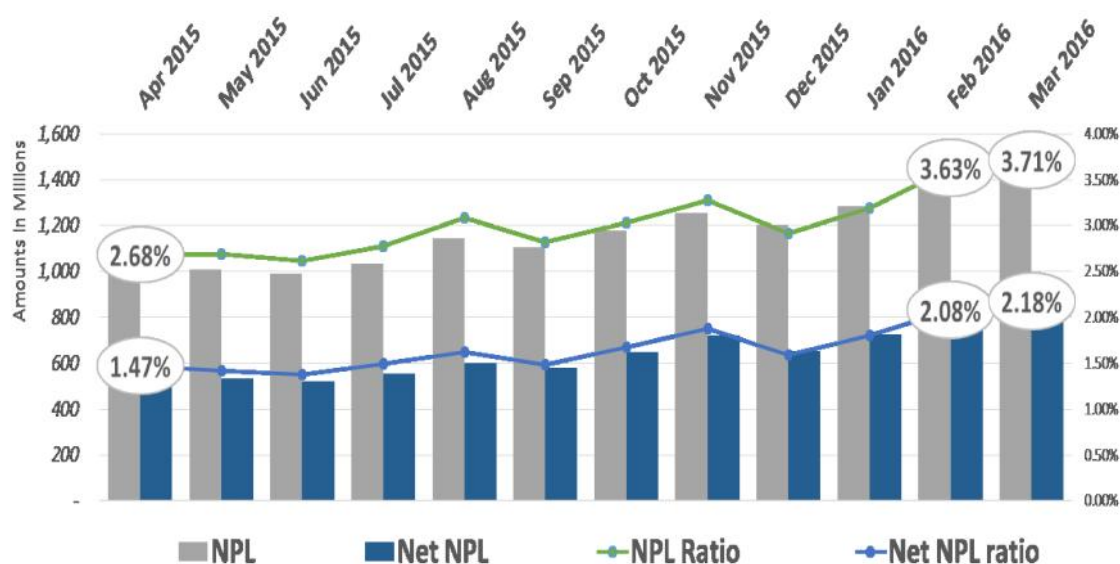
4.2 Credit Risks

Credit risk pertains to the risk to income or capital due to non-payment by borrowers or counterparties of their obligations, either in full or partially as they fall due, deterioration in the credit quality of a borrower, issuer or counterparty, and the reduced recovery from a credit facility in the event of default. This is inherent in the Bank's lending, investing, and trading and is managed in accordance with the Bank's credit risk framework of risk identification, measurement, control and monitoring.

Credit risk is managed through a continuing review of credit policies, systems, and procedures. It starts with the definition of business goals and setting of risk policies by the Board of Directors (BOD). Account officers and credit officers directly handle credit risk as guided by BOD-approved policies and limits. The Risk Management Center, as guided by the RiskCom, performs an independent portfolio oversight of credit risks and reports regularly to the BOD and the RiskCom.

The Bank sets aside loan loss provisions pursuant to the requirement of the BSP and performs regular impairment analysis consistent with the Philippine Accounting Standards (PAS).

Pursuant to regulatory requirements and best practices, the Bank also conducts sensitivity analysis and stress testing of the credit portfolio to assess sensitivity of the Bank's capital to BOD-approved credit risk scenarios. As of March 31, 2016, the ratio of the Bank's loan loss provisions to its non-performing loans is at 82%. The table below shows the NPL and Net NPL trend of the Bank for the 12-month period ending March 31, 2016:



$NPL\ Ratio = (PD + ITL) / Gross\ Loans$

$Net\ NPL = NPL - Specific\ Loan\ Provision$

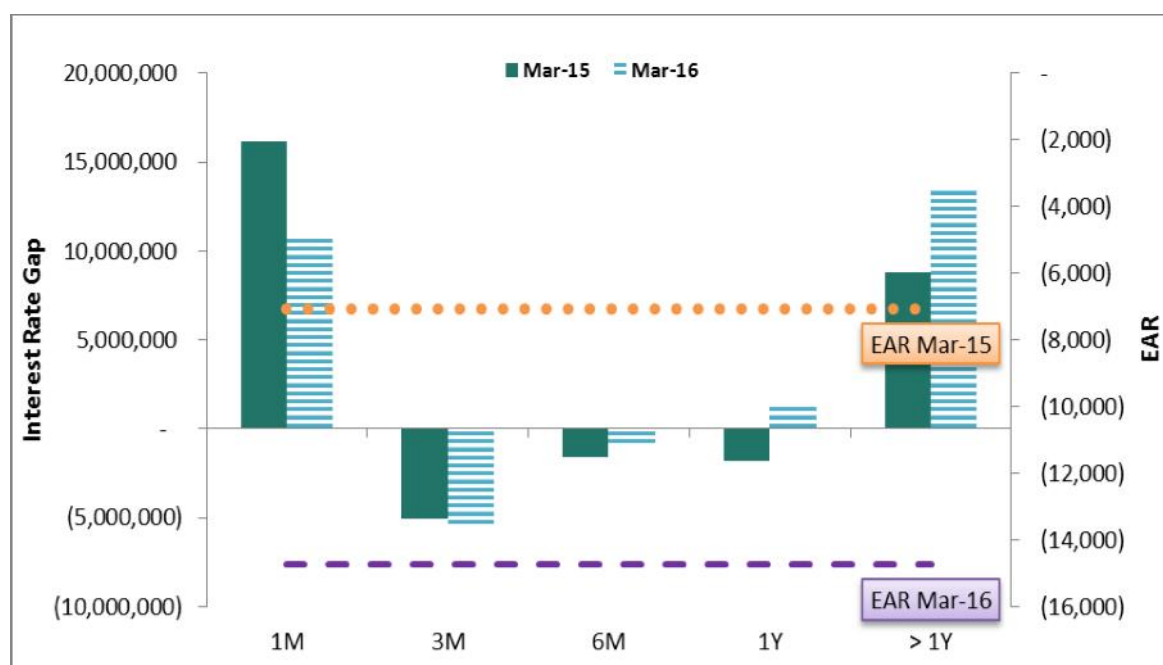
$Net\ NPL\ Ratio = Net\ NPL / Gross\ Loans$

4.3 Interest Rate Risks

Interest rate risk is the probability of decline in net interest earnings as a result of an adverse movement of interest rates.

In measuring interest rate exposure from an earnings perspective, the Bank calculates the Earnings at Risk (EAR) to determine the impact of interest rate changes on the Bank's accrual portfolio. The EAR is the potential decline in net interest income due to the adverse movement in interest rates. A negative interest rate sensitivity gap position implies that EAR increases with a rise in interest rates, while a positive interest rate sensitivity gap results in a potential decline in net interest rate income as interest rates fall. To supplement the EAR, the Bank regularly employs sensitivity analysis on the Bank's interest rate exposure.

To mitigate interest rate risk, the Bank follows a prudent policy on managing assets and liabilities so as to ensure that exposure to interest rate risk are kept within acceptable levels. The BOD has also approved the EAR Limit which is reviewed regularly. Interest rate gap & EAR are presented below (in thousands).



4.4 Price Risks

In measuring the magnitude of exposures related to the Bank's trading portfolio arising from holding of government and other debt securities, the Bank employs Value-at-Risk (VaR) methodology. VaR is an estimate of the amount of loss that a given risk exposure is unlikely to exceed during a given time period, at a given level of statistical confidence. Analytically, VaR is the product of: (a) the sensitivity of the market value of the position to movement of the relevant market risk factors, and (b) the volatility of the market risk factor for the given time horizon at a specified level of statistical confidence. Typically, the Bank uses a 99% confidence level for this measurement (i.e. losses could exceed the VaR in one out of 100 trading days). As the VaR methodology requires a minimum historical period of reckoning with market movements from a transparent discovery platform, the Bank uses yield and price data from the Philippine Dealing Exchange Corporation and Bloomberg in the calculation of the volatility of rates of return and security prices, consistent with BSP valuation guidelines.

In assessing market risk, the Bank scales the calculated VaR based on assumed defeasance or

holding periods that range from one day and 10 days consistent with best practices and BSP standards.

As a prudent market risk control and compliance practice, the BOD has approved a market risk limit system which includes: (1) VaR limit on a per instrument and portfolio; (2) loss limit on per investment portfolio (3) off-market rate limits on per instrument type; and (4) holding period for investment securities.

In recognition of the limitations of VaR related to the assumptions on which the model is based, the Bank supplements the VaR with a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Bank's overall position.

Table below shows HFT and FX VaR statistics from January-March 2016:

Value-at-Risk		
in Thou PHP		
	HFT	FX
Average	153,433	1,771
High	411,378	3,588
Low	9,185	228

4.5 FX Risks

The Bank manages its exposure to effects of fluctuations in the foreign currency exchange rates by maintaining foreign currency exposure within the existing regulatory guidelines and at a level that it believes to be relatively conservative for a financial institution engaged in that type of business.

The Bank's foreign currency exposure is primarily limited to the foreign currency deposits, which are sourced within the Philippines or generated from remittances by Filipino expatriates and overseas Filipino workers. Also, foreign currency trading with corporate accounts and other financial institutions is a source of foreign currency exposure for the Bank. At the end of each month, the Bank reports to the BSP on its acquisition and disposition of foreign currency resulting from its daily transactions.

The Bank always maintains the BSP required asset cover for its foreign-currency liabilities.

5. *Anti-Money Laundering Controls*

The Anti-Money Laundering Act (AMLA) or RA No. 9160 was passed in September 2001 and was amended by RA No. 9194, RA No. 10167, and RA No. 10365 in March 2003, June 2012 and February 2013, respectively. Under the AMLA, as amended, the Bank is required to submit “Covered Transaction Reports” to the Anti-Money Laundering Council (AMLC) involving single transactions in cash or other equivalent monetary instruments in excess of P0.5 million within one banking day. The Bank is also required to submit “Suspicious Transaction Reports” to the AMLC in the event that circumstances exist and there are reasonable grounds to believe that the transaction is suspicious. Furthermore, terrorist financing was criminalized in RA No. 10168.

In addition, the AMLA requires that the Bank safe keeps, as long as the account exists, all the Know Your Customer (KYC) documents involving its clients, including documents that establish and record the true and full identity of its clients. Likewise, transactional documents must be maintained and stored for five years from the date of the transaction. In cases involving closed accounts, the KYC documents must be kept for five years after their closure. Meanwhile, all records of accounts with court cases must be safe kept until there is a final resolution.

On January 27, 2011, BSP Circular No. 706 was implemented superseding all policies on AMLA. The Circular requires the Bank to adopt a comprehensive and risk-based Money Laundering and Terrorist Financing Prevention Program (MLPP) designed according to the covered institution’s corporate structure and risk profile.

In an effort to further prevent money laundering activities, the Bank revised its KYC policies and guidelines in order to comply with the aforementioned Circular. Under the guidelines, each business unit is required to validate the true identity of a customer based on official or other reliable identifying documents or records before an account may be opened. Likewise, the Bank is required to risk profile its clients to Low, Normal or High with its corresponding due diligence of Reduced, Average or Enhanced, in compliance with the risk-based approach mandated by the Circular. Decisions to enter into a business relationship with a high risk customer requires senior management approval, and in some cases such as a politically exposed person or a private individual holding a prominent position, Group Head approval is necessary.

The Bank’s procedures for compliance with the AMLA are set out in its MLPP. The Bank’s Compliance Officer, through the Anti-Money Laundering Department (AMLDD), monitors AMLA compliance and conducts regular compliance testing of business units.

The AMLDD requires all banking units to submit to the Compliance Office certificates of compliance with the Anti-Money Laundering Rules and Regulations on a quarterly basis.

The Compliance Officer regularly reports to the Audit Committee and to the BOD results of their monitoring of AMLA compliance.

6. CAPITAL MANAGEMENT AND REGULATORY CAPITAL

The Bank's lead regulator, the BSP, sets and monitors capital requirements for the Bank. In implementing current capital requirements, the BSP requires the Bank to maintain a prescribed ratio of qualifying capital to risk-weighted assets. PBB, being a stand-alone thrift bank, is required under BSP regulations to comply with Basel 1.5. Under this regulation, the qualifying capital account of PBB should not be less than an amount equal to 10% of its risk weighted assets.

The qualifying capital of the Bank for purposes of determining the capital-to-risk assets ratio consists of Tier 1 capital plus Tier 2 capital elements net of the required deductions from capital such as:

1. unbooked valuation reserves and other capital adjustments as may be required by the BSP;
2. total outstanding unsecured credit accommodations to directors, officers, stockholders and related interests (DOSRI);
3. deferred tax asset net of deferred tax liability;
4. goodwill;
5. sinking fund for redemption of redeemable preferred shares; and,
6. other regulatory deductions.

Risk weighted assets is the sum of the Bank's credit risk weighted assets, operational risk weighted assets, and market risk weighted assets. The latter was due to the Bank's authority to engage in derivatives as end-user under a Type 3 Limited End-User Authority. Risk weighted assets are computed using the standardized approach for credit and market risks while basic indicator approach with modification was used for operational risks.

The following are the risk-based capital adequacy of the Bank as of December 31, 2015 and 2014 (amounts in millions):

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Tier 1 Capital	P 8,934	P 8,709	P 8,275
Tier 2 Capital	<u>381</u>	<u>376</u>	<u>407</u>
Total Regulatory Capital	9,315	9,085	8,682
Deductions	<u>-</u>	<u>-</u>	()
Total Qualifying Capital	<u>P 9,315</u>	<u>P 9,085</u>	<u>P 8,682</u>
Tier 1 Capital	P 8,934	P 8,709	P 8,275
Tier 1 Capital Deductions	<u>-</u>	<u>-</u>	()
Net Tier 1 Capital	<u>P 8,934</u>	<u>P 8,709</u>	<u>P 8,275</u>
Risk Weighted Assets			
Credit Risk Weighted Assets	P 41,112	P 43,382	P 38,348
Operational Risk Weighted Assets	3,594	3,580	3,233
Market Risk Weighted Assets	<u>5,051</u>	<u>4,378</u>	<u>139</u>
Total Risk-Weighted Assets	<u>P 49,757</u>	<u>P 51,340</u>	<u>P 41,720</u>

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Capital ratios:			
Total qualifying capital expressed as percentage of total risk-weighted assets	18.7%	20.8%	26.0%
Net Tier 1 capital expressed as percentage of total risk-weighted assets	17.9%	19.8%	22.9%

The amount of surplus funds available for dividend declaration is determined also on the basis of regulatory net worth after considering certain adjustments.

The Bank's policy is to maintain a strong capital base in order to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholder's return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

A Bank's regulatory capital is analyzed into two tiers, which are Tier 1 Capital plus Tier 2 Capital less deductions from the total of Tier 1 and Tier 2 capital equivalent to 50% of the following:

1. Investments in equity of unconsolidated subsidiary banks and other financial allied undertakings, but excluding insurance companies;
2. Investments in debt capital instruments of unconsolidated subsidiary banks;
3. Investments in equity of subsidiary insurance companies and non-financial allied undertakings;
4. Reciprocal investments in equity of other banks/enterprises; and,
5. Reciprocal investments in unsecured subordinated term debt instruments of other banks/quasi-banks qualifying as Hybrid Tier 1, Upper Tier 2 and Lower Tier 2, in excess of the lower of (i) an aggregate ceiling of 5% of total Tier 1 capital of the bank excluding Hybrid Tier 1; or (ii) 10% of the total outstanding unsecured subordinated term debt issuance of the other bank/quasi-banks.

Provided, that any asset deducted from the qualifying capital in computing the numerator of the risk-based capital ratio shall not be included in the risk-weighted assets in computing the denominator of the ratio.

As of March 31, 2016 and December 31, 2015, the Bank has no exposure in item (a) to item (e) above. There were no material changes in the Bank's management of capital during the current year.

As of March 31, 2016 and December 31, 2015, the Bank has satisfactorily complied with the capital-to-risk assets ratio.

Under existing BSP regulations, the determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the Bank's "unimpaired capital" (regular net worth) reported to the BSP, determined on the basis of regulatory accounting policies, which differ from PFRS in some aspects (mainly in the recognition of deferred tax assets). Thrift banks with head office within Metro Manila are required to comply with the minimum capital requirement of P1.0 billion. The Bank has complied with the minimum capital requirement at the end of each reporting period.

7. FAIR VALUE MEASUREMENT AND DISCLOSURES

6.1 Fair Value Hierarchy

In accordance with PFRS 13, the fair value of financial assets and financial liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

For investments which do not have quoted market price, the fair value is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Bank uses valuation technique, it maximizes the use of observable market data where it is available and relies as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

8. SEGMENT REPORTING

The Bank's main operating businesses are organized and managed separately according to the nature of services and products provided and the different markets served, with each segment representing a strategic business unit. These are also the basis of the Bank in reporting to its chief operating decision-maker for its strategic decision-making activities.

Management currently identifies the Bank's three service lines as primary operating segments.

- (a) *Consumer Banking* – includes auto financing, home financing, and salary or personal loans;
- (b) *Corporate Banking* – includes term loans, working capital credit lines, bills purchase and discounting lines; and,
- (c) *Treasury Operations* – manages liquidity of the Bank and is a key component in revenue and income generation through its trading and investment activities.

These segments are the basis on which the Bank reports its segment information. Transactions between the segments are on normal commercial terms and conditions.

Segment revenues and expenses that are directly attributable to primary operating segment and the relevant portions of the Bank's revenues and expenses that can be allocated to that operating segment are accordingly reflected as revenues and expenses of that operating segment. Revenue sharing agreements are used to allocate external customer revenues to a segment on a reasonable basis.

The contribution of these various business activities to the Bank's revenues and income for the years 2016, 2015 and 2014 follow (amounts in millions):

	<u>Corporate Banking</u>	<u>Consumer Banking</u>	<u>Treasury Operations</u>	<u>Total</u>
<u>March 31, 2016</u>				
Statement of Profit or Loss				
Net interest income	P 452	P 46	P 91	P 589
Non-interest income	<u>43</u>	<u>-</u>	<u>50</u>	<u>93</u>
Total income (after interest expense)	495	46	141	682
Operating expenses	<u>326</u>	<u>23</u>	<u>129</u>	<u>478</u>
Pre-tax profit (loss)	<u>169</u>	<u>23</u>	<u>12</u>	<u>204</u>
Net profit (loss)	<u>P 134</u>	<u>P 18</u>	<u>P 10</u>	<u>P 162</u>

	<u>Corporate Banking</u>	<u>Consumer Banking</u>	<u>Treasury Operations</u>	<u>Total</u>
Statement of Financial Position				
Total Resources				
Segment assets	P 39,734	P 3,067	P 18,688	P 61,489
Intangible assets	57	-	-	57
Deferred tax assets	<u>328</u>	<u>-</u>	<u>-</u>	<u>328</u>
	<u>P 40,119</u>	<u>P 3,067</u>	<u>P 18,688</u>	<u>P 61,874</u>
Total Liabilities	<u>P 38,989</u>	<u>P 2,428</u>	<u>P 15,707</u>	<u>P 57,124</u>
Other segment information				
Depreciation and amortization	<u>P 28</u>	<u>P 2</u>	<u>P 11</u>	<u>P 41</u>
Capital expenditures	<u>P 12</u>	<u>P 1</u>	<u>P 5</u>	<u>P 18</u>

March 31, 2015

Statement of Profit or Loss				
Net interest income	P 492	P 40	P 71	P 603
Non-interest income	<u>38</u>	<u>-</u>	<u>30</u>	<u>68</u>
Total income (after interest expense)	530	40	101	671
Operating expenses	<u>379</u>	<u>18</u>	<u>99</u>	<u>496</u>
Pre-tax profit	<u>151</u>	<u>22</u>	<u>2</u>	<u>176</u>
Net profit	<u>P 122</u>	<u>P 18</u>	<u>P 2</u>	<u>P 141</u>
Statement of Financial Position				
Total Resources				
Segment assets	P 38,411	P 2,333	P 17,153	P 57,897
Intangible assets	53	-	-	53
Deferred tax assets	<u>309</u>	<u>-</u>	<u>-</u>	<u>309</u>
	<u>P 38,773</u>	<u>P 2,333</u>	<u>P 17,153</u>	<u>P 58,259</u>
Total Liabilities	<u>P 36,001</u>	<u>P 2,101</u>	<u>P 11,827</u>	<u>P 49,929</u>
Other segment information				
Depreciation and amortization	<u>P 26</u>	<u>P 1</u>	<u>P 9</u>	<u>P 36</u>
Capital expenditures	<u>P 21</u>	<u>P 1</u>	<u>P 7</u>	<u>P 29</u>

9. CASH AND DUE FROM BSP

This account is composed of the following:

	<u>2016</u>	<u>2015</u>
Cash and other cash items	<u>P 1,029,161,279</u>	<u>P 1,279,302,155</u>
Due from BSP		
Mandatory reserves	3,705,035,461	3,802,637,783
Other than mandatory reserves	<u>1,210,000,000</u>	<u>3,870,000,000</u>
	<u>4,915,035,461</u>	<u>7,672,637,783</u>
	<u>P 5,944,196,740</u>	<u>P 8,951,939,938</u>

Cash consists primarily of funds in the form of Philippine currency notes and coins in the Bank's vault and those in the possession of tellers, including automated teller machines. Other cash items include cash items (other than currency and coins on hand) such as checks drawn on the other banks or other branches that were received after the Bank's clearing cut-off time until the close of the regular banking hours.

Mandatory reserves represent the balance of the deposit account maintained with the BSP to meet reserve requirements and to serve as clearing account for interbank claims.

10. DUE FROM OTHER BANKS

The balance of this account represents deposits with the following:

	<u>2016</u>	<u>2015</u>
Local banks	P 1,625,397,039	P 2,036,612,414
Foreign banks	<u>241,531,253</u>	<u>789,369,987</u>
	<u>P 1,866,928,292</u>	<u>P 2,825,982,401</u>

The breakdown of due from other banks by currency follows:

	<u>2015</u>	<u>2014</u>
US dollars	P 2,372,753,175	P 463,361,884
Philippine peso	<u>453,229,226</u>	<u>1,568,219,204</u>
	<u>P 2,825,982,401</u>	<u>P 2,031,581,088</u>

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This account is composed of held-for-trading government securities with fair value amounting to P1,234.2 million and P75.9 million as of March 31, 2016 and December 31, 2015, respectively. Interest rates on these investments range from 8% to 6.125% in March 31, 2016, 4.6% to 6.1% in December 31, 2015. The total interest income earned amounted to P2.59 million, P21.92 million for the quarter ending March 31, 2016 and 2015 respectively, and are included as part of Interest Income on Trading and Investment Securities in the statements of profit or loss.

The related net unrealized fair value gains or losses, presented as part of Trading Gains - net in the statements of profit or loss, amounted to P8.58 million for the quarter ending March 31, 2016 and a loss of P153 thousand in 2015. Realized trading gains, net of losses, amounting to P37.34 million, P17.03 million in 2016, 2015 respectively.

12. AVAILABLE-FOR-SALE SECURITIES

This account is composed of the following:

	<u>2015</u>	<u>2014</u>
Corporate bonds	P 1,776,983,696	P 1,931,193,769
Government securities	1,157,684,028	1,161,644,542
Equity securities		<u>1,700,000</u>
	<u>P 2,934,667,724</u>	<u>P 3,094,538,311</u>

As to currency, this account consists of the following:

	<u>2015</u>	<u>2014</u>
Foreign currencies	P 2,837,697,065	P 2,990,980,345
Philippine pesos	<u>96,970,659</u>	<u>103,557,966</u>
	<u>P 2,934,667,724</u>	<u>P 3,094,538,311</u>

Changes in the AFS securities are summarized below.

	<u>2016</u>	<u>2015</u>
Balance at beginning of year	P 3,093,224,480	P 1,715,736,721
Additions	63,843,358	615,246,804
Amortization of discount	18,344,530	(2,416,721)
Disposals	(331,782,420)	(40,000,000)
Foreign currency revaluation	(59,315,700)	(990,158)
Fair value gains (losses)	150,353,476	57,244,732
Reclassification	—	(—)
Balance at end of year	<u>P 2,934,667,724</u>	<u>P 2,344,821,378</u>

13. HELD-TO-MATURITY INVESTMENTS

As of March 31, 2016 and December 31, 2015, this account is composed of local and foreign government debt securities which have remaining maturities of beyond one year.

As to currency, this account consists of the following:

	<u>2015</u>	<u>2014</u>
Philippine peso	P5,711,101,882	P5,487,613,698
Foreign currencies	<u>361,143,130</u>	<u>461,113,797</u>
	<u>P6,072,245,012</u>	<u>P5,948,727,495</u>

14. LOANS AND OTHER RECEIVABLES

	<u>2015</u>	<u>2014</u>
Receivables from customers:		
Loans and discounts	P 36,394,148,981 P	36,954,001,403
Bills purchased	887,939,879	1,259,177,626
Customers' liabilities on acceptances, letters of credit and trust receipts	<u>3,131,646,863</u>	<u>3,066,453,404</u>
	40,413,735,723	41,279,632,433
Unearned discount	(120,075,708)	(96,231,198)
	<u>40,293,660,015</u>	<u>41,183,401,235</u>
Other receivables:		
Unquoted debt securities	1,214,678,789	1,216,105,404
Accrued interest receivable	180,230,061	178,793,670
Sales contracts receivable	94,468,350	91,856,163
Accounts receivable	66,106,037	87,727,360
Deficiency claims receivable	<u>52,617,781</u>	<u>56,571,522</u>
	<u>1,608,101,018</u>	<u>1,631,054,119</u>
	41,901,761,033	42,814,455,354
Allowance for impairment	(1,104,066,945)	(1,076,625,132)
	<u>P 40,797,694,088 P</u>	<u>41,737,830,222</u>

On various dates in 2002, the Bank purchased P259.0 million face value of the 10-year Poverty Eradication and Alleviation Certificates (PEACe) bonds, in the belief that these were tax-exempt. Said bonds were issued by the Bureau of Treasury (BTr) in 2001 which matured on October 18, 2011. As of March 31, 2016 and December 31, 2015, the Accounts receivable includes P36.7 million set up by the Bank for the final tax withheld by the BTr upon maturity of the bonds subject to the resolution of a case filed with the Supreme Court on the matter. On January 13, 2015, the Supreme Court nullified the 2011 Bureau of Internal Revenue (BIR) Rulings classifying all bonds as deposit substitutes and ordered the Bureau of Treasury to return to the petitioning banks the 20% final withholding taxes it withheld on the PEACe Bonds on October 18, 2011; hence, management believes that recoverability of the final tax on PEACe bonds continues to be probable.

As of March 31, 2016 and December 31, 2015, non-performing loans of the Bank amount to P1,363.5 million and P1,91.6 million, respectively, while restructured loans amount to P67.48 million and P80.96 million, respectively.

The maturity profile of the Bank's loans and discounts follows (amounts in thousands):

	<u>2015</u>	<u>2014</u>
Within one year	P 29,422,912P	29,422,915
Beyond one year	<u>11,856,720</u>	<u>11,856,720</u>
	<u>P 41,279,632P</u>	<u>41,279,632</u>

The Bank's concentration of credit as to industry for its loans and discounts portfolio follows (amounts in thousands):

	<u>2015</u>	<u>2015</u>
Wholesale and retail trade	P 17,634,353	P 17,390,757
Construction	8,137,351	8,744,390
Manufacturing	4,633,791	5,011,775
Administrative and support services	4,808,197	4,984,934
Transportation and storage	3,918,372	3,218,626
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use	16,158	681,598
Electricity, gas, steam and air-conditioning supply	666,425	675,625
Agriculture, fishery and forestry	487,457	461,296
Mining and quarrying	<u>111,631</u>	<u>110,631</u>
	<u>P 40,413,735</u>	<u>P41,279,632</u>

As to security, loans and discounts are classified into the following (amounts in thousands):

	<u>2015</u>	<u>2014</u>
Secured:		
Real estate mortgage	P 8,137,351	P 14,247,890
Deposit hold-out	2,307,009	2,693,318
Chattel mortgage	3,918,372	2,335,847
Others	5,787,474	1,259,177
Unsecured	<u>20,263,529</u>	<u>20,743,400</u>
	<u>P 40,413,735</u>	<u>P 41,279,632</u>

15. DEPOSIT LIABILITIES

The maturity profile of the Bank's deposit liabilities follows:

	<u>2016</u>	<u>2015</u>
Within one year	P 46,896,621,378	P 54,225,906,880
Beyond one year	<u>4,285,398,307</u>	<u>790,312,630</u>
	<u>P 51,182,019,685</u>	<u>P 55,016,219,510</u>

The classification of the Bank's deposit liabilities as to currency follows:

	<u>2016</u>	<u>2015</u>
Philippine peso	P 46,507,201,413	P 48,557,474,402
Foreign currencies	<u>4,674,818,272</u>	<u>6,458,745,108</u>

Under existing BSP regulations, non-FCDU deposit liabilities are subject to required reserves for deposits of 8.00%. The Bank is in compliance with these regulations.

On April 6, 2012, the BSP issued an amendment to the existing provisions as to the eligibility of cash and deposit accounts with BSP as forms of reserve requirements. As indicated in the recent amendment, cash and other cash items are no longer considered as eligible reserves. Available reserves as of March 31, 2016 and December 31, 2015 amount to P3,656.6 million and P3,802.6 million, respectively.

16. EQUITY

15.1 Capital Stock

Capital stock as of March 31, 2016 consists of:

	<u>Number of Shares</u>		<u>Amount</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Preferred shares – P10 par value				
Authorized – 130,000,000 shares				
Issued, fully paid and outstanding	<u>62,000,000</u>	<u>62,000,000</u>	<u>P 620,000,000</u>	<u>P 620,000,000</u>
Common shares – P10 par value				
Authorized – 870,000,000 shares in 2013				
Issued, fully paid and outstanding				
Balance at beginning of year	<u>536,458,437</u>	429,166,750	<u>P 5,364,584,370</u>	P4,291,667,500
Stock dividends		<u>107,291,687</u>		<u>1,072,916,870</u>
	<u>536,458,437</u>	<u>536,458,437</u>	<u>P 5,364,584,370</u>	<u>P5,364,584,370</u>

The Bank's preferred shares are nonvoting, nonconvertible, and are redeemable at the option of the Bank. These shares are entitled to non-cumulative dividend of 8.0% per annum.

On February 18, 2013, the Bank offered its 101,333,400 unissued common shares by way of IPO at P31.50 per share resulting in the recognition of additional paid-in capital of P1,998.4 million, net of transactions costs.

As of March 31, 2016, the Bank has 64 holders of its equity securities listed in the PSE and its share price closed at P16.98. The Bank has 536,458,438 million common shares traded in the PSE as of March 31, 2016.

15.2 Dividends

On August 19, 2015, the BOD approved the declaration stock dividends totaling 107.3 million common shares amounting to P1.1 billion for all issued and outstanding common shares to stockholders on record for the year ended December 31, 2014. The dividend distribution was approved by the stockholders representing at least two-thirds of the issued and outstanding capital stock and the BSP on May 29, 2015 and August 4, 2015, respectively.

On May 5, 2014, the BOD approved the declaration of cash dividends amounting to P62.3 million for all issued and outstanding preferred shares and stock dividends totaling 85.8 million common shares amounting to P858.3 million for all issued and outstanding common shares to stockholders on record for the year ended December 31, 2013. The dividend distribution was approved by the stockholders representing at least two-thirds of the issued and outstanding capital stock and the BSP on May 30, 2014 and June 26, 2014, respectively.

15.3 Appropriated Surplus

In 2015, 2014 and 2013, additional appropriations of surplus amounting to P1.4 million, P1.6 million and P0.9 million, respectively, pertain to the portion of the Bank's income from trust operations set-up in compliance with BSP regulations.

On August 16, 2003, the BOD approved the establishment of a sinking fund for the exclusive purpose of the redemption of redeemable preferred shares should the Bank opt to redeem the shares. As of December 31, 2015 and 2014, the sinking fund for the redemption of redeemable preferred shares is yet to be established (see Note 26).

15.4 Paid-in Capital from IPO

As mentioned in Note 21.1, the Bank's common shares were listed at the PSE in February 2013. Total proceeds received from the IPO amounted to P3,011.7 million, P1,998.4 million of which is treated as part of Additional Paid-in Capital being the amount paid in excess of the common stocks' par value. The total share issuance costs deducted from APIC amounted to P180.2 million. Offer expenses from the IPO amounting to P4.9 million were presented as part of Other Operating Expenses in the 2013 statement of profit or loss.

17. EARNINGS PER SHARE

Basic and diluted earnings per share are computed as follows:

	<u>2016</u>		<u>2015</u> <u>(As Restated)</u>
Net profit P	162,032,631	P	140,909,805
Dividends on preferred shares	-		-
Net profit attributable to common shareholders	502,142,004		502,142,004
Divided by the weighted average number of outstanding common shares	<u>536,458,438</u>		<u>536,458,438</u>
Basic earnings per share	<u>P 0.30</u>	P	<u>0.26</u>

The 2014 and 2013 earnings per share of the Bank were restated to account for the stock dividends declared in 2015 which is considered as a bonus issue under PAS 33, *Earnings per Share*, which requires stock dividends issued to be recognized as if it occurred at the beginning of 2013, the earliest period presented for earnings per share computation.

As of March 31, 2016 and December 31, 2015, the Bank has no outstanding potentially dilutive securities; hence, basic earnings per share are equal to diluted earnings per share.

SCHEDULE OF AGING OF LOANS RECEIVABLES
(PSE Requirement per Circular No. 2164-99)
As of March 31, 2016

Current Accounts (by maturity)	
Up to 12 months	26,427,680,445
Over 1 year to 3 years	3,564,437,949
Over 3 years to 5 years	4,375,406,656
Over 5 years	6,153,390,515
Past due and items in litigations	1,500,921,176
Loans Receivables (gross)	42,021,836,741
Less:	
Unearned and other deferred income	120,075,708
Allowance for credit losses	1,104,066,945
Loans Receivables (Net)	40,797,694,088

FINANCIAL SOUNDNESS INDICATORS
(As Required by SRC Rule)

	March 31, 2016	December 31, 2015
Current Ratio ⁽¹⁾	92.91%	96.45%
Solvency Ratio ⁽²⁾	1.17%	1.15%
Debt-to-equity ⁽³⁾	6.01%	6.74%
Asset-to-equity ⁽⁴⁾	7.01%	7.74%
Interest rate coverage ratio ⁽⁵⁾	208.53%	193.03%
Return on Equity ⁽⁶⁾	7.49%	6.10%
Return on Assets ⁽⁷⁾	1.02%	.81%
Net Interest Margin ^{(8) (9)}	4.11%	4.03%
Cost-to-Income Ratio ⁽¹⁰⁾	69.37%	66.98%

Notes:

- (1) Current assets divided by current liabilities
- (2) Total assets divided by total liabilities
- (3) Total liabilities divided by total equity
- (4) Total assets divided by total equity
- (5) Income before interest and taxes divided by interest expense
- (6) Net income divided by average total equity for the periods indicated (annualized)
- (7) Net income divided by average total assets for the periods indicated (annualized)
- (8) Net interest income divided by average interest-earning assets (incl. interbank loans, trading and investment securities and loans)
- (9) Starting April 2012, the BSP stopped paying interest on reserves on customer deposits of banks. The Q1 2013 computation considered the Bank's deposit with BSP as non-earning. In Q1 2012 and previous to that, it is considered part of earning assets. NIM in Q1 2012 would have been 7.3% if this was to be calculated on same basis as that of Q1 2013
- (10) Other expenses (excl. provision for impairment and credit losses) divided by the sum of interest and other income for the periods indicated

FINANCIAL SOUNDNESS INDICATORS
(As Required by SRC Rule)

March 31, 2016

Current Ratio ⁽¹⁾	92.91%
Solvency Ratio ⁽²⁾	1.17%
Debt-to-equity ⁽³⁾	6.01%
Asset-to-equity ⁽⁴⁾	7.01%
Interest rate coverage ratio ⁽⁵⁾	208.53%
Return on Equity ⁽⁶⁾	7.49%
Return on Assets ⁽⁷⁾	1.02%
Net Interest Margin ^{(8) (9)}	4.11%
Cost-to-Income Ratio ⁽¹⁰⁾	69.37%

Notes:

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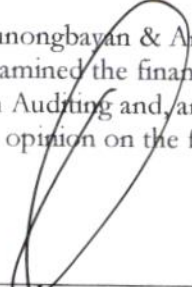
STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS


The management of **Philippine Business Bank, Inc., A Savings Bank**, is responsible for the preparation and fair presentation of the financial statements for the year ended December 31, 2015, in accordance with Philippine Financial Reporting Standards (PFRS), including the Supplementary Schedules Required under Annex 68-E of the Securities Regulation Code Rule 68 filed separately from the basic financial statements:

Management responsibility on the financial statements includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the financial statements, and the additional supplementary information, and submits the same to the stockholders.

Punongbayan & Araullo, the independent auditors appointed by the stockholders, has examined the financial statements of the Company in accordance with Philippine Standards on Auditing and, in its report to the Board of Directors and stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.


FRANCIS T. LEE
Chairman of the Board

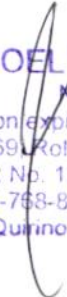

ROLANDO R. AVANTE
President and CEO


ALICE P. RODIL
SVP Controller

Signed this

DOC. NO. 235
PAGE NO. 17
BOOK NO. 17
SERIES OF 20 16

Subscribed and sworn to before me this APR 14 2016
Affiant presented to me as per (TIC) No
Issued on _____


JOEL G. GORDOLA
Notary Public
Commission expires until December 31, 2017
Adm. No. 069, Roll No. 25103; IBP No. 101306
PTR No. 1376282; 1/04/16; Q.C.
TIN 126-768-809; MCLE No. V-0001531
Until 1 # 878 Quirino Highway, Gulod, Novaliches, C