



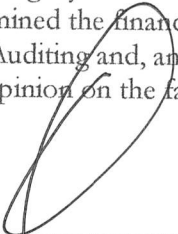
STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS

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, 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



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Report of Independent Auditors

The Board of Directors and the Stockholders
Philippine Business Bank, Inc., A Savings Bank
350 Rizal Avenue Extension corner 8th Avenue
Grace Park, Caloocan City

Report on the Financial Statements

We have audited the accompanying financial statements of Philippine Business Bank, Inc., A Savings Bank, which comprise the statements of financial position as at December 31, 2015 and 2014, and the statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2015, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Certified Public Accountants

Punongbayan & Araullo (P&A) is the Philippine member firm of Grant Thornton International Ltd

Offices in Cebu, Davao, Cavite

BOA/PRC Cert. of Reg. No. 0002
SEC Accreditation No. 0002-FR-4



Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Philippine Business Bank, Inc., A Savings Bank as at December 31, 2015 and 2014, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2015 in accordance with Philippine Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the year ended December 31, 2015 required by the Bureau of Internal Revenue as disclosed in Note 31 to the financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with Philippine Financial Reporting Standards. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PUNONGBAYAN & ARAULLO



By: **Leonardo D. Cuaresma, Jr.**
Partner

CPA Reg. No. 0058647
TIN 109-227-862
PTR No. 5321721, January 4, 2016, Makati City
SEC Group A Accreditation
Partner - No. 0007-AR-4 (until Apr. 30, 2018)
Firm - No. 0002-FR-4 (until Apr. 30, 2018)
BIR AN 08-002511-7-2014 (until Aug. 5, 2017)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2018)

April 13, 2016

PHILIPPINE BUSINESS BANK, INC., A SAVINGS BANK
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2015 AND 2014
(Amounts in Philippine Pesos)

	<u>Notes</u>	<u>2015</u>	<u>2014</u>
<u>RESOURCES</u>			
CASH AND OTHER CASH ITEMS	9	P 1,279,302,155	P 1,174,011,464
DUE FROM BANGKO SENTRAL NG PILIPINAS	9	7,672,637,783	4,554,441,827
DUE FROM OTHER BANKS	10	2,825,982,401	2,031,581,088
TRADING AND INVESTMENT SECURITIES			
At fair value through profit or loss	11	75,942,639	171,891,804
Available-for-sale	12	3,094,538,311	1,715,736,721
Held-to-maturity	13	5,948,727,495	5,962,970,252
LOANS AND OTHER RECEIVABLES - Net	14	41,737,830,222	40,110,256,377
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	15	562,634,722	515,766,476
INVESTMENT PROPERTIES - Net	16	675,770,624	705,735,722
OTHER RESOURCES - Net	17	<u>1,708,795,604</u>	<u>912,123,484</u>
TOTAL RESOURCES		<u>P 65,582,161,956</u>	<u>P 57,854,515,215</u>
<u>LIABILITIES AND EQUITY</u>			
DEPOSIT LIABILITIES	18		
Demand		P 2,318,743,667	P 681,026,719
Savings		19,346,525,011	17,224,051,369
Time		<u>33,350,950,832</u>	<u>28,714,329,538</u>
Total Deposit Liabilities		55,016,219,510	46,619,407,626
BILLS PAYABLE	19	956,250	309,521,852
ACCRUED EXPENSES AND OTHER LIABILITIES	20	<u>2,095,433,359</u>	<u>2,903,219,245</u>
Total Liabilities		<u>57,112,609,119</u>	<u>49,832,148,723</u>
EQUITY	21		
Capital stock		5,984,584,370	4,911,667,500
Additional paid-in capital		1,998,396,816	1,998,396,816
Surplus		1,092,456,161	1,663,231,027
Revaluation reserves		(605,884,510)	(550,928,851)
Total Equity		<u>8,469,552,837</u>	<u>8,022,366,492</u>
TOTAL LIABILITIES AND EQUITY		<u>P 65,582,161,956</u>	<u>P 57,854,515,215</u>

See Notes to Financial Statements.

PHILIPPINE BUSINESS BANK, INC., A SAVINGS BANK
STATEMENTS OF PROFIT OR LOSS
FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013
(Amounts in Philippine Pesos)

	Notes	2015	2014	2013
INTEREST INCOME				
Loans and other receivables	14	P 2,644,242,170	P 2,366,338,136	P 1,814,946,365
Trading and investment securities	11, 12, 13	424,837,162	431,775,906	368,600,681
Due from Bangko Sentral ng Pilipinas and other banks	9, 10	69,705,482	37,236,220	45,503,957
Securities purchased under reverse repurchase agreements		<u>1,858,635</u>	<u>545,833</u>	<u>2,713,239</u>
		<u>3,140,643,449</u>	<u>2,835,896,095</u>	<u>2,231,764,242</u>
INTEREST EXPENSE				
Deposit liabilities	18	753,904,091	596,886,481	489,258,915
Bills payable	19	3,331,735	2,221,806	8,609,402
Others	23	<u>1,082,509</u>	<u>1,508,448</u>	<u>1,738,852</u>
		<u>758,318,335</u>	<u>600,616,735</u>	<u>499,607,169</u>
NET INTEREST INCOME		2,382,325,114	2,235,279,360	1,732,157,073
IMPAIRMENT LOSSES	14, 17	<u>172,050,358</u>	<u>189,887,127</u>	<u>178,193,789</u>
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		<u>2,210,274,756</u>	<u>2,045,392,233</u>	<u>1,553,963,284</u>
OTHER INCOME				
Service charges, fees and commissions		132,425,882	127,487,177	73,829,527
Trading gains - net	11, 12, 13	69,474,667	34,827,391	816,773,032
Miscellaneous - net	22	<u>73,430,963</u>	<u>144,153,797</u>	<u>38,228,379</u>
		<u>275,331,512</u>	<u>306,468,365</u>	<u>928,830,938</u>
OTHER EXPENSES				
Salaries and other employee benefits	23	543,446,728	479,552,337	392,749,657
Taxes and licenses	31	328,317,557	306,352,118	265,247,277
Occupancy	27	250,346,533	209,871,217	172,761,117
Depreciation and amortization	15, 16	137,495,289	122,622,015	105,713,999
Insurance		128,348,739	109,164,821	84,456,483
Management and other professional fees		93,426,123	88,896,599	130,457,358
Representation and entertainment		32,269,518	31,944,122	30,848,276
Miscellaneous	22	<u>266,516,503</u>	<u>224,813,032</u>	<u>172,786,419</u>
		<u>1,780,166,990</u>	<u>1,573,216,261</u>	<u>1,355,020,586</u>
PROFIT BEFORE TAX		705,439,278	778,644,337	1,127,773,636
TAX EXPENSE	25	<u>203,297,274</u>	<u>242,439,233</u>	<u>123,727,024</u>
NET PROFIT		<u>P 502,142,004</u>	<u>P 536,205,104</u>	<u>P 1,004,046,612</u>
Earnings Per Share				
Basic and Diluted	30	<u>P 0.94</u>	<u>P 0.88</u>	<u>P 1.87</u>

See Notes to Financial Statements.

PHILIPPINE BUSINESS BANK, INC., A SAVINGS BANK
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013
(Amounts in Philippine Pesos)

	Notes	2015	2014	2013
NET PROFIT		<u>P 502,142,004</u>	<u>P 536,205,104</u>	<u>P 1,004,046,612</u>
OTHER COMPREHENSIVE INCOME (LOSS)				
Item that will not be reclassified subsequently to profit or loss				
Remeasurements of post-employment defined benefit plan	23	3,715,322	(2,187,913)	(12,978,354)
Tax income (expense)	25	(<u>1,114,597</u>)	656,374	<u>3,893,506</u>
		<u>2,600,725</u>	(<u>1,531,539</u>)	(<u>9,084,848</u>)
Items that will be reclassified subsequently to profit or loss				
Fair value gains (losses) on available-for-sale securities during the year - net	12	(<u>53,101,385</u>)	124,563,684	(1,042,090,203)
Fair value losses (gains) reclassified to profit or loss	12	6,615,377	393,988,832	(323,766,597)
Amortization of fair value losses on reclassified securities	12, 13	(<u>11,070,376</u>)	4,986,463	-
		(<u>57,556,384</u>)	<u>523,538,979</u>	(<u>1,365,856,800</u>)
Other Comprehensive Income (Loss) - Net of Tax		(<u>54,955,659</u>)	<u>522,007,440</u>	(<u>1,374,941,648</u>)
TOTAL COMPREHENSIVE INCOME (LOSS)		<u>P 447,186,345</u>	<u>P 1,058,212,544</u>	<u>(P 370,895,036)</u>

See Notes to Financial Statements.

PHILIPPINE BUSINESS BANK, INC., A SAVINGS BANK
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013
(Amounts in Philippine Pesos)

Notes	Capital Stock		Additional Paid-in Capital	Surplus		Revaluation Reserves		Total Equity
	Preferred Stock	Common Stock		Appropriated	Unappropriated	Unrealized Fair Value Losses on Available-for-sale Securities	Accumulated Actuarial Losses	
BALANCE AS OF JANUARY 1, 2015	P 620,000,000	P 4,291,667,500	P 1,998,396,816	P 3,411,900	P 1,659,819,127	(P 519,742,021)	(P 31,186,830)	P 8,022,366,492
Stock dividends	-	1,072,916,870	-	-	(1,072,916,870)	-	-	-
Appropriation for trust reserves	-	-	-	1,387,487	(1,387,487)	-	-	-
Total comprehensive income (loss)	-	-	-	-	502,142,004	(57,556,384)	2,600,725	447,186,345
BALANCE AS OF DECEMBER 31, 2015	<u>P 620,000,000</u>	<u>P 5,364,584,370</u>	<u>P 1,998,396,816</u>	<u>P 4,799,387</u>	<u>P 1,087,656,774</u>	<u>(P 577,298,405)</u>	<u>(P 28,586,105)</u>	<u>P 8,469,552,837</u>
BALANCE AS OF JANUARY 1, 2014	P 620,000,000	P 3,433,334,000	P 1,998,396,816	P 1,764,202	P 2,045,920,221	(P 1,043,281,000)	(P 29,655,291)	P 7,026,478,948
Stock dividends	-	858,333,500	-	-	(858,333,500)	-	-	-
Cash dividends	-	-	-	-	(62,325,000)	-	-	(62,325,000)
Appropriation for trust reserves	-	-	-	1,647,698	(1,647,698)	-	-	-
Total comprehensive income (loss)	-	-	-	-	536,205,104	523,538,979	(1,531,539)	1,058,212,544
BALANCE AS OF DECEMBER 31, 2014	<u>P 620,000,000</u>	<u>P 4,291,667,500</u>	<u>P 1,998,396,816</u>	<u>P 3,411,900</u>	<u>P 1,659,819,127</u>	<u>(P 519,742,021)</u>	<u>(P 31,186,830)</u>	<u>P 8,022,366,492</u>
BALANCE AS OF JANUARY 1, 2013	P 620,000,000	P 2,420,000,000	p -	P 873,498	P 1,042,764,313	P 322,575,800	(P 20,570,443)	P 4,385,643,168
Share issuance during the year	-	1,013,334,000	1,998,396,816	-	-	-	-	3,011,730,816
Appropriation for trust reserves	-	-	-	890,704	(890,704)	-	-	-
Total comprehensive income (loss)	-	-	-	-	1,004,046,612	(1,365,856,800)	(9,084,848)	(370,895,036)
BALANCE AS OF DECEMBER 31, 2013	<u>P 620,000,000</u>	<u>P 3,433,334,000</u>	<u>P 1,998,396,816</u>	<u>P 1,764,202</u>	<u>P 2,045,920,221</u>	<u>(P 1,043,281,000)</u>	<u>(P 29,655,291)</u>	<u>P 7,026,478,948</u>

See Notes to Financial Statements.

PHILIPPINE BUSINESS BANK, INC., A SAVINGS BANK
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013
(Amounts in Philippine Pesos)

	Notes	2015	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		P 705,439,278	P 778,644,337	P 1,127,773,636
Adjustments for:				
Impairment losses	14, 17	172,050,358	189,887,127	178,193,789
Depreciation and amortization	15, 16	137,495,289	122,622,015	105,713,999
Gain on sale of properties - net	22	(15,028,632)	(27,801,013)	(17,233,626)
Loss (gain) on foreclosure - net	22	2,480,845	(87,676,870)	(6,239,465)
Operating profit before working capital changes		1,002,437,138	975,675,596	1,388,208,333
Decrease (increase) in financial assets at fair value through profit or loss		95,949,165	745,739,073	(917,630,877)
Increase in loans and other receivables		(1,811,234,055)	(9,327,174,393)	(10,892,111,672)
Decrease (increase) in other resources		(740,015,317)	(68,713,507)	67,869,366
Increase in deposit liabilities		8,396,811,884	8,737,396,882	11,433,124,006
Increase (decrease) in accrued expenses and other liabilities		(879,949,701)	745,196,586	373,334,420
Cash generated from operations		6,063,999,114	1,808,120,237	1,452,793,576
Cash paid for income taxes		(185,189,537)	(177,589,674)	-
Net Cash From Operating Activities		5,878,809,577	1,630,530,563	1,452,793,576
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of available-for-sale securities	12	(2,274,907,422)	(443,590,778)	(18,912,353,899)
Proceeds from sale of available-for-sale securities		838,549,448	1,535,846,420	15,422,983,845
Acquisition of bank premises, furniture, fixtures and equipment	15	(178,055,371)	(149,373,100)	(169,372,809)
Proceeds from sale of investment and other properties	16, 17	55,820,368	128,723,649	267,590,427
Proceeds from sale of bank premises, furniture, fixtures and equipment		6,236,962	268,663	2,214,982
Acquisition of held-to-maturity investments		-	-	(8,833,467)
Net Cash From (Used In) Investing Activities		(1,552,356,015)	1,071,874,854	(3,397,770,921)
CASH FLOWS FROM FINANCING ACTIVITIES				
Net borrowings (payments) of bills payable		(308,565,602)	115,594,051	(571,561,716)
Payment of cash dividends	21	-	(62,325,000)	-
Proceeds from share issuance	21	-	-	3,011,730,816
Net Cash From (Used In) Financing Activities		(308,565,602)	53,269,051	2,440,169,100
NET INCREASE IN CASH AND CASH EQUIVALENTS		4,017,887,960	2,755,674,468	495,191,755
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR				
Cash and other cash items	9	1,174,011,464	735,667,668	435,898,545
Due from Bangko Sentral ng Pilipinas	9	4,554,441,827	3,597,209,300	3,073,180,153
Due from other banks	10	2,031,581,088	671,482,943	1,000,089,458
		7,760,034,379	5,004,359,911	4,509,168,156
CASH AND CASH EQUIVALENTS AT END OF THE YEAR				
Cash and other cash items	9	1,279,302,155	1,174,011,464	735,667,668
Due from Bangko Sentral ng Pilipinas	9	7,672,637,783	4,554,441,827	3,597,209,300
Due from other banks	10	2,825,982,401	2,031,581,088	671,482,943
		P 11,777,922,339	P 7,760,034,379	P 5,004,359,911

Supplemental Information on Noncash Investing and Financing Activities:

- (1) In 2015 and 2014, the Bank's stockholders approved the declaration of stock dividends on common stocks amounting to P1,072.9 million and P858.3 million, respectively. This was distributed to stockholders in the same years of declaration (see Note 21).
- (2) Transfers from loans and other receivables to investment properties as a result of foreclosures amounted to P29.1 million, P284.2 million and P16.9 million in 2015, 2014 and 2013, respectively, (see Note 16), while transfers from loans and other receivables to other resources in 2015 and 2014 amounted to P0.5 million and P1.0 million, respectively, are disclosed in Note 17 (nil in 2013). Amounts mentioned were exclusive of gains (losses) on foreclosure amounting to (P2.5 million), P87.7 million and P6.2 million in 2015, 2014 and 2013, respectively (see Note 22).
- (3) On May 29, 2014, the Bank reclassified certain government debt securities from available-for-sale securities to held-to-maturity securities with a market value of P5,623.6 million at the date of reclassification (see Notes 12 and 13).

See Notes to Financial Statements.

PHILIPPINE BUSINESS BANK, INC., A SAVINGS BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
(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 December 31, 2015 and 2014, the Bank operates within the Philippines with 134 and 116 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 year ended December 31, 2015 (including the comparative financial statements as of December 31, 2014 and for the years ended December 31, 2014 and 2013) 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 8.

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 8.

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 purchases 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 are 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 is 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 FCDO 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 carryforward 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. Unrecognized 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 (see Note 21.1).

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 December 31, 2015 and 2014. 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.

The Bank's methodology in determining the fair value of acquired properties are further discussed in Note 7.

(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 December 31, 2015 and 2014, the Bank has determined that all its leases are operating leases (see Note 27).

(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 and relevant disclosures are presented in Note 27.

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 2015, 2014 and 2013.

(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.

The carrying values of the Bank's financial assets at FVTPL and AFS securities and the amounts of fair value changes recognized on those assets are disclosed in Notes 11 and 12, respectively.

(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. The carrying value of deferred tax assets, which the management assessed to be fully utilized within the next two to three years, as of December 31, 2015 and 2014 is disclosed in Notes 17 and 25.

(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 in Note 7.4 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.

Allowance for impairment recognized on investment properties and other properties held for sale are discussed in Notes 16 and 17. 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 are described in Note 23 and 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.

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of DBO, as well as the significant assumptions used in estimating such obligation, are presented in Note 23.

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

PBB, as a financial institution, is in the business of risk taking. Its activities expose the Bank to credit, market and liquidity and operational risks. Credit risk emanates from exposures to borrowing customers, counterparty risk in trading activities, and contingent credit risks arising from trade finance exposures. Market risk covers price, liquidity and interest rate risks in the Bank's investment portfolio. Liquidity risk may arise from shortage in funding and/or lack of market for sale of its assets. Operational risk covers potential losses other than market and credit risk arising from failures of people, process, systems and information technology and external events.

The ability to manage risks effectively is vital for the Bank to sustain its growth and continue to create value for its shareholders.

4.1 Risk Management

The Bank continually advances on its risk management techniques and marry this into the overall strategic business objectives to support the growth objectives of the Bank.

The Bank has automated the front-office, back office, and middle office operations as far as market risk is concerned. This includes the integration of pre-deal limit checking, on-demand position monitoring, automated limit reporting and breach approval, and automated value-at-risk (VaR) calculations. In addition to the automation, the Bank continues to review its limits system to ensure that it only enters into transactions allowed under its existing policies and that adequate capital is available to cover market risk exposures.

On the credit side, the Bank has instituted improvements on its credit policies, which includes large exposure and credit concentration. Credit process streamlining has also been initiated to ensure that commensurate controls are in place while the Bank continues to device ways to improve on its credit process.

As for operational risk, the Bank has completed the bankwide operational risk and control self-assessment in support of the enterprise risk management framework of the Bank. With this, there is also an enterprise-wide training on risk awareness to ensure appreciation and measurement of key risks of each unique business and support units and how these relate to the over-all objective and strategies of the Bank. In addition, information security policies were further strengthened, hardened, implemented, and disseminated across all units of the Bank.

4.2 Enterprise Risk Management Framework

The Bank adopts an Enterprise Risk Management framework as its integrated approach to the identification, measurement, control and disclosure of risks, subject to prudent limits and stringent controls as established in its risk management framework and governance structure. The Bank has an integrated process of planning, organizing, leading, and controlling its activities in order to minimize the effects of risk on its capital and earnings. The Bank's BOD formulates the corporate risk policy, sets risk tolerances and appetite and provide risk oversight function through the Risk Oversight Committee (ROC), which in turn supervises the Chief Risk Officer and Head of the Enterprise Risk Management Group (ERMG) in the development and implementation of risk policies, processes and guidelines. The framework covers operational, market and liquidity, credit and counterparty and other downside risks within the context of the supervision by risk guidelines of the BSP and aligned best practices on risk management.

4.3 Credit Risk

Credit risk pertains to the risk to income or capital due to failure by borrowers or counterparties to pay 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 BOD. Account officers and credit officers directly handle credit risk as guided by BOD-approved policies and limits. ERMG, as guided by the ROC, performs an independent portfolio oversight of credit risks and reports regularly to the BOD and the ROC.

On the transactional level, exposure to credit risk is managed through a credit review process wherein a regular analysis of the ability of the obligors and potential obligors to meet interest and capital repayment obligations is performed. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees. Moreover, in accordance with best practices, the Bank also adopts an internal credit risk rating system (ICRRS) for the purpose of measuring credit risk for every exposure in a consistent manner as accurately as possible and uses this information as a tool for business and financial decision-making.

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.

Exposure to Credit Risk

The maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown in the statements of financial position or in the detailed analysis provided in the notes to the financial statements as summarized below (amounts in thousands).

	<u>Notes</u>	<u>2015</u>		<u>2014</u>
Cash and other cash items	9	P 1,279,302	P	1,174,011
Due from BSP	9	7,672,638		4,554,442
Due from other banks	10	2,825,982		2,031,581
Financial assets at FVPL	11	75,943		171,892
AFS securities	12	3,092,838		1,714,037
HTM investments	13	5,948,727		5,962,970
Loans and other receivables – net	14	41,737,830		40,110,256
Other resources – net	17	92,152		82,354
		<u>P 62,725,412</u>		<u>P 55,801,543</u>

The credit risk quality of the Bank's financial assets is further described as follows:

(i) *Cash and Cash Equivalents*

The credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable banks with high quality external credit ratings. Included in the cash and cash equivalents are Cash and Other Cash Items, Due from BSP and Due from Other Banks. Due from Other Banks are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of P0.5 million for every depositor per banking institution.

(ii) *Financial Assets at FVTPL, AFS Securities and HTM investments*

The Bank continuously monitors defaults of counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. Moreover, these investments are mainly composed of government bonds whose credit risk is secured by the Philippine Government and certain corporate debt securities issued by publicly-known local companies with no observed history of credit default. Accordingly, all debt instruments held by the Bank are considered as either high grade or standard grade that is neither past due nor specifically impaired.

(iii) *Loans and Other Receivables*

The Bank regularly reviews and monitors defaults of borrowers identified either individually or by group, and incorporates this information into its credit risk evaluation. Where available at a reasonable cost, external credit ratings and/or reports on customers are obtained and used. In addition, for a significant proportion of loans, post-dated checks are received to mitigate credit risk.

The following table shows the Bank's maximum exposure to credit risk on loans and other receivables as of December 31, 2015 and 2014 (amounts in thousands):

	<u>2015</u>	<u>2014</u>
Individually impaired		
Wholesale and retail trade	P 523,163	P 323,949
Real estate, renting and construction	413,800	147,456
Manufacturing	131,050	64,979
Consumption	87,060	158,087
Others	<u>926,120</u>	<u>620,098</u>
Gross amount	2,081,193	1,314,569
Allowance for impairment	(700,825)	(495,420)
Carrying amount	<u>1,380,368</u>	<u>819,149</u>
Collectively impaired		
Wholesale and retail trade	11,163,616	15,356,456
Real estate, renting and construction	3,516,952	3,215,895
Manufacturing	2,597,782	5,736,638
Consumption	-	6,597,008
Others	<u>6,676,846</u>	<u>7,628,669</u>
Gross amount	23,955,196	38,534,666
Allowance for impairment	(375,800)	(410,800)
Carrying amount	<u>23,579,396</u>	<u>38,123,866</u>
Past due but not impaired		
Carrying amount	<u>68,943</u>	<u>-</u>
Neither past due nor impaired		
Carrying amount	<u>16,709,123</u>	<u>1,167,241</u>
Total carrying amount	<u>P 41,737,830</u>	<u>P 40,110,256</u>

In addition to default and concentration risk arising from lending activities, the Bank has an incremental issuer credit risk exposure emanating from Trading and Investment Securities and Due from Other Banks amounting to P9,117.5 and P2,826.0 million, respectively, as of December, 31, 2015 and P7,848.9 million and P2,031.6 million, respectively, as of December 31, 2014. These are considered as neither past due nor impaired.

The carrying amount of the above loans and other receivables are partially secured with collateral mainly consisting of real estate and chattel mortgage.

The Due from BSP account represents the aggregate balance of noninterest-bearing deposit accounts in local currency maintained by the Bank with the BSP primarily to meet reserve requirements and to serve as a clearing account for interbank claims. Hence, no significant credit risk is anticipated for this account.

4.4 Market Risk

The Bank's market risk exposure arises from adverse movements in interest rates and prices of assets that are either carried in the banking book or held as positions in the trading book (financial instruments), mismatches in the contractual maturity of its assets and liabilities, embedded optionality in the loans and deposits due to pre-terminations, and potential cash run offs arising from changes in overall liquidity and funding conditions in the market. Market risk related to the Bank's financial instruments includes foreign currency, interest rate and price risks.

(a) Foreign Currency Risk

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 breakdown of the financial assets and financial liabilities as to foreign currency (translated into Philippine pesos) and Philippine peso-denominated balances as of December 31, 2015 and 2014 follow (amounts in thousands):

	2015		
	Foreign Currency	Philippine Peso	Total
<i>Financial Assets:</i>			
Cash and other cash items	P -	P 1,279,302	P 1,279,302
Due from BSP	-	7,672,638	7,672,638
Due from other banks	2,372,753	453,229	2,825,982
Financial assets at FVTPL	-	75,943	75,943
AFS securities	2,990,980	103,558	3,094,538
HTM investments	461,114	5,487,613	5,948,727
Loans and other receivables - net	569,439	41,168,391	41,737,830
Other resources	91,833	319	92,152
	<u>P 6,486,119</u>	<u>P 56,240,993</u>	<u>P 62,727,112</u>
<i>Financial Liabilities:</i>			
Deposit liabilities	P 6,458,745	P 48,557,475	P 55,016,220
Bills payable	-	956	956
Accrued expenses and other liabilities	1,886	1,936,797	1,938,683
	<u>P 6,460,631</u>	<u>P 50,495,228</u>	<u>P 56,955,859</u>

	2014		
	Foreign Currency	Philippine Peso	Total
<i>Financial Assets:</i>			
Cash and other cash items	P -	P 1,174,011	P 1,174,011
Due from BSP	-	4,554,442	4,554,442
Due from other banks	463,362	1,568,219	2,031,581
Financial assets at FVTPL	-	171,892	171,892
AFS securities	1,577,834	137,903	1,715,737
HTM investments	438,030	5,524,940	5,962,970
Loans and other receivables - net	595,845	39,514,411	40,110,256
Other resources	<u>82,080</u>	<u>274</u>	<u>82,354</u>
	<u>P 3,157,151</u>	<u>P 52,646,092</u>	<u>P 55,803,243</u>
<i>Financial Liabilities:</i>			
Deposit liabilities	P 4,217,618	P 42,401,790	P 46,619,408
Bills payable	-	309,522	309,522
Accrued expenses and other liabilities	<u>890</u>	<u>2,697,859</u>	<u>2,698,749</u>
	<u>P 4,218,508</u>	<u>P 45,409,171</u>	<u>P 49,627,679</u>

(b) *Interest Rate Risk*

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. To quantify interest rate exposure, the statement of financial position is first classified into interest rate sensitive and non-interest rate sensitive asset and liability accounts and then divided into pre-defined interest rate sensitivity gap tenor buckets with corresponding amounts slotted therein based on the term to next re-pricing date (the re-pricing maturity for floating rate accounts) and remaining term to maturity (the equivalent re-pricing maturity for fixed rate accounts).

The rate sensitivity gaps are calculated for each time band and on a cumulative basis. The gap amount for each bucket is multiplied by an assumed change in interest rate to determine EAR. 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 resources 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.

The analyses of the groupings of resources, liabilities, capital funds and off-statement of financial position items as of December 31, 2015 and 2014 based on the expected interest realization or recognition are presented below (amounts in thousands).

	<u>Less than One Month</u>	<u>One to Three Months</u>	<u>Three Months to One Year</u>	<u>More than One Year</u>	<u>Non-rate Sensitive</u>	<u>Total</u>
2015						
<i>Resources:</i>						
Cash and other cash items	P 1,279,302	P -	P -	P -	P -	P 1,279,302
Due from BSP	7,672,638	-	-	-	-	7,672,638
Due from other banks	2,825,982	-	-	-	-	2,825,982
Trading and investment securities	58,873	20,086	6,521	9,033,728	-	9,119,208
Loans and other receivables - net	29,654,273	3,273,654	3,501,767	5,308,136	-	41,737,830
Other resources	-	-	-	-	2,947,201	2,947,201
Total Resources	41,491,068	3,293,740	3,508,288	14,341,864	2,947,201	65,582,161
<i>Liabilities and Equity:</i>						
Deposit liabilities	17,087,810	8,513,338	7,369,904	22,045,168	-	55,016,220
Bills payable	-	-	956	-	-	956
Accrued expenses and other liabilities	-	-	-	-	2,095,433	2,095,433
Total Liabilities	17,087,810	8,513,338	7,370,860	22,045,168	2,095,433	57,112,609
Equity	-	-	-	-	8,469,553	8,469,553
Total Liabilities and Equity	17,087,810	8,513,338	7,370,860	22,045,168	10,564,986	65,582,162
On-book Gap	24,403,258	(5,219,598)	(3,862,572)	(7,703,304)	(7,617,784)	-
Cumulative On-book Gap	24,403,258	19,183,660	15,321,088	7,617,784	-	-
Contingent Resources	-	-	-	-	-	-
Contingent Liabilities	-	-	-	-	1,341,367	1,341,367
Off-book Gap	-	-	-	-	(1,341,367)	(1,341,367)
Net Periodic Gap	24,403,258	(5,219,598)	(3,862,572)	(7,703,304)	(8,959,151)	(1,341,367)
Cumulative Total Gap	P 24,403,258	P 19,183,660	P 15,321,088	P 7,617,784	(P 1,341,367)	P -

	<u>Less than One Month</u>	<u>One to Three Months</u>	<u>Three Months to One Year</u>	<u>More than One Year</u>	<u>Non-rate Sensitive</u>	<u>Total</u>
<u>2014</u>						
<u>Resources:</u>						
Cash and other cash items	P -	P -	P -	P -	P 1,174,011	P 1,174,011
Due from BSP	-	-	-	-	4,554,442	4,554,442
Due from other banks	-	-	-	-	2,031,581	2,031,581
Trading and investment securities	-	-	171,892	7,678,707	-	7,850,599
Loans and other receivables - net	30,576,275	3,446,655	2,863,466	1,331,675	1,892,185	40,110,256
Other resources	-	-	-	-	2,133,626	2,133,626
Total Resources	<u>30,576,275</u>	<u>3,446,655</u>	<u>3,035,358</u>	<u>9,010,382</u>	<u>11,785,845</u>	<u>57,854,515</u>
<u>Liabilities and Equity:</u>						
Deposit liabilities	16,359,916	8,020,236	3,918,852	641,266	17,679,138	46,619,408
Bills payable	-	309,522	-	-	-	309,522
Accrued expenses and other liabilities	-	-	-	-	2,903,219	2,903,219
Total Liabilities	16,359,916	8,329,758	3,918,852	641,266	20,582,357	49,832,149
Equity	-	-	-	-	8,022,366	8,022,366
Total Liabilities and Equity	<u>16,359,916</u>	<u>8,329,758</u>	<u>3,918,852</u>	<u>641,266</u>	<u>28,604,723</u>	<u>57,854,515</u>
On-book Gap	<u>14,216,359</u>	<u>(4,883,103)</u>	<u>(883,494)</u>	<u>8,369,116</u>	<u>(16,818,878)</u>	<u>-</u>
Cumulative On-book Gap	<u>14,216,359</u>	<u>9,333,256</u>	<u>8,449,762</u>	<u>16,818,878</u>	<u>-</u>	<u>-</u>
Contingent Resources	-	-	-	-	-	-
Contingent Liabilities	-	-	-	-	615,085	615,085
Off-book Gap	-	-	-	-	(615,085)	(615,085)
Net Periodic Gap	<u>14,216,359</u>	<u>(4,883,103)</u>	<u>(883,494)</u>	<u>8,369,116</u>	<u>(17,433,961)</u>	<u>(615,085)</u>
Cumulative Total Gap	<u>P14,216,359</u>	<u>P 9,333,256</u>	<u>P 8,449,762</u>	<u>P16,818,878</u>	<u>(P 615,085)</u>	<u>P -</u>

(c) *Price Risk*

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).

In calculating the severity of the market risk exposure for fixed income securities, the Bank takes into account the cash flow weighted term or modified duration of the securities comprising the portfolio, the yield to maturity, and mark-to-market value of the component securities position in the trading book. 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 PDEX 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 ten 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: (i) VaR limit on a per instrument and portfolio; (ii) loss limit on per investment portfolio, (iii) off-market rate limits on per instrument type; and, (iv) 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.

The table below shows the VaR position and ranges of the Bank's financial assets at FVTPL and AFS securities portfolios as at December 31.

<u>VaR Position:</u>	<u>2015</u>		<u>2014</u>	
Financial assets at FVTPL	P	1,440	P	6,214
AFS securities		1,451		186,915
<u>VaR Ranges:</u>				
Minimum	P	6,214	P	5,091
Maximum		11,200		152,602
Average		1,787		23,681

Stress test on the December 31, 2015 and 2014 portfolio shows the potential impact on profit and capital funds of parallel increase in interest rates of financial assets at FVTPL and AFS securities as follows:

<u>Currency</u>	<u>Current Market Value</u>	<u>2015</u>		
		<u>+100 bps</u>	<u>+300 bps</u>	<u>+500 bps</u>
Philippine peso	P 178,702,857	(P 13,233,739)	(P 39,701,216)	(P 66,168,694)
US dollar	<u>2,990,980,345</u>	(<u>333,852,546</u>)	(<u>1,001,557,637</u>)	(<u>1,669,262,728</u>)
Total	<u>P3,169,683,202</u>	(<u>P347,086,285</u>)	<u>P1,041,258,853</u>	(<u>P 1,735,431,422</u>)

Currency	2014			
	Current Market Value	Sensitivities		
		+100 bps	+300 bps	+500 bps
Philippine peso	P 309,794,253	(P 24,635,885)	(P 73,907,654)	(P 123,179,423)
US dollar	<u>1,577,834,272</u>	(<u>166,590,526</u>)	(<u>499,771,577</u>)	(<u>832,952,629</u>)
Total	<u>P1,887,628,525</u>	(<u>P191,226,411</u>)	(<u>P 573,679,231</u>)	(<u>P 956,132,052</u>)

(d) *Liquidity Risk*

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. A maturity ladder relates the inflows to outflows of funds at selected maturity dates and is constructed to measure liquidity exposure. The ladder shows the Bank's statement of financial position distributed into tenor buckets across the term structure on the basis of the term to final maturity or cash flow dates. The amount of net inflows which equals the difference between the amounts of contractually maturing assets (inflows) and liabilities (outflows) is computed per tenor bucket and on a cumulative basis incorporating certain behavioral and hypothetical assumptions regarding the flows from assets and liabilities including contingent commitments over time. The calculated periodic and cumulative gaps constitute the Bank's run off schedule, which indicate the Bank's net funding requirements in local and foreign currency.

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 ROC prior to the confirmation by the BOD.

The analysis of the cash flow gap analysis of resources, liabilities, capital funds and off-statement financial position items as of December 31, 2015 and 2014 is presented below (amounts in thousands).

	<u>Less than One Month</u>	<u>One to Three Months</u>	<u>Three Months to One Year</u>	<u>More than One Year</u>	<u>Total</u>
2015					
<i>Resources:</i>					
Cash and other cash items	P 1,279,302	P -	P -	P -	P 1,279,302
Due from BSP	7,672,638	-	-	-	7,672,638
Due from other banks	2,825,982	-	-	-	2,825,982
Trading and investment securities	135,372	20,113	4,821	8,958,902	9,119,208
Loans and other receivables	8,007,087	10,555,930	10,790,464	12,384,349	41,737,830
Other resources	<u>452,757</u>	<u>-</u>	<u>133,815</u>	<u>2,360,630</u>	<u>2,947,202</u>
Total Resources (<i>balance carried forward</i>)	<u>P 20,373,138</u>	<u>P 10,576,043</u>	<u>P 10,929,100</u>	<u>P 23,703,881</u>	<u>P 65,582,162</u>

	<u>Less than One Month</u>	<u>One to Three Months</u>	<u>Three Months to One Year</u>	<u>More than One Year</u>	<u>Total</u>
2015					
Total Resources <i>(balance brought forward)</i>	P 20,373,138	P 10,576,043	P 10,929,100	P 23,703,881	P 65,582,162
<i>Liabilities and Equity:</i>					
Deposit liabilities	8,727,282	13,153,235	11,609,010	21,526,693	55,016,220
Bills payable	-	-	956	-	956
Accrued expenses and other liabilities	<u>2,285,952</u>	<u>22,737</u>	<u>51,570</u>	<u>(264,826)</u>	<u>2,095,433</u>
Total Liabilities	<u>11,013,234</u>	<u>13,175,972</u>	<u>11,661,536</u>	<u>21,261,867</u>	<u>57,112,609</u>
Capital Funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,469,553</u>	<u>8,469,553</u>
Total Liabilities and Capital Funds	<u>11,020,467</u>	<u>13,175,972</u>	<u>11,661,536</u>	<u>29,724,187</u>	<u>65,582,162</u>
On-book Gap	<u>9,352,671</u>	<u>(2,599,929)</u>	<u>(732,436)</u>	<u>(6,020,306)</u>	<u>-</u>
Cumulative On-book Gap	<u>9,352,671</u>	<u>6,752,742</u>	<u>6,020,306</u>	<u>-</u>	<u>-</u>
Contingent Resources	-	-	-	-	-
Contingent Liabilities	<u>29,665</u>	<u>587,008</u>	<u>682,635</u>	<u>37,501</u>	<u>1,336,809</u>
Off-book Gap	<u>(29,665)</u>	<u>(587,008)</u>	<u>(682,635)</u>	<u>(37,501)</u>	<u>(1,336,809)</u>
Net Periodic Gap	<u>9,323,006</u>	<u>(3,186,937)</u>	<u>(1,415,071)</u>	<u>(6,057,807)</u>	<u>(1,336,809)</u>
Cumulative Total Gap	<u>P 9,323,006</u>	<u>P 6,136,069</u>	<u>P 4,720,998</u>	<u>(P 1,336,809)</u>	<u>P -</u>

2014

<i>Resources:</i>					
Cash and other cash items	P 1,174,011	P -	P -	P -	P 1,174,011
Due from BSP	4,554,442	-	-	-	4,554,442
Due from other banks	2,031,581	-	-	-	2,031,581
Trading and investment securities	-	-	171,892	7,678,707	7,850,599
Loans and other receivables	-	18,259,698	11,241,422	10,609,136	40,110,256
Other resources	<u>-</u>	<u>598,870</u>	<u>172,520</u>	<u>1,362,236</u>	<u>2,133,626</u>
Total Resources	<u>P 7,760,034</u>	<u>P 18,858,568</u>	<u>P 11,585,834</u>	<u>P 19,650,079</u>	<u>P 57,854,515</u>
<i>Liabilities and Equity:</i>					
Deposit liabilities	2,265,575	20,325,396	3,454,604	20,573,833	46,619,408
Bills payable	-	299,604	4,327	5,591	309,522
Accrued expenses and other liabilities	<u>110,287</u>	<u>2,324,280</u>	<u>436,649</u>	<u>29,706</u>	<u>2,903,219</u>
Total Liabilities	<u>2,375,862</u>	<u>22,949,280</u>	<u>3,897,877</u>	<u>20,609,130</u>	<u>49,832,149</u>
Capital Funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,022,366</u>	<u>8,022,366</u>
Total Liabilities and Capital Funds <i>(balance carried forward)</i>	<u>2,375,862</u>	<u>22,949,280</u>	<u>3,897,877</u>	<u>28,631,496</u>	<u>57,854,515</u>

	<u>Less than One Month</u>	<u>One to Three Months</u>	<u>Three Months to One Year</u>	<u>More than One Year</u>	<u>Total</u>
Total Liabilities and Capital Funds (<i>balance brought forward</i>)	P 2,375,862	P 22,949,280	P 3,897,877	P 28,631,496	P 57,854,515
On-book Gap	<u>5,384,172</u>	<u>(4,090,712)</u>	<u>7,687,957</u>	<u>(8,981,417)</u>	<u>-</u>
Cumulative On-book Gap	<u>5,384,172</u>	<u>1,293,460</u>	<u>8,981,417</u>	<u>-</u>	<u>-</u>
Contingent Resources	-	-	-	-	-
Contingent Liabilities	<u>76,467</u>	<u>396,998</u>	<u>171,886</u>	<u>47,064</u>	<u>692,415</u>
Off-book Gap	<u>(76,467)</u>	<u>(396,998)</u>	<u>(171,886)</u>	<u>47,064</u>	<u>692,415</u>
Net Periodic Gap	<u>5,307,705</u>	<u>(4,487,710)</u>	<u>7,516,071</u>	<u>(9,028,481)</u>	<u>(692,415)</u>
Cumulative Total Gap	<u>P 5,307,705</u>	<u>P 819,995</u>	<u>P 8,336,066</u>	<u>(P 692,415)</u>	<u>P -</u>

The negative liquidity gap in the MCO is due to the timing difference in the contractual maturities of assets and liabilities. The MCO measures the maximum funding requirement the Bank may need to support its maturing obligations. To ensure that the Bank maintains a prudent and manageable level of cumulative negative gap, the Bank maintains a pool of highly liquid assets in the form of tradable investment securities. Moreover, the BOD has approved the MCO Limits which reflect the Bank's overall appetite for liquidity risk exposure. This limit is reviewed every year. Compliance to MCO Limits is monitored and reported to the BOD and senior management. In case of breach in the MCO Limit, the Risk Management Center elevates the concern to the BOD through the ROC for corrective action.

Additional measures to mitigate liquidity risks include reporting of funding concentration, short-term liquidity reporting, 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 ALCO meetings.

4.5 Operational Risk

Operational risks are risks arising from the potential inadequate information systems and systems, operations or transactional problems (relating to service or product delivery), breaches in internal controls, fraud, or unforeseen catastrophes that may result in unexpected loss. Operational risks include the risk of loss arising from various types of human or technical error, settlement or payments failures, business interruption, administrative and legal risks, and the risk arising from systems not performing adequately.

The ROC of the Bank assists management in meeting its responsibility to understand and manage operational risk exposures.

The ROC applies a number of techniques to efficiently manage operational risks. Among these are:

- Each major business line has an embedded operational risk management officer who acts as a point person for the implementation of various operational risk tools. The operational risk officers attend annual risk briefings conducted by the ROC to keep them up-to-date with different operational risk issues, challenges and initiatives.

- With ROC's bottom up self-assessment process, which is conducted at least annually, areas with high risk potential are highlighted and reported, and control measures are identified. The results of said self-assessment exercise also serve as one of the inputs in identifying specific key risk indicators (KRIs).
- KRIs are used to monitor the operational risk profile of the Bank and of each business unit, and alert the management of impending problems in a timely fashion.
- Internal loss information is collected, reported and utilized to model operational risk.
- The ROC reviews product and operating manuals, policies, procedures and circulars, thus allowing the embedding of desired operational risk management practices in all business units.

(a) Reputational Risk

Reputation risk is the risk to earnings or capital arising from negative public opinion. This affects the Bank's ability to establish new relationships or services, or to continue servicing existing relationships. This risk can expose the Bank to litigation, financial loss, or damage to its reputation. Reputation risk arises whenever technology-based banking products, services, delivery channels or processes may generate adverse public opinion such that it seriously affects the Bank's earnings or impairs its capital. This risk is present in activities such as asset management and regulatory compliance.

The Bank adopted a reputation risk monitoring and reporting framework to manage public perception.

(b) Legal Risk and Regulatory Risk Management

Changes in laws and regulations and fiscal policies could adversely affect the Bank's operations and financial reporting. In addition, the Bank faces legal risks in enforcing its rights under its loan agreements, such as foreclosing of collateral. Legal risk is higher in new areas of business where the law remains untested by the courts. The Bank uses a legal review process as the primary control mechanism for legal risk. Such a legal review aims to verify and validate the existence, genuineness and due execution of legal documents, and verify the capacity and authority of counterparties and customers to enter into transactions. In addition, the Bank seeks to minimize its legal risk by using stringent legal documentation, imposing certain requirements designed to ensure that transactions are properly authorized, and consulting internal and external legal advisors.

Regulatory risk refers to the potential for the Bank to suffer financial loss due to changes in the laws or monetary, tax or other governmental regulations of the country. The Bank's Compliance Program, the design and implementation of which is overseen and coordinated by the Compliance Officer, is the primary control process for regulatory risk issues. The Compliance Office is committed to safeguard the integrity of the Bank by maintaining a high level of regulatory compliance. It is responsible for communicating and disseminating new rules and regulations to all units, assessing and addressing identified compliance issues, performing periodic compliance testing on branches and head office units, and reporting compliance findings to the Audit Committee and the BOD.

4.6 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.

5. 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:

- (a) unbooked valuation reserves and other capital adjustments as may be required by the BSP;
- (b) total outstanding unsecured credit accommodations to directors, officers, stockholders and related interests (DOSRI);
- (c) deferred tax asset net of deferred tax liability;
- (d) goodwill;
- (e) sinking fund for redemption of redeemable preferred shares; and,
- (f) 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>2015</u>	<u>2014</u>	<u>2013</u>
Tier 1 Capital	P 8,709	P 8,275	P 8,099
Tier 2 Capital	<u>376</u>	<u>407</u>	<u>284</u>
Total Regulatory Capital	9,085	8,682	8,383
Deductions	<u>-</u>	<u>-</u>	<u>(258)</u>
Total Qualifying Capital	<u>P 9,085</u>	<u>P 8,682</u>	<u>P 8,125</u>
Tier 1 Capital	P 8,709	P 8,275	P 8,099
Tier 1 Capital Deductions	<u>-</u>	<u>-</u>	<u>(258)</u>
Net Tier 1 Capital	<u>P 8,709</u>	<u>P 8,275</u>	<u>P 7,841</u>
Risk Weighted Assets			
Credit Risk Weighted Assets	P 43,382	P 38,348	P 31,252
Operational Risk Weighted Assets	3,580	3,233	2,155
Market Risk Weighted Assets	<u>4,378</u>	<u>139</u>	<u>829</u>
Total Risk-Weighted Assets	<u>P 51,340</u>	<u>P 41,720</u>	<u>P 34,236</u>

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Capital ratios:			
Total qualifying capital expressed as percentage of total risk-weighted assets	17.7%	20.8%	26.0%
Net Tier 1 capital expressed as percentage of total risk-weighted assets	17.0%	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:

- (a) Investments in equity of unconsolidated subsidiary banks and other financial allied undertakings, but excluding insurance companies;
- (b) Investments in debt capital instruments of unconsolidated subsidiary banks;
- (c) Investments in equity of subsidiary insurance companies and non-financial allied undertakings;
- (d) Reciprocal investments in equity of other banks/enterprises; and,
- (e) 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 December 31, 2015 and 2014, 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 December 31, 2015 and 2014, 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.

6. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

6.1 Carrying Amounts and Fair Values by Category

The following table summarizes the carrying values and fair values of those financial assets and financial liabilities in the statements of financial position:

	<u>Notes</u>	<u>Carrying Values</u>	<u>Fair Value</u>
<u>December 31, 2015:</u>			
<i>Financial Assets</i>			
Loans and Receivables:			
Cash and other cash items	9	P 1,279,302,155	P 1,279,302,155
Due from BSP	9	7,672,637,783	7,672,637,783
Due from other banks	10	2,825,982,401	2,825,982,401
Loans and other receivables	14	41,737,830,222	41,737,830,222
Other resources	17	92,151,704	92,151,704
Financial assets at FVTPL	11	75,942,639	75,942,639
AFS securities	12	3,094,538,311	3,094,538,311
HTM investments	13	5,948,727,495	5,918,817,190
<i>Financial Liabilities</i>			
At amortized cost:			
Deposit liabilities	18	P 55,016,219,510	P 55,016,219,510
Bills payable	19	956,250	956,250
Accrued expenses and other liabilities	20	1,936,797,170	1,936,797,170
At fair value –			
Derivative liabilities	20	1,886,043	1,886,043
<u>December 31, 2014:</u>			
<i>Financial Assets</i>			
Loans and Receivables:			
Cash and other cash items	9	P 1,174,011,464	P 1,174,011,464
Due from BSP	9	4,554,441,827	4,554,441,827
Due from other banks	10	2,031,581,088	2,031,581,088
Loans and other receivables	14	40,110,256,377	40,110,256,377
Other resources	17	82,353,952	82,353,952
Financial assets at FVTPL	11	171,891,804	171,891,804
AFS securities	12	1,715,736,721	1,715,736,721
HTM investments	13	5,962,970,252	6,119,200,174

	<u>Notes</u>	<u>Carrying Values</u>	<u>Fair Value</u>
<i>Financial Liabilities</i>			
At amortized cost:			
Deposit liabilities	18	P 46,619,407,626	P 46,619,407,626
Bills payable	19	309,521,852	309,521,852
Accrued expenses and other liabilities	20	2,698,519,743	2,698,519,743
At fair value –			
Derivative liabilities	20	228,814	228,814

6.2 Offsetting of Financial Assets and Financial Liabilities

The following financial assets of the Bank with net amounts presented in the statements of financial position as of December 31, 2015 and 2014 are subject to offsetting, enforceable master netting arrangements and similar agreements (amounts in millions):

	<u>Financial assets</u>	<u>Financial liabilities available for set-off</u>	<u>Collateral received</u>	<u>Net Amount</u>
<u>December 31, 2015</u>				
Loans and receivables				
Receivables from customers	2,693	1	2,691	1
	<u>P 2,693</u>	<u>P 1</u>	<u>P 2,691</u>	<u>P 1</u>
 <u>December 31, 2014</u>				
HTM investments	P 411	P 300	P -	P 111
Loans and receivables				
Receivables from customers	2,311	9	2,301	1
	<u>P 2,722</u>	<u>P 309</u>	<u>P 2,301</u>	<u>P 112</u>

The following financial liabilities with net amounts presented in the statements of financial position of the Bank are subject to offsetting, enforceable master netting arrangements and similar agreements (amounts in millions):

	<u>Financial liabilities</u>	<u>Financial assets available for set-off</u>	<u>Collateral given</u>	<u>Net Amount</u>
<u>December 31, 2015</u>				
Deposit liabilities	P 2,691	P 2,691	P -	P -
Bills payable	1	-	1	-
	<u>P 2,692</u>	<u>P 2,691</u>	<u>P 1</u>	<u>P -</u>

	<u>Financial liabilities</u>	<u>Financial assets available for set-off</u>	<u>Collateral given</u>	<u>Net Amount</u>
<u>December 31, 2014</u>				
Deposit liabilities	P 2,301	P 2,301	P -	P -
Bills payable	<u>309</u>	<u>-</u>	<u>309</u>	<u>-</u>
	<u>P 2,610</u>	<u>P 2,301</u>	<u>P 309</u>	<u>P -</u>

For financial assets and financial liabilities subject to enforceable master netting agreements or similar arrangements above, each agreement between the Bank and counterparties allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and financial liabilities will be settled on a gross basis; however, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

7. FAIR VALUE MEASUREMENT AND DISCLOSURES

7.1 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.

7.2 *Financial Instruments Measured at Fair Value*

The table below shows the fair value hierarchy of the Bank's classes of financial assets and financial liabilities measured at fair value in the statements of financial position on a recurring basis as of December 31, 2015 and 2014 (amounts in millions).

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>December 31, 2015</u>				
Financial assets at FVTPL				
Government bonds	P -	P 76	P -	P 76
AFS securities				
Government debt securities	1,853	78	-	1,931
Other debt securities	<u>1,162</u>	<u>-</u>	<u>-</u>	<u>1,162</u>
	<u>3,015</u>	<u>78</u>	<u>-</u>	<u>3,093</u>
	<u>P 3,015</u>	<u>P 154</u>	<u>P -</u>	<u>P 3,169</u>
 <u>December 31, 2014</u>				
Financial assets at FVTPL				
Government bonds	P -	P 172	P -	P 172
AFS securities				
Government debt securities	880	93	-	973
Other debt securities	<u>741</u>	<u>-</u>	<u>-</u>	<u>741</u>
	<u>1,621</u>	<u>93</u>	<u>-</u>	<u>1,715</u>
	<u>P 1,624</u>	<u>P 265</u>	<u>P -</u>	<u>P 1,886</u>

The Bank has golf club shares amounting to P1.7 million as of December 31, 2015 and 2014 and are presented as part of AFS Securities in the statements of financial position. This is stated at cost as the carrying amounts of these financial instruments approximate their fair values.

As of December 31, 2015 and 2014, the Bank has derivative liabilities classified under Accrued Expenses and Other Liabilities in the statements of financial position amounting to P1.9 million and P0.2 million, respectively (see Note 20). Derivative liabilities are categorized within Level 3, and are determined through valuation techniques using the net present value computation.

The fair value of the debt securities of the Bank determined as follows:

- (a) For peso-denominated government debt securities issued by the Philippine government, fair value is determined to be the reference price per PDEx which is computed based on the weighted average of done or executed deals (Level 1), or the simple average of all firm bids per benchmark tenor or interpolated yields (Level 2). This is consistent with BSP Circular No. 813, issued by the BSP pursuant to Monetary Board Resolution No. 1504 dated September 13, 2013.
- (b) For other quoted debt securities under Level 1, fair value is determined to be the current mid-price, which is computed as the average of ask and bid prices as appearing on Bloomberg.

There were neither transfers between Levels 1 and 2 nor changes in Level 3 instruments in both years.

7.3 *Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed*

The table below summarizes the fair value hierarchy of the Bank's financial assets and financial liabilities which are not measured at fair value in the statements of financial position but for which fair value is disclosed (amount in millions).

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>December 31, 2015</u>				
<i>Financial Assets:</i>				
Cash and other cash items	P 1,279	P -	P -	P 1,279
Due from BSP	7,673	-	-	7,673
Due from other banks	2,826	-	-	2,826
HTM investments	529	5,390	-	5,919
Loans and other receivable	-	-	41,738	41,738
Other resources	-	-	92	92
	<u>P 12,307</u>	<u>P 5,390</u>	<u>P 41,830</u>	<u>P 59,527</u>
<i>Financial Liabilities:</i>				
Deposit liabilities	P -	P -	P 55,016	P 55,016
Bills payable	-	-	1	1
Accrued expenses and other liabilities	-	-	1,937	1,937
	<u>P -</u>	<u>P -</u>	<u>P 56,954</u>	<u>P 56,954</u>
<u>December 31, 2014</u>				
<i>Financial Assets:</i>				
Cash and other cash items	P 1,174	P -	P -	P 1,174
Due from BSP	4,554	-	-	4,554
Due from other banks	2,032	-	-	2,032
HTM investments	2,448	3,671	-	6,119
Loans and other receivable	-	-	40,110	40,110
Other resources	-	-	82	82
	<u>P 10,208</u>	<u>P 3,671</u>	<u>P 40,192</u>	<u>P 54,071</u>

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<i>Financial Liabilities:</i>				
Deposit liabilities	P -	P -	P 46,619	P 46,619
Bills payable	-	-	310	310
Accrued expenses and other liabilities	-	-	2,699	2,699
	<u>P -</u>	<u>P -</u>	<u>P 49,628</u>	<u>P 49,628</u>

For financial assets and financial liabilities, other than HTM investments, with fair values included in Level 1, management considers that the carrying amounts of those short-term financial instruments approximate their fair values. HTM investments consist of government securities issued by the Philippine government with fair value determined based on prices quoted in PDEx consistent with BSP Circular No. 813 (see Note 7.2).

The fair values of financial assets and financial liabilities not presented at fair value in the statements of financial position are determined as follows:

(a) *Due from BSP and Other Banks*

Due from BSP pertains to deposits made by the Bank to BSP for clearing and reserve requirements. Due from other banks includes interbank deposits and items in the course of collection. The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity, which for short-term deposits approximates the nominal value.

(b) *Loans and Other Receivables*

Loans and other receivables are net of impairment losses. The estimated fair value of loans and other receivables represents the discounted amount of estimated future cash flows expected to be received. Long term interest-bearing loans are periodically repriced at interest rates equivalent to the current market rates, to determine fair value.

(c) *Other Resources*

Other resources are composed of foreign currency notes and coins, security deposits and petty cash fund. Due to their short duration, the carrying amounts of these items in the statements of financial position are considered to be reasonable approximation of their fair values.

(d) *Deposits and Bills Payable*

The estimated fair value of demand deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of long-term fixed interest-bearing deposits and bills payable without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity. The carrying amounts of deposits and bills payable already approximate their fair values.

(e) Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities, except for post-employment benefit obligation and tax liabilities, are recognized initially at their fair value and subsequently measured at amounts to which they are to be paid. Fair value of these short-term liabilities approximates their carrying values.

7.4 Fair Value Measurement Investment Properties Carried at Cost

The total estimated fair values of the Bank's investment properties, categorized under Level 3 of the fair value hierarchy, amounted to and P803.3 million and P798.9 million as of December 31, 2015 and 2014, respectively.

The fair value of the investment properties of the Bank was determined on the basis of a valuation carried out on the respective dates by either an independent or internal appraiser having appropriate qualifications and recent experience in the valuation of properties in the relevant locations. To some extent, the valuation process was conducted by the appraisers in discussion with the management of the Bank with respect to determination of the inputs such as size, age, and condition of the land and buildings and the comparable prices in the corresponding property location. In estimating the fair value of the properties, management takes into account the market participant's ability to generate economic benefits by using the assets in highest and best use. Based on management's assessment, the best use of the investment properties indicated above is their current use.

The fair value of these investment properties were determined based on the following approaches:

(a) Fair Value Measurement for Land

The Level 3 fair value of land was derived using observable recent prices of the reference properties adjusted for differences in key attributes such as property size, zoning, and accessibility. The most significant input into this valuation approach is the price per square foot; hence, the higher the price per square foot, the higher the fair value. On the other hand, if fair value of the land was derived using the market comparable approach that reflects the recent transaction prices for similar properties in nearby locations, fair value is included in Level 2. Under this approach, when sales prices of comparable land in close proximity are used in the valuation of the subject property with no adjustment on the price.

(b) Fair Value Measure for Building and Improvements

The Level 3 fair value of the buildings and improvements under Investment Properties account was determined using the replacement cost approach that reflects the cost to a market participant to construct an asset of comparable usage, constructions standards, design and lay-out, adjusted for obsolescence. The more significant inputs used in the valuation include direct and indirect costs of construction such as but not limited to, labor and contractor's profit, materials and equipment, surveying and permit costs, electricity and utility costs, architectural and engineering fees, insurance and legal fees. These inputs were derived from various suppliers and contractor's quotes, price catalogues, and construction price indices. Under this approach, higher estimated costs used in the valuation will result in higher fair value of the properties.

There has been no change to the valuation techniques used by the Bank during the year for its non-financial assets. Also, there were no transfers into or out of Level 3 fair value hierarchy in 2015 and 2014.

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 2015, 2014 and 2013 follow (amounts in millions):

	<u>Corporate Banking</u>	<u>Consumer Banking</u>	<u>Treasury Operations</u>	<u>Total</u>
<u>December 31, 2015</u>				
Statement of Profit or Loss				
Net interest income	P 1,921	P 173	P 288	P 2,382
Non-interest income	<u>205</u>	<u>-</u>	<u>70</u>	<u>275</u>
Total income (after interest expense)	2,126	173	358	2,657
Operating expenses	(<u>1,387</u>)	(<u>76</u>)	(<u>489</u>)	(<u>1,952</u>)
Pre-tax profit (loss)	<u>739</u>	<u>97</u>	(<u>131</u>)	<u>705</u>
Net profit (loss)	<u>P 526</u>	<u>P 68</u>	<u>(P 92)</u>	<u>P 502</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 40,634	P 3,027	P 21,522	P 65,183
Intangible assets	56	-	-	56
Deferred tax assets	<u>343</u>	<u>-</u>	<u>-</u>	<u>343</u>
	<u>P 41,033</u>	<u>P 3,027</u>	<u>P 21,522</u>	<u>P 65,582</u>
Total Liabilities	<u>P 38,978</u>	<u>P 2,428</u>	<u>P 15,707</u>	<u>P 57,113</u>
Other segment information				
Depreciation and amortization	<u>P 93</u>	<u>P 6</u>	<u>P 38</u>	<u>P 137</u>
Capital expenditures	<u>P 32</u>	<u>P 2</u>	<u>P 13</u>	<u>P 47</u>

December 31, 2014

Statement of Profit or Loss

Net interest income	P 1,573	P 144	P 518	P 2,235
Non-interest income	<u>271</u>	<u>-</u>	<u>35</u>	<u>306</u>
Total income (after interest expense)	1,844	144	553	2,541
Operating expenses	(<u>1,304</u>)	(<u>61</u>)	(<u>398</u>)	(<u>1,763</u>)
Pre-tax profit	<u>540</u>	<u>83</u>	<u>155</u>	<u>778</u>
Net profit	<u>P 378</u>	<u>P 55</u>	<u>P 103</u>	<u>P 536</u>

Statement of Financial Position

Total Resources				
Segment assets	P 39,321	P 2,229	P 15,968	P 57,518
Intangible assets	51	-	-	51
Deferred tax assets	<u>286</u>	<u>-</u>	<u>-</u>	<u>286</u>
	<u>P 39,658</u>	<u>P 2,229</u>	<u>P 15,968</u>	<u>P 57,855</u>
Total Liabilities	<u>P 35,310</u>	<u>P 1,918</u>	<u>P 12,604</u>	<u>P 49,832</u>
Other segment information				
Depreciation and amortization	<u>P 86</u>	<u>P 5</u>	<u>P 32</u>	<u>P 123</u>
Capital expenditures	<u>P 27</u>	<u>P 2</u>	<u>P 10</u>	<u>P 39</u>

December 31, 2013

Statement of Profit or Loss

Net interest income	P 1,343	P 126	P 263	P 1,732
Non-interest income	<u>112</u>	<u>-</u>	<u>817</u>	<u>929</u>
Total income (after interest expense)	1,455	126	1,080	2,661
Operating expenses	(<u>1,069</u>)	(<u>46</u>)	(<u>418</u>)	(<u>1,533</u>)
Pre-tax profit	<u>386</u>	<u>80</u>	<u>662</u>	<u>1,128</u>
Net profit	<u>P 344</u>	<u>P 71</u>	<u>P 589</u>	<u>P 1,004</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 30,861	P 1,765	P 14,231	P 46,857
Intangible assets	51	-	-	51
Deferred tax assets	<u>250</u>	<u>-</u>	<u>-</u>	<u>250</u>
	<u>P 31,162</u>	<u>P 1,765</u>	<u>P 14,231</u>	<u>P 47,158</u>
Total Liabilities	<u>P 26,382</u>	<u>P 1,371</u>	<u>P 12,378</u>	<u>P 40,131</u>
Other segment information				
Depreciation and amortization	<u>P 69</u>	<u>P 4</u>	<u>P 33</u>	<u>P 106</u>
Capital expenditures	<u>P 52</u>	<u>P 3</u>	<u>P 24</u>	<u>P 79</u>

9. CASH AND DUE FROM BSP

This account is composed of the following:

	<u>2015</u>	<u>2014</u>
Cash and other cash items	<u>P 1,279,302,155</u>	<u>P 1,174,011,464</u>
Due from BSP		
Mandatory reserves	<u>3,802,637,783</u>	3,414,441,827
Other than mandatory reserves	<u>3,870,000,000</u>	<u>1,140,000,000</u>
	<u>7,672,637,783</u>	<u>4,554,441,827</u>
	<u>P 8,951,939,938</u>	<u>P 5,728,453,291</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.

Due from BSP bears annual effective interest rates ranging from 0.0% to 2.5% in 2015 and 2014, and 0.0% to 2.0% in 2013 and except for the amounts within the required reserve as determined by the BSP. The total interest income earned amounted to P58.6 million, P31.2 million and P43.8 million in 2015, 2014 and 2013, respectively, and are included as part of Interest Income on Due from BSP and Other Banks in the statements of profit or loss.

10. DUE FROM OTHER BANKS

The balance of this account represents deposits with the following:

	<u>2015</u>	<u>2014</u>
Local banks	P 2,036,612,414	P 1,493,241,853
Foreign banks	<u>789,369,987</u>	<u>538,339,235</u>
	<u>P 2,825,982,401</u>	<u>P 2,031,581,088</u>

Interest rates on these deposits range from 0.25% to 1.75% per annum in 2015 and 2014, and 0.25% to 1.90% per annum in 2013. The total interest income earned amounted to P11.1 million, P6.0 million and P1.7 million in 2015, 2014 and 2013, respectively, and are included as part of Interest Income on Due from BSP and Other Banks in the statements of profit or loss.

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 P75.9 million and P171.9 million as of December 31, 2015 and 2014, respectively. Interest rates on these investments range from 4.6% to 6.1% in 2015, 5.9% in 2014, and 5.9% to 6.3% interest rates range in 2013. The total interest income earned amounted to P36.7 million, P44.3 million and P26.6 million in 2015, 2014 and 2013, 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 P0.2 million loss, P17.1 million gain and P19.4 million loss in 2015, 2014 and 2013, respectively. Realized trading gains, net of losses, amounting to P15.9 million, P2.7 million and P94.2 million in 2015, 2014 and 2013, respectively, for held-for-trading government securities; and P0.3 million and P3.6 million in 2015 and 2014, respectively, and P0.1 million realized loss, net of gain, in 2013 for spot transactions are presented as part of Trading Gains - net in the statements of profit or loss.

12. AVAILABLE-FOR-SALE SECURITIES

This account is composed of the following:

	<u>2015</u>	<u>2014</u>
Corporate bonds	P 1,931,193,769	P 972,817,054
Government securities	1,161,644,542	741,219,667
Equity securities	<u>1,700,000</u>	<u>1,700,000</u>
	<u>P 3,094,538,311</u>	<u>P 1,715,736,721</u>

As to currency, this account consists of the following:

	<u>2015</u>	<u>2014</u>
Foreign currencies	P 2,990,980,345	P 1,577,834,272
Philippine pesos	<u>103,557,966</u>	<u>137,902,449</u>
	<u>P 3,094,538,311</u>	<u>P 1,715,736,721</u>

Changes in the AFS securities are summarized below.

	Note	<u>2015</u>	<u>2014</u>
Balance at beginning of year		P 1,715,736,721	P 7,908,049,843
Additions		2,274,907,422	443,590,778
Amortization of discount		223,929,554	24,789,027
Disposals		(913,710,806)	(1,172,147,778)
Foreign currency revaluation		(152,837,025)	10,487,626
Fair value gains (losses)		(53,487,555)	124,563,684
Reclassification	13	<u>-</u>	<u>(5,623,596,459)</u>
Balance at end of year		<u>P 3,094,538,311</u>	<u>P 1,715,736,721</u>

The reconciliation of unrealized fair value losses on AFS securities reported under equity is shown below.

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Balance at beginning of year	(P 519,742,021)	(P1,043,281,000)	P 322,575,800
Changes on unrealized fair value gains (losses) during the year:			
Fair value gains (losses) during the year	(53,101,385)	124,563,684	(1,042,090,203)
Realized fair value losses (gains) on AFS securities disposed during the year - net	6,615,377	393,988,832	(323,587,908)
Fair value loss on AFS securities reclassified to HTM investments in 2014	-	511,641,246	-
Amortization of fair value gains on reclassified AFS securities in 2012	-	-	(178,689)
Balance carried forward	<u>(46,486,008)</u>	<u>1,030,193,762</u>	<u>(1,365,856,800)</u>

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<i>Balance brought forward</i>	(P 46,486,008)	<u>P1,030,193,762</u>	<u>(P1,365,856,800)</u>
Changes on unrealized fair value losses on reclassified securities during the year:			
Amortization of fair value losses on reclassified securities in 2014	(11,070,376)	4,986,463	-
Fair value losses on AFS securities reclassified to HTM investments in 2014	<u>-</u>	<u>(511,641,246)</u>	<u>-</u>
	(11,070,376)	<u>(506,654,783)</u>	<u>-</u>
Balance at end of year	(P 577,298,405)	<u>(P 519,742,021)</u>	<u>(P1,043,281,000)</u>

AFS securities earn annual interest ranging from 3.5% to 9.1%, 3.5% to 9.2% and 4.3% to 9.1% in 2015, 2014 and 2013, respectively. The total interest income earned amounted to P96.5 million, P215.0 million and P341.7 million in 2015, 2014 and 2013, respectively, and are included as part of Interest Income on Trading and Investment Securities in the statements of profit or loss. Net fair value gains or losses recycled to profit or loss from equity resulting from the sale of AFS securities amounted to P6.6 million loss, P394.0 million loss and P323.8 million gain in 2015, 2014 and 2013, respectively. These are included as part of Trading Gains – net in the statements of profit or loss. Realized trading gains, net of losses, presented as part of Trading Gains – net in the 2015, 2014 and 2013 statements of profit or loss, amounted to P58.2 million, P16.4 million and P741.9 million, respectively.

The fair values of AFS securities have been determined directly by reference to published prices in an active market.

In compliance with current banking regulations relative to the Bank's trust functions, certain AFS securities of the Bank, with a face value of P70.75 million and P78.75 million as of December 31, 2015 and 2014, respectively, are deposited with the BSP (see Note 28).

13. HELD-TO-MATURITY INVESTMENTS

As of December 31, 2015 and 2014, 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	P 5,487,613,698	P 438,029,959
Foreign currencies	<u>461,113,797</u>	<u>5,524,940,293</u>
	<u>P 5,948,727,495</u>	<u>P 5,962,970,252</u>

Changes in the HTM investments are summarized below.

	<u>2015</u>	<u>2014</u>
Balance at beginning of year	P 5,962,970,252	P 8,656,409
Amortization of discount (premium)	(14,516,797)	330,612,497
Foreign currency revaluation	274,040	104,887
Reclassification	<u>-</u>	<u>5,623,596,459</u>
Balance at end of year	<u>P 5,948,727,495</u>	<u>P 5,962,970,252</u>

Effective interest rates on these investments ranges from 5.3% to 8.1% per annum in 2015 and 2014 and 7.0% per annum in 2013. The total interest income earned from these investments amounted to P291.6 million, P172.5 million and P0.3 million in 2015, 2014 and 2013, respectively, and is shown as part of Interest Income on Trading and Investment Securities in the statements of profit or loss.

On May 29, 2014, the Bank reclassified certain government debt securities from AFS securities to HTM investments with a market value of P5,623.6 million at the date of reclassification and with annual effective interest rates of the reclassified securities ranging from 5.3% to 8.1%. The unrealized fair value loss on the reclassified securities amounting to P511.6 million is retained in other comprehensive income and will be amortized over the remaining life of the HTM investments or recognized to profit or loss upon sale, whichever comes earlier. No similar reclassification of AFS to HTM occurred in 2015. The amortization of fair value loss amounted to P11.1 million and P5.0 million in 2015 and 2014, respectively, and is presented as part of Trading Gains – net in the statements of profit or loss. The book value and unamortized fair value losses related to these debt securities as of December 31, 2015 amount to P5,581.6 million and P498.9 million, respectively, and P5,954.6 million and P506.7 million, respectively, as of December 31, 2014 (see Note 12).

HTM securities amounting P300.0 million as of December 31, 2014 (nil as of December 31, 2015) are pledged as collaterals to secure borrowings under repurchase agreement (see Note 19).

14. LOANS AND OTHER RECEIVABLES

	<u>2015</u>	<u>2014</u>
Receivables from customers:		
Loans and discounts	P 36,954,001,403	P33,824,150,253
Bills purchased	1,259,177,626	1,703,226,381
Customers' liabilities on acceptances, letters of credit and trust receipts	<u>3,066,453,404</u>	<u>3,945,258,885</u>
	41,279,632,433	39,472,635,519
Unearned discount	(96,231,198)	(104,429,610)
	<u>41,183,401,235</u>	<u>39,368,205,909</u>
Other receivables:		
Unquoted debt securities	1,216,105,404	1,242,808,397
Accrued interest receivable	178,793,670	153,712,571
Sales contracts receivable	91,856,163	118,337,176
Accounts receivable	87,727,360	76,537,289
Deficiency claims receivable	<u>56,571,522</u>	<u>56,874,809</u>
	<u>1,631,054,119</u>	<u>1,648,270,242</u>
	42,814,455,354	41,016,476,151
Allowance for impairment	(1,076,625,132)	(906,219,774)
	<u>P 41,737,830,222</u>	<u>P40,110,256,377</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 December 31, 2015 and 2014, 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 December 31, 2015 and 2014, non-performing loans of the Bank amount to P1,191.6 million and P601.5 million, respectively, while restructured loans amount to P80.96 million and P120.6 million, respectively.

A summary of the Bank's maximum exposure to credit risk on loans and other receivables is disclosed in Note 4.3.

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

	<u>2015</u>	<u>2014</u>
Within one year	P 29,422,912	P 29,174,034
Beyond one year	<u>11,856,720</u>	<u>10,298,602</u>
	<u>P 41,279,632</u>	<u>P 39,472,636</u>

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

	<u>2015</u>	<u>2014</u>
Wholesale and retail trade	P 17,390,757	P 14,426,930
Construction	8,744,390	7,206,797
Manufacturing	5,011,775	6,108,277
Administrative and support services	4,984,934	7,712,045
Transportation and storage	3,218,626	1,067,807
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use	681,598	2,051,399
Electricity, gas, steam and air-conditioning supply	675,625	463,065
Agriculture, fishery and forestry	461,296	336,316
Mining and quarrying	<u>110,631</u>	<u>100,000</u>
	<u>P 41,279,632</u>	<u>P 39,472,636</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 14,247,890	P 12,329,560
Deposit hold-out	2,693,318	2,300,522
Chattel mortgage	2,335,847	1,933,400
Others	1,259,177	622,833
Unsecured	<u>20,743,400</u>	<u>22,286,321</u>
	<u>P 41,279,632</u>	<u>P 39,472,636</u>

The changes in the allowance for impairment losses on loans and other receivables are summarized below.

	<u>2015</u>	<u>2014</u>
Balance at beginning of year	P 906,219,774	P 716,332,647
Impairment losses for the year	<u>170,405,358</u>	<u>189,887,127</u>
Balance at end of year	<u>P 1,076,625,132</u>	<u>P 906,219,774</u>

Of the total loans and discounts of the Bank as of December 31, 2015 and 2014, 99.8% and 98.4%, respectively, are subject to periodic interest repricing.

Annual effective interest rates of loans and discounts range from 1.65% to 26.0% in 2015, 1.3% to 22.0% in 2014 and 2.0% to 22.0% in 2013, while the annual effective interest rates of interest-bearing other receivables range from 4.0% to 16% in 2015, and 4.0% to 2014 and 2013. The total interest income earned from loans and discounts amounted to P2,457.3 million, P2,165.4 million and P1,625.0 million in 2015, 2014 and 2013, respectively, while total interest income earned from interest-bearing other receivables amounted to P186.9 million, P200.9 million and P189.9 million in 2015, 2014 and 2013, respectively. These are presented as Interest Income on Loans and Other Receivables in the statements of profit or loss.

Loans receivables amounting to P1.0 million and P20.0 million as of December 31, 2015 and 2014, respectively, are pledged as collaterals to secure borrowings under rediscounting privileges (see Note 19).

15. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of bank premises, furniture, fixtures and equipment at the beginning and end of 2015 and 2014 are shown below.

	<u>Land</u>	<u>Building</u>	<u>Furniture, Fixtures and Equipment</u>	<u>Transportation Equipment</u>	<u>Leasehold Improve- ments</u>	<u>Total</u>
December 31, 2015						
Cost	P 84,327,556	P 109,343,864	P 370,921,928	P 130,418,587	P 486,983,266	P 1,181,995,201
Accumulated depreciation and amortization	-	(36,053,768)	(218,191,093)	(71,265,077)	(293,850,541)	(619,360,479)
Net carrying amount	<u>P 84,327,556</u>	<u>P 73,290,096</u>	<u>P 152,730,835</u>	<u>P 59,153,510</u>	<u>P 193,132,725</u>	<u>P 562,634,722</u>
December 31, 2014						
Cost	P 84,327,556	P 110,257,855	P 299,261,604	P 120,355,469	P 409,639,438	P 1,023,841,922
Accumulated depreciation and amortization	-	(32,760,656)	(179,720,221)	(59,527,339)	(236,067,230)	(508,075,446)
Net carrying amount	<u>P 84,327,556</u>	<u>P 77,497,199</u>	<u>P 119,541,383</u>	<u>P 60,828,130</u>	<u>P 173,572,208</u>	<u>P 515,766,476</u>
January 1, 2014						
Cost	P 77,747,556	P 100,487,964	P 257,715,168	P 108,189,288	P 259,172,230	P 803,312,206
Accumulated depreciation and amortization	-	(29,654,000)	(146,850,837)	(48,865,508)	(101,104,229)	(326,474,574)
Net carrying amount	<u>P 77,747,556</u>	<u>P 70,833,964</u>	<u>P 110,864,331</u>	<u>P 59,323,780</u>	<u>P 158,068,001</u>	<u>P 476,837,632</u>

A reconciliation of the carrying amounts at the beginning and end of 2015 and 2014 is shown below.

	<u>Land</u>	<u>Building</u>	<u>Furniture, Fixtures and Equipment</u>	<u>Transportation Equipment</u>	<u>Leasehold Improve- ments</u>	<u>Total</u>
Balance at January 1, 2015, net of accumulated depreciation and amortization	P 84,327,556	P 77,497,199	P 119,541,383	P 60,828,130	P 173,572,208	P 515,766,476
Additions	-	492,456	78,517,090	22,797,614	76,248,211	178,055,371
Disposals	-	(1,118,916)	(3,499,043)	(1,619,003)	-	(6,236,962)
Reclassification	-	(195,000)	-	-	195,000	-
Depreciation and amortization charges for the year	-	(3,385,643)	(41,828,595)	(22,853,231)	(56,882,694)	(124,950,163)
Balance at December 31, 2015, net of accumulated depreciation and amortization	<u>P 84,327,556</u>	<u>P 73,290,096</u>	<u>P 152,730,835</u>	<u>P 59,153,510</u>	<u>P 193,132,725</u>	<u>P 562,634,722</u>
Balance at January 1, 2014, net of accumulated depreciation and amortization	P 77,747,556	P 70,833,964	P 110,864,331	P 59,323,780	P 158,068,001	P 476,837,632
Additions	6,580,000	9,759,600	44,072,714	23,807,897	65,152,889	149,373,100
Disposals	-	-	-	(268,663)	-	(268,663)
Depreciation and amortization charges for the year	-	(3,096,365)	(35,395,662)	(22,034,884)	(49,648,682)	(110,175,593)
Balance at December 31, 2014, net of accumulated depreciation and amortization	<u>P 84,327,556</u>	<u>P 77,497,199</u>	<u>P 119,541,383</u>	<u>P 60,828,130</u>	<u>P 173,572,208</u>	<u>P 515,766,476</u>

The BSP requires that investment in bank premises, furniture, fixtures and equipment do not exceed 50% of the Bank's unimpaired capital. As of December 31, 2015 and 2014, the Bank has satisfactorily complied with this requirement.

As of December 31, 2015 and 2014, the Bank's fully depreciated bank premises, furniture, fixtures and equipment still in use in operations amounted to P130.9 million and P183.6 million, respectively.

16. INVESTMENT PROPERTIES

Investment properties consist of various parcels of land and buildings and improvements acquired through foreclosure or dacion as payment of outstanding loans by the borrowers.

The gross carrying amounts and accumulated depreciation and allowance for impairment of investment properties at the beginning and end of 2015 and 2014 are shown below.

	<u>Land</u>	<u>Buildings and Improvements</u>	<u>Total</u>
December 31, 2015			
Cost	P 620,444,728	P 138,104,033	P 758,548,761
Accumulated depreciation	-	(54,033,282)	(54,033,282)
Allowance for impairment	(<u>26,551,861</u>)	(<u>2,192,994</u>)	(<u>28,744,855</u>)
Net carrying amount	<u>P 593,892,867</u>	<u>P 81,877,757</u>	<u>P 675,770,624</u>
December 31, 2014			
Cost	P 651,957,954	P 127,493,252	P 779,451,206
Accumulated depreciation	-	(44,970,629)	(44,970,629)
Allowance for impairment	(<u>26,551,861</u>)	(<u>2,192,994</u>)	(<u>28,744,855</u>)
Net carrying amount	<u>P 625,406,093</u>	<u>P 80,329,629</u>	<u>P 705,735,722</u>
January 1, 2014			
Cost	P 376,208,090	P 145,300,691	P 521,508,781
Accumulated depreciation	-	(47,103,372)	(47,103,372)
Allowance for impairment	(<u>26,551,861</u>)	(<u>2,192,994</u>)	(<u>28,744,855</u>)
Net carrying amount	<u>P 349,656,229</u>	<u>P 96,004,325</u>	<u>P 445,660,554</u>

A reconciliation of the carrying amounts of investment properties at the beginning and end of 2015 and 2014 is shown below.

	<u>Land</u>	<u>Buildings and Improvements</u>	<u>Total</u>
Balance at January 1, 2015, net of accumulated depreciation and impairment			
	P 625,406,093	P 80,329,629	P 705,735,722
Additions	7,737,410	18,825,563	26,562,973
Disposals	(38,930,343)	(5,052,602)	(43,982,945)
Reclassification	(320,293)	320,293	-
Depreciation for the year	<u>-</u>	(<u>12,545,126</u>)	(<u>12,545,126</u>)
Balance at December 31, 2015, net of accumulated depreciation and impairment	<u>P 593,892,867</u>	<u>P 81,877,757</u>	<u>P 675,770,624</u>

	<u>Land</u>	<u>Buildings and Improvements</u>	<u>Total</u>
Balance at January 1, 2014, net of accumulated depreciation and impairment	P 349,656,229	P 96,004,325	P 445,660,554
Additions	356,685,050	15,176,503	371,861,553
Disposals	(80,935,186)	(10,100,171)	(91,035,357)
Reclassification		(8,304,606)	(8,304,606)
Depreciation for the year	<u>-</u>	<u>(12,446,422)</u>	<u>(12,446,422)</u>
Balance at December 31, 2014, net of accumulated depreciation and impairment	<u>P 625,406,093</u>	<u>P 80,329,629</u>	<u>P 705,735,722</u>

Additions to investment properties include loss on foreclosure amounting to P2.5 million in 2015 and gain on foreclosure amounting to P87.7 million and P6.2 million for the years ended December 31, 2014 and 2013, respectively. These are presented as part of Gain on foreclosure – net under Miscellaneous Income in the statements of profit or loss (see Note 22.1).

In 2015, 2014 and 2013, gains on sale of investment properties amounted to P15.0 million, P27.8 million and P17.2 million, respectively, and are presented as part of Gain on sale of properties under Miscellaneous Income in the statements of profit or loss (see Note 22.1).

In 2013, impairment losses amounting to P10.0 million (presented as part of Impairment losses in the 2013 statement of profit and loss) was recognized by the Bank to write-down its certain parcels of land and buildings to recoverable amount. The recoverable amount of these assets as of December 31, 2013 was based on value-in-use computed using discounted cash flows method at an effective rate of 2.9%. No impairment losses were recognized by the Bank in its investment properties in 2015 and 2014.

17. OTHER RESOURCES

This account consists of the following as of December 31:

	Notes	<u>2015</u>	<u>2014</u>
Other investments/deposits	17.2	P 602,077,114	P 15,000,000
Deferred tax assets - net	25	343,049,563	286,392,760
Branch licenses	17.1	248,575,050	248,680,000
Due from head office or branches		95,550,242	23,223,993
Sundry debits		91,598,123	84,878,908
Foreign currency notes and coins on hand		63,871,020	58,364,936
Computer software - net		56,151,749	50,989,684
Prepaid expenses		53,540,346	12,932,236
Goodwill	17.3	49,878,393	49,878,393
Security deposits		28,018,409	23,715,216
Deferred charges	17.4	13,383,687	13,383,687
Stationery and supplies		12,837,539	13,609,965
Miscellaneous	17.4	65,302,793	44,467,130
		1,723,834,028	925,516,908
Allowance for impairment		(15,038,424)	(13,393,424)
		<u>P 1,708,795,604</u>	<u>P 912,123,484</u>

The movement in the allowance for impairment for other resources is shown below.

	<u>2015</u>	<u>2014</u>
Balance at beginning of year	P 13,393,424	P 13,393,424
Impairment loss for the year	<u>1,645,000</u>	<u>-</u>
Balance at end of year	<u>P 15,038,424</u>	<u>P 13,393,424</u>

17.1 Branch Licenses

On February 27, 2014, the Bank received an approval from the BSP regarding its application for new licenses. This is in line with the Bank's branch expansion program for which it has allocated P200.0 million of its IPO proceeds to cover the cost of new licenses in the following areas plus processing fees which amounted to a total of P2.2 million: CAMANAVA, Vis-Min Area, Central Luzon and Southern Luzon.

In November 2011, the Monetary Board of BSP approved the request of the Bank to establish 15 branches in selected restricted cities in Metro Manila for a total consideration of P226.5 million which was paid by the Bank to the BSP in January 2012.

In December 2011, the Bank acquired four licenses from Prime Savings Bank, Inc. for a total consideration of P20.0 million.

In 2015, the Bank provided allowance for impairment to certain branch licenses amounting to P1.7 million (nil in 2014).

17.2 Other Investments/Deposits

In July 2015, the Bank's BOD approved the acquisition of all outstanding shares of Insular Savers Bank, Inc. (ISBI) with an agreed purchase price of P518.2 million. The Bank directly paid P101.2 million to the shareholders of ISBI, while the remaining P417.0 million was deposited with the escrow agent. As of December 31, 2015, a total of P105.1 million has been released from the escrow fund as payment to the ISBI shares. Moreover, in July 2015, the Bank entered into a Sale and Purchase Agreement with Bataan Savings and Loan Bank, Inc. (BLSB), whereby the Bank shall acquire all properties, assets and goodwill of BLSB and assume the payment of all its obligation. The agreed purchase price amounted to P68.8 million and has been fully paid by the Bank as of December 31, 2015. The acquisition of the shares of ISBI and the Sale and Purchase Agreements with BLSB are subject to the approval by the BSP. Pending such approval, the total payments made by the Bank totaling P587.0 million as of December 31, 2015 for these transactions are initially presented as part of Other investments/deposits under Other Resources.

In September 2014, the Bank's BOD approved the acquisition of all properties, assets and goodwill of Rural Bank of Kawit, Inc. (RBK) and assumption of all its obligation with an initial purchase price of P15.0 million. As of December 31, 2015, the approval of the BSP has not yet been obtained (see Note 26); hence, the purchase price is temporarily booked as part of Other investments/deposits under Other Resources.

17.3 Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the net assets of Kabalikat Rural Bank, Inc. (KRBI) at the date of merger in 2010, wherein net liabilities assumed amounted to P33.9 million, while total consideration amounted to P49.9 million.

17.4 Others

Deferred charges amounting to P13.4 million as of December 31, 2014 and 2013 pertain to prepaid final taxes from prior years that are fully provided with allowance since the Bank has assessed that these prepaid taxes are no longer recoverable.

Other properties held for sale (included under Miscellaneous) with a cost of P7.1 million and P7.6 million as of December 31, 2015 and 2014, respectively, are presented net of accumulated depreciation of P2.3 million and P2.7 million as of December 31, 2015 and 2014, respectively. Additions to other properties held for sale in 2015 and 2014, as a result of foreclosure, amounted to P0.5 million and P1.0 million, respectively (nil in 2013). In 2015 and 2014, certain properties were sold with book value of P0.5 million and P1.5 million, respectively (nil in 2013). Gain or loss on sale from the disposal is presented as part of Gain on sale of properties – net under Miscellaneous Income account in the statements of profit or loss (see Note 22.1).

18. DEPOSIT LIABILITIES

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

	<u>2015</u>	<u>2014</u>
Within one year	P 54,225,906,880	P 45,948,551,504
Beyond one year	<u>790,312,630</u>	<u>670,856,122</u>
	<u>P 55,016,219,510</u>	<u>P 46,619,407,626</u>

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

	<u>2015</u>	<u>2014</u>
Philippine peso	P 48,557,474,402	P 42,401,789,144
Foreign currencies	<u>6,458,745,108</u>	<u>4,217,618,482</u>
	<u>P 55,016,219,510</u>	<u>P 46,619,407,626</u>

Annual interest rates on deposit liabilities range from 0.25% to 2.81% in 2015, 0.25% to 2.60% in 2014 and 0.25% to 2.50% in 2013.

As mentioned in Note 24, the Bank has deposit liabilities from DOSRI as of December 31, 2015 and 2014.

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 December 31, 2015 and 2014 amount to P3,802.6 million and P3,414.4 million, respectively (see Note 9).

19. BILLS PAYABLE

This account consists of the following (including the related accrued interest):

	<u>2015</u>	<u>2014</u>
Repurchase agreement	P -	P 300,384,028
Other banks	<u>956,250</u>	<u>9,137,824</u>
	<u>P 956,250</u>	<u>P 309,521,852</u>

The maturity profile of bills payable follows:

	<u>2015</u>	<u>2014</u>
Within one year	P 956,250	P 304,740,602
Beyond one year	<u>-</u>	<u>4,781,250</u>
	<u>P 956,250</u>	<u>P 309,521,852</u>

Bills payable are denominated in Philippine pesos with annual interest rates ranging from 4.0% to 5.35%, 2.25% to 5.35% and 3.50% to 5.35% in 2015, 2014 and 2013, respectively. The total interest expense incurred amounted to P3.3 million, P2.2 million and P8.6 million in 2015, 2014 and 2013, respectively, and these are presented as Interest Expense on Bills Payable in the statements of profit or loss. Bills payable are collateralized by certain loans from customers and HTM securities (see Notes 13 and 14).

20. ACCRUED EXPENSES AND OTHER LIABILITIES

The breakdown of this account follows:

	<u>Notes</u>	<u>2015</u>	<u>2014</u>
Bills purchased		P 1,248,610,581	P 1,692,670,131
Accounts payable		334,167,460	289,042,507
Accrued expenses	31.1(a)	142,337,555	115,201,233
Manager's checks		113,701,850	137,371,321
Income tax payable		66,868,068	92,902,903
Outstanding acceptances		41,982,694	468,961,122
Withholding taxes payable		32,617,776	31,136,457
Post-employment benefit obligation	23.2	23,388,433	39,810,239
Derivative liabilities	7.2	1,886,043	228,814
Others		<u>89,872,899</u>	<u>35,894,518</u>
		<u>P 2,095,433,359</u>	<u>P 2,903,219,245</u>

Bills purchased pertain to availments of the bills purchase line which are settled on the third day from the transaction date.

Outstanding acceptances pertain to the liabilities recognized by the Bank in its undertaking arising from letters of credit extended to its borrowers.

Accounts payable include amounts which the Bank owes to its suppliers and advance payments received from its customers.

Accrued expenses include accruals on employee benefits, utilities, janitorial and security services fees and others.

21. EQUITY

21.1 Capital Stock

Capital stock as of December 31 consists of:

	<u>Number of Shares</u>		<u>Amount</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</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>429,166,750</u>	<u>343,333,400</u>	<u>P 4,291,667,500</u>	<u>P 3,433,334,000</u>
Stock dividends	<u>107,291,687</u>	<u>85,833,350</u>	<u>1,072,916,870</u>	<u>858,333,500</u>
	<u>536,458,437</u>	<u>429,166,750</u>	<u>P 5,364,584,370</u>	<u>P 4,291,667,500</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 (see Notes 1 and 21.4).

As of December 31, 2015, 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 December 31, 2015.

21.2 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.

21.3 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 (see Note 28).

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).

21.4 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.

21.5 Revaluation Reserves

Revaluation reserves pertain only to the accumulated actuarial losses of post-employment defined benefit plan (see Note 23.2) and unrealized fair value losses on AFS securities (see Note 12).

22. MISCELLANEOUS INCOME AND EXPENSES

22.1 Miscellaneous Income

This account is composed of the following:

	<u>Notes</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Gain on sale of properties – net	16, 17	P 15,028,632	P 27,801,013	P 17,233,626
Trust fees	28	13,874,866	16,476,979	8,907,035
Gain (loss) on foreclosure - net	16	(2,480,845)	87,676,870	6,239,465
Others		<u>47,008,310</u>	<u>12,198,935</u>	<u>5,848,253</u>
		<u>P 73,430,963</u>	<u>P144,153,797</u>	<u>P 38,228,379</u>

Others include, among others, commitment, processing and handling fees in relation to services rendered by the Bank.

22.2 *Miscellaneous Expense*

This account is composed of the following:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Transportation and travel	P 90,613,557	P 83,152,129	P 74,778,937
Litigation on asset acquired	35,032,847	24,195,212	9,323,605
Communication	28,225,214	24,038,942	16,025,157
Banking fees	26,472,435	18,625,488	13,852,700
Amortization of software licences	18,184,042	13,847,731	11,391,881
Office supplies	13,647,334	14,021,252	16,315,156
Advertising and publicity	9,824,351	9,727,883	6,858,379
Information technology	9,373,418	2,052,533	2,563,313
Membership dues	2,273,029	1,719,026	1,249,200
Donations and contributions	161,806	6,307,236	2,280,172
Others	<u>32,708,469</u>	<u>27,125,600</u>	<u>18,147,919</u>
	<u>P266,516,502</u>	<u>P224,813,032</u>	<u>P172,786,419</u>

Others include, among others, brokerage fees, commissions, appraisal and processing fees incurred by the Bank.

23. EMPLOYEE BENEFITS

23.1 *Salaries and Employee Benefits Expense*

Expenses recognized for salaries and other employee benefits are broken down below.

	<u>Note</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Salaries and wages		P 324,688,012	P 278,087,924	P 227,880,927
Bonuses		98,262,420	96,991,056	71,319,899
Post-employment				
defined benefit plan	23.2	23,344,826	22,450,730	14,583,891
Social security costs		18,922,253	17,816,211	12,969,290
Short-term medical benefits		223,416	60,670	142,363
Other short-term benefits		<u>78,005,801</u>	<u>64,145,746</u>	<u>65,443,287</u>
		<u>P 543,446,728</u>	<u>P 479,552,337</u>	<u>P 392,749,657</u>

23.2 *Post-employment Benefit*

(a) *Characteristics of the Defined Benefit Plan*

The Bank maintains a funded, tax-qualified, noncontributory post-employment benefit plan that is being administered by the Bank's trust department that is legally separated from the Bank. The Bank's Retirement Plan Committee, in coordination with the Bank's trust department, who acts in the best interest of the plan assets and is responsible for setting the investment policies. The post-employment plan covers all regular full-time employees.

The normal retirement age is 60. Normal retirement benefit is an amount equivalent to 100% of the final monthly covered compensation (average monthly basic salary during the last 12 months of credited service) for every year of credited service.

(b) *Explanation of Amounts Presented in the Financial Statements*

Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. All amounts presented below are based on the actuarial valuation report obtained from an independent actuary in 2015 and 2014.

The amounts of post-employment defined benefit obligation (see Note 20) recognized in the statements of financial position are determined as follows:

	<u>2015</u>	<u>2014</u>
Present value of the DBO	P 172,423,348	P 144,748,892
Fair value of plan assets	(149,034,915)	(104,938,653)
	<u>P 23,388,433</u>	<u>P 39,810,239</u>

The movements in the present value of the post-employment defined benefit obligation are as follows:

	<u>2015</u>	<u>2014</u>
Balance at beginning of year	P 144,748,892	P 118,207,371
Current service cost	23,344,826	22,450,730
Interest expense	6,499,225	5,910,369
Remeasurements:		
Actuarial losses (gains) arising from:		
Changes in financial assumptions	5,201,633	4,814,608
Experience adjustments	(1,639,231)	(4,547,415)
Benefits paid	(5,731,997)	(2,086,771)
Balance at end of year	<u>P 172,423,348</u>	<u>P 144,748,892</u>

The movements in the fair value of plan assets are presented below.

	<u>2015</u>	<u>2014</u>
Balance at beginning of year	P 104,938,653	P 73,619,374
Contributions to the plan	37,133,819	30,924,849
Return (loss) on plan assets (excluding amounts included in net interest)	7,277,724	(1,920,720)
Interest income	5,416,716	4,401,921
Benefits paid	(5,731,997)	(2,086,771)
Balance at end of year	<u>P 149,034,915</u>	<u>P 104,938,653</u>

The composition of the fair value of plan assets at the end of the reporting period by category and risk characteristics is shown below.

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	P 120,241,369	P 51,536,801
Government bonds	26,751,767	52,051,242
Accrued interests	<u>2,041,779</u>	<u>1,557,081</u>
	149,034,915	105,145,124
Accountabilities	<u>-</u>	(<u>206,471</u>)
	<u>P 149,034,915</u>	<u>P 104,938,653</u>

The fair values of the above government bonds are determined based on quoted market prices in active markets.

The plan assets earned actual return of P12.7 million and P2.5 million in 2015 and 2014, respectively.

Plan assets do not comprise any of the Bank's own financial instruments or any of its assets occupied and/or used in its operations.

The components of amounts recognized in profit or loss and in other comprehensive income in respect of the defined benefit post-employment plan are as follows:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<i>Reported in profit or loss:</i>			
Current service cost	P 23,344,826	P 22,450,730	P 14,583,891
Net interest expense	<u>1,082,509</u>	<u>1,508,448</u>	<u>1,738,852</u>
	<u>P 24,427,335</u>	<u>P 23,959,178</u>	<u>P 16,322,743</u>
<i>Reported in other comprehensive income:</i>			
Actuarial gains (losses) arising from changes in:			
Financial assumptions	(P 5,201,633)	(P 4,814,608)	P 1,810,936
Experience adjustments	1,639,231	4,547,415	(13,611,233)
Return (loss) on plan assets (excluding amounts included in net interest expense)	<u>7,277,724</u>	<u>(1,920,720)</u>	<u>(1,178,297)</u>
	<u>P 3,715,322</u>	<u>(P 2,187,913)</u>	<u>(P 12,978,354)</u>

Current service cost is presented as part Salaries and Other Employee Benefits under the caption Other Expenses while net interest expense is presented as Interest Expense – Others in the statements of profit or loss.

Amounts recognized in other comprehensive income were included within items that will not be reclassified subsequently to profit or loss.

In determining the amounts of the defined benefit post-employment obligation, the following significant actuarial assumptions were used:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Discount rates	4.9%	4.5%	5.0%
Expected rate of salary increases	6.0%	5.0%	5.0%
Employee turnover	0.0% - 7.5%	0.0% - 7.5%	-

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 60 is 28 years for both males and females. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero coupon bond government bonds with terms to maturity approximating to the terms of the post-employment obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) *Risks Associated with the Retirement Plan*

The plan exposes the Bank to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

(i) *Investment and Interest Risks*

The present value of the DBO is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan. Currently, the plan has relatively balanced investment in cash and cash equivalents and debt securities. Due to the long-term nature of the plan obligation, a level of continuing debt investments is an appropriate element of the Bank's long-term strategy to manage the plan efficiently.

(ii) *Longevity and Salary Risks*

The present value of the DBO is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment, and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

(d) *Other Information*

The information on the sensitivity analysis for certain significant actuarial assumptions, the Bank's asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described in the succeeding page.

(i) *Sensitivity Analysis*

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit obligation as of December 31, 2015 and 2014:

	<u>Impact on Post-employment Benefit Obligation</u>		
	<u>Change in Assumption</u>	<u>Increase in Assumption</u>	<u>Decrease in Assumption</u>
<u>December 31, 2015</u>			
Discount rate	+7.0%/-6.3%	P 12,132,902	P 10,778,044
Salary rate	+6.0%/-5.5%	10,371,902	9,442,839
Turnover rate	+16.3%	28,089,425	-
<u>December 31, 2014</u>			
Discount rate	+7.1%/-6.3%	P 10,309,904	P 9,184,011
Salary rate	+6.1%/-5.6%	8,864,310	8,093,255
Turnover rate	+15.4%	22,246,021	-

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the DBO as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the DBO has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the DBO recognized in the statements of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous year.

(ii) *Asset-liability Matching Strategies*

To efficiently manage the retirement plan, the Bank through its Retirement Plan Committee, ensures that the investment positions are managed in accordance with its asset-liability matching strategy to achieve that long-term investments are in line with the obligations under the retirement scheme. This strategy aims to match the plan assets to the retirement obligations by investing in long-term fixed interest securities (i.e., government bonds) with maturities that match the benefit payments as they fall due and in the appropriate currency. The Bank actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the retirement obligations.

In view of this, investments are made in reasonably diversified portfolio, such that the failure of any single investment would not have a material impact on the overall level of assets.

A large portion of the plan assets as of December 31, 2015 and 2014 consists of debt securities, although the Bank also invests in cash and cash equivalents. The Bank believes that debt securities offer the best returns over the long term with an acceptable level of risk.

There has been no change in the Bank's strategies to manage its risks from previous periods.

(iii) *Funding Arrangements and Expected Contributions*

The plan is currently underfunded by P23.4 million based on the latest actuarial valuation. While there are no minimum funding requirement in the country, the size of the underfunding may pose a cash flow risk in about 28 years' time when a significant number of employees is expected to retire.

The maturity profile of undiscounted expected benefit payments from the plan for the next ten years follows:

	<u>2015</u>		<u>2014</u>
Within one year	P 20,948,575	P	16,285,200
More than one year to five years	36,919,502		41,518,462
More than five years to ten years	<u>60,175,169</u>		<u>45,758,486</u>
	<u>P 118,043,246</u>	P	<u>103,562,148</u>

The weighted average duration of the defined benefit obligation at the end of the reporting period is 8.8 years.

24. RELATED PARTY TRANSACTIONS

The Bank's related parties include entities under common ownership, key management and others as described below.

The following are the Bank's transactions with related parties:

<u>Related Party Category</u>	<u>Note</u>	<u>2015</u>		<u>2014</u>	
		<u>Amount of Transaction</u>	<u>Outstanding Balance</u>	<u>Amount of Transaction</u>	<u>Outstanding Balance</u>
Entities Under Common Ownership					
Deposit liabilities	24.1	P6,783,959,179	P 6,579,213,030	P6,684,121,984	P 6,679,050,225
Loans	24.2	1,223,858,013	1,223,815,659	1,193,206,043	950,000,000
Interest income on loans	24.2	47,628,911	3,278,287	70,604,436	2,306,326
Retirement Fund					
Plan assets	24.3	3,792,241	1,950,384	2,086,772	5,742,625
Key Management and Others					
Compensation	24.4	83,029,008	-	79,610,918	-
Loans	24.2	55,048,650	34,067,479	22,898,075	277,156,442
Interest income on loans	24.2	869,662	128,305	1,531,692	120,504

24.1 *DOSRI Deposits*

The total balance of DOSRI deposits are inclusive of the corresponding related accrued interest included in the financial statements as of December 31, 2015 and 2014.

Deposit liabilities transactions with related parties have similar terms with other counterparties (see Note 18).

24.2 *DOSRI Loans*

The Bank has loan transactions with its officers and employees. Under existing policies of the Bank, these loans are made substantially on the same terms as loans to other individuals and businesses of comparable risks.

The General Banking Act of the BSP provides that in aggregate, loans to DOSRI generally should not exceed the Bank's total equity or 15% of the Bank's total loan portfolio, whichever is lower. In addition, the amount of individual loans to DOSRI, of which 70% must be secured, should not exceed the amount of their deposits and the book value of their investments in the Bank. In aggregate, loans to DOSRI generally should not exceed the total equity or 15% of the total loan portfolio of the Bank, whichever is lower. As of December 31, 2015 and 2014, the Bank has satisfactorily complied with the BSP requirement on DOSRI limits.

Relative to the DOSRI loans, the following additional information is also presented:

	<u>2015</u>	<u>2014</u>
Total outstanding DOSRI loans	P 1,257,883,137	P 1,227,156,442
Unsecured DOSRI loans	11,312,547	8,354,223
Past due DOSRI loans	3,819,459	3,157,034
% to total loan portfolio	3.0%	3.1%
% of unsecured DOSRI loans to total DOSRI loans	0.9%	0.7%
% of past due DOSRI loans to total DOSRI loans	0.3%	0.3%

The details of total outstanding DOSRI Loans for the year ended December 31, 2015 and 2014 are shown below.

	<u>2015</u>	<u>2014</u>
Commercial loans	P 1,223,815,659	P 1,192,734,491
Key management personnel	<u>34,067,478</u>	<u>34,421,951</u>
	<u>P 1,257,883,137</u>	<u>P 1,227,156,442</u>

As of December 31, 2015 and 2014, the Bank has an approved line of credit to certain related parties totaling P23.0 million and P23.5 million and all was used to guarantee the obligation of the respective related parties to other creditors up to the extent of the unused line of credit.

24.3 *Transactions with Retirement Fund*

The Bank's retirement fund has no transactions direct and indirect with the Bank or its employees as of December 31, 2015 and 2014, except for the contributions and benefits paid out of the plan to the Bank's employees as disclosed in Note 23. The retirement plan asset also comprise of short-term placements to the Bank amounting to P2.0 million and P5.7 million as of December 31, 2015 and 2014, respectively.

The retirement fund neither provides any guarantee or surety for any obligation of the Bank nor its investments by any restrictions or liens.

24.4 Key Management Personnel Compensation

Salaries and short-term benefits received by key management personnel are summarized below.

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Salaries and wages	P 58,902,581	P 55,286,737	P 56,277,678
Bonuses	14,890,912	13,771,434	14,044,419
Post-employment defined benefit	7,004,439	8,701,539	4,666,559
Other short-term benefits	1,052,380	683,000	1,256,000
Social security costs	<u>1,178,696</u>	<u>1,168,208</u>	<u>1,339,335</u>
	<u>P 83,029,008</u>	<u>P 79,610,918</u>	<u>P 77,583,991</u>

25. TAXES

The components of tax expense (income) for the years ended December 31 follow:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<i>Reported in profit or loss</i>			
Current tax expense:			
Regular corporate income tax (RCIT) at 30%			
Regular Banking Unit (RBU)	P165,170,994	P176,802,660	P 68,890,924
FCDU	2,323,577	410,982	660,432
Final tax on income at 20%, 10% and 7.5%	<u>93,574,103</u>	<u>100,999,011</u>	<u>101,023,942</u>
	261,068,674	278,212,653	170,575,298
Deferred tax income relating to origination and reversal of temporary differences	(<u>57,771,400</u>)	(<u>35,773,420</u>)	(<u>46,848,274</u>)
	<u>P203,297,274</u>	<u>P242,439,233</u>	<u>P123,727,024</u>
<i>Reported in other comprehensive income</i>			
Deferred tax expense (income) relating to origination and reversal of temporary differences	<u>P 1,114,597</u>	(<u>P 656,374</u>)	(<u>P 3,893,506</u>)

A reconciliation of tax on pretax profit computed at the applicable statutory rates to tax expense reported in the statements of profit or loss follows:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Tax on pretax profit at 30%	P 211,631,783	P233,593,301	P338,332,091
Adjustment for income subjected to lower tax rates	(93,128,766)	(78,188,870)	(31,492,317)
Tax effects of:			
Non-deductible expenses	89,587,230	90,655,288	116,503,975
Non-taxable income	(4,792,973)	(3,620,486)	(299,616,725)
Tax expense	<u>P203,297,274</u>	<u>P242,439,233</u>	<u>P123,727,024</u>

The Bank is subject to minimum corporate income tax (MCIT) computed at 2% of gross income, as defined under the tax regulations or RCIT, whichever is higher. In 2013, the Bank utilized its entire outstanding MCIT incurred in 2010 to 2012 totaling P32.9 million

The net deferred tax assets as of December 31, 2015 and 2014 (included as part of Other Resources account – see Note 17) relate to the following:

	<u>Statements of Financial Position</u>		<u>Profit or Loss</u>		<u>Other Comprehensive Income</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Deferred tax assets:						
Allowance for impairment	P 324,923,516	P 273,308,409	(P 51,615,107)	(P 52,940,136)	P -	P -
Accumulated depreciation of investment properties and other properties held for sale	17,842,060	15,292,014	(2,550,046)	(211,840)	-	-
Post-employment benefit obligation	7,016,530	11,943,072	3,811,945	2,089,701	1,114,597	(656,374)
Unamortized past service cost	9,990,473	7,342,146	(2,648,327)	(1,467,535)	-	-
Accrued bonus and leave conversion	9,697,390	10,933,991	1,236,601	(721,539)	-	-
Deferred tax liabilities:						
Loss (gain) on initial exchange of investment properties	(26,420,406)	(32,426,872)	(6,006,466)	(17,477,922)	-	-
Net Deferred Tax Assets	<u>P 343,049,563</u>	<u>P 286,392,760</u>	<u>(P 57,771,400)</u>	<u>(P 35,773,420)</u>	<u>P 1,114,597</u>	<u>(P 656,374)</u>
Deferred Tax Expense (Income)						

As of December 31, 2015 and 2014, the Bank has unrecognized deferred tax assets amounting to P10.5 million which pertain to certain allowance for impairment absorbed from KRBI upon merger amounting to P0.7 million.

For the years ended December 31, 2015 and 2014, the Bank opted to claim itemized deductions.

26. EVENTS AFTER THE END OF REPORTING PERIOD

26.1 *Redemption of Preferred Shares*

On February 17, 2016, the Bank's BOD approved the redemption of all of its preferred shares totaling P620.0 million (62,000,000 shares with P10 par value) through staggered redemption. The staggered redemption is expected to be completed by the end of December 2016, subject to the approval by the BSP.

26.2 *Others*

On February 1, 2016, the Bank received the final BSP approval in relation to the acquisition of assets and assumption of liabilities of RBK. The Bank recorded the assets and assume the liabilities of RBK as of January 30, 2016 (see Note 17.2).

27. COMMITMENTS AND CONTINGENT LIABILITIES

The following are the significant commitments and contingencies involving the Bank:

- (a) The Bank leases the premises occupied by its branch offices for periods ranging from 5 to 20 years, renewable upon mutual agreement between the Bank and the lessors. Rent expense amounted to P115.1 million, P95.5 million and P78.8 million in 2015, 2014 and 2013, respectively, and are included as part of Occupancy under Other Expenses in the statements of profit or loss.

As of December 31, 2015, 2014 and 2013, future minimum rental payments required by the lease contracts are as follows:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Within one year	P 107,784,137	P 83,544,132	P 69,432,324
After one year but not more than five years	244,536,398	219,653,731	179,362,736
More than five years	<u>10,418,892</u>	<u>22,230,832</u>	<u>21,402,649</u>
	<u>P 362,739,427</u>	<u>P 325,428,695</u>	<u>P 270,197,709</u>

- (b) In the normal course of the Bank's operations, the Bank has various outstanding commitments and contingent liabilities such as guarantees, commitments to extend credit, etc., which are not reflected in the financial statements.
- (c) The Bank recognizes in its books any losses and liabilities incurred in the course of its operations as soon as these become determinable and quantifiable.

The following is a summary of the Bank's commitments and contingent accounts as of December 31:

	<u>2015</u>	<u>2014</u>
Investment management accounts	P 4,059,027,956	P 3,428,334,610
Outstanding letters of credit	1,193,799,732	512,119,342
Trust and other fiduciary accounts	506,103,798	281,508,984
Unit investment trust fund	31,812,677	103,019,962
Late payment/deposits received	9,736,574	13,121,910
Outward bills for collection	8,423,324	43,102,544
Items held for safekeeping	68,979	42,584
Items held as collateral	9,416	7,925
Other contingent accounts	<u>529,127,518</u>	<u>123,879,021</u>
	<u>P 6,338,109,974</u>	<u>P 4,505,136,882</u>

As of December 31, 2015 and 2014, the Bank's management believes that losses, if any, from the above commitments and contingencies will not have a material effect on the Bank's financial statements.

28. TRUST OPERATIONS

The following securities and other properties held by the Bank in fiduciary or agency capacity (for a fee) for its customers are not included in the statements of financial position since these are not resources of the Bank:

	<u>2015</u>	<u>2014</u>
Loans and other receivables	P 2,390,413,668	P 2,235,096,360
Due from banks	982,964,468	404,797,825
Investment securities	981,566,295	1,067,235,611
Due from BSP	<u>242,000,000</u>	<u>97,000,000</u>
	<u>P 4,596,944,431</u>	<u>P 3,804,130,796</u>

In compliance with the requirements of the General Banking Act relative to the Bank's trust functions:

- (a) Government bonds owned by the Bank with face value of P70.75 million and P78.75 million as of December 31, 2015 and 2014, respectively, are deposited with the BSP (see Note 12); and,
- (b) 10% of the trust income is transferred to appropriated surplus. This transfer is required until the surplus reserve for trust function is equivalent to 20% of the Bank's authorized capital stock. Additional reserve for trust functions amounted to P1.4 million, P1.6 million and P0.9 million in 2015, 2014 and 2013, respectively and are presented as Appropriated Surplus in the Bank's statements of changes in equity.

Income from trust operations, shown as part of Miscellaneous Income, amounted to P13.9 million, P16.5 million and P8.9 million for the years ended December 31, 2015, 2014 and 2013, respectively, in the statements of profit or loss (see Note 22.1).

29. SELECTED FINANCIAL PERFORMANCE INDICATORS

a. The following are some of the financial performance indicators of the Bank:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Return on average capital			
$\frac{\text{Net profit}}{\text{Average total capital accounts}}$	6.1%	7.1%	17.6%
Return on average resources			
$\frac{\text{Net profit}}{\text{Average total resources}}$	0.8%	1.0%	2.5%
Net interest margin			
$\frac{\text{Net interest income}}{\text{Average interest earning resources}}$	4.1%	4.5%	4.6%
Capital to risk assets ratio			
$\frac{\text{Total capital}}{\text{Risk resources}}$	19.1%	20.8%	26.0%
Liquidity ratio			
$\frac{\text{Current assets}}{\text{Current liabilities}}$	1.0	1.3	1.2
Debt-to-equity ratio			
$\frac{\text{Liabilities}}{\text{Equity}}$	6.7	6.2	5.7
Asset-to-equity ratio			
$\frac{\text{Asset}}{\text{Equity}}$	7.7	7.2	6.7
Interest rate coverage ratio			
$\frac{\text{Earnings before interests and taxes}}{\text{Interest expense}}$	1.9	2.3	3.3

b. Secured Liabilities and Resources Pledged as Security

As of December 31, 2015 and 2014, bills payable are the only secured liabilities (see Note 19).

30. EARNINGS PER SHARE

Basic and diluted earnings per share are computed as follows:

	<u>2015</u>	<u>2014</u> <u>(As Restated)</u>	<u>2013</u> <u>(As Restated)</u>
Net profit	P 502,124,004	P 536,205,104	P1,004,046,612
Dividends on preferred shares	<u>-</u>	<u>(62,325,000)</u>	<u>-</u>
Net profit attributable to common shareholders	502,142,004	473,880,104	1,004,046,612
Divided by the weighted average number of outstanding common shares	<u>536,458,438</u>	<u>536,458,438</u>	<u>536,458,438</u>
Basic earnings per share	<u>P 0.94</u>	<u>P 0.88</u>	<u>P 1.87</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 December 31, 2015, 2014 and 2013, the Bank has no outstanding potentially dilutive securities; hence, basic earnings per share are equal to diluted earnings per share.

31. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

Presented below is the supplementary information which is required by the BIR under its existing revenue regulations (RR) to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

31.1 Requirements Under RR No. 15-2010

The information on taxes, duties and license fees paid or accrued during the taxable year under RR No. 15-2010 follows:

(a) Gross Receipts Tax

In lieu of the value-added tax, the Bank is subject to the Gross Receipts Tax (GRT), pursuant to Sections 121 and 122 of the Tax Code which is imposed on banks, non-banks financial intermediaries and finance companies.

In 2015, the Bank reported total GRT amounting to P158,199,699 shown under Taxes and Licenses account [see Note 31.1(c)]. GRT paid during the year amounted to P140,485,487, exclusive of December 2014 GRT paid during 2015. The total GRT payable as of December 31, 2015 amounted to P17,714,212, included as part of Accrued expenses under Accrued Expenses and Other Liabilities account in the 2015 statement of financial position (see Note 20).

GRT is levied on the Bank's lending income, which includes interest, commission and discounts arising from instruments with maturity of five years or less and other income. The tax is computed at the prescribed rates of either 7%, 5% or 1% of the related income.

(b) *Documentary Stamp Tax (DST)*

The Bank is enrolled under the Electronic Documentary Stamp Tax (e-DST) System starting July 2010. In 2015, DST remittance thru e-DST amounted to P304,769,369, while DST on deposits for remittance amounts to P95,019,629. In general, the Bank's DST transactions arise from the execution of debt instruments, lease contracts and deposit liabilities.

DST on loan documents and letters of credit in 2015 amounting to P209,749,740 were charged to borrowers and these were properly remitted by the Bank.

(c) *Taxes and Licenses*

The details of Taxes and Licenses account for the year ended December 31, 2015 follow:

	<u>Note</u>		
Gross receipts tax	31.1(a)	P	158,199,699
DST	31.1(b)		145,170,305
Deficiency tax	31.1(e)		6,844,297
Business tax			15,672,430
Real property tax			991,731
Miscellaneous			<u>1,439,095</u>
		P	<u>328,317,557</u>

Taxes and licenses allocated to tax exempt income and FCDU totaling P26,812,196 were excluded from the itemized deductions for purposes of income tax computation (see Note 25).

(d) *Withholding Taxes*

The details of total withholding taxes for the year ended December 31, 2015 are shown below.

Final	P	133,161,629
Compensation and benefits		62,214,006
Expanded		<u>21,770,843</u>
	P	<u>217,146,478</u>

(e) *Deficiency Tax Assessments and Tax Cases*

In 2015, the Bank paid final deficiency taxes on DST, withholding taxes and gross receipts tax for taxable year 2012 totalling P490,307.

(f) *Other Required Tax Information*

The Bank did not have any transactions in 2015, which is subject to excise tax, customs duties and tariff fees.

31.2 Requirements Under RR No. 19-2011

RR No. 19-2011 requires schedules of taxable revenues and other non-operating income, costs of sales and services, itemized deductions and other significant tax information, to be disclosed in the notes to financial statements.

The Bank's RBU is taxed separately from the FCDU. The amounts of taxable revenues and income, and deductible costs and expenses of RBU of the Bank are presented below. The amounts of taxable revenues and income, and deductible costs and expenses of the FCDU are presented in the notes to the separate financial statements of the FCDU for which corresponding income tax return is separately filed with the BIR.

The amounts of taxable revenues and income, and deductible costs and expenses presented below are based on relevant tax regulations issued by the BIR; hence, may not be the same as the amounts reflected in the 2015 statement of profit or loss, which are based on PFRS.

(a) *Taxable Revenues*

The Bank's taxable revenues for the year ended December 31, 2015 at the regular tax rate pertain to interest income amounting to P2,512,948,346.

(b) *Deductible Costs of Services*

Deductible costs of services for the year ended December 31, 2015 at the regular tax rate comprise the following:

Salaries and wages	P 511,687,283
Interest expense	508,452,322
Insurance	91,661,419
Supervision/examination fees	<u>22,523,181</u>
	<u>P1,134,324,205</u>

(c) *Taxable Non-operating and Other Income*

The details of taxable non-operating and other income in 2015 which are subject to regular tax rate are shown below.

Bank commissions and service charges	P 129,825,262
Gain on sale of properties	32,569,337
Others	<u>46,271,013</u>
	<u>P 208,665,612</u>

(d) *Itemized Deductions*

The amounts of itemized deductions for the year ended December 31, 2015 subject to regular tax rate follow:

Taxes and licenses	P 301,149,825
Depreciation	124,950,163
Rental	113,509,367
Janitorial and messengerial	93,774,973
Management and other professional fees	81,459,335
Communication, light and water	54,844,422
Transportation and travel	52,599,568
Fuel and oil	38,013,989
Litigation	32,168,773
Representation	27,168,006
Insurance	26,194,302
Amortization of computer software	16,697,424
Office supplies	12,531,610
Repairs and maintenance	9,167,887
Advertising and promotion	9,021,172
Information technology	8,607,104
Realized trading losses	4,813,345
Charitable contribution	148,577
Others	<u>29,899,932</u>
	<u>P1,036,719,774</u>



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**Report of Independent Auditors
to Accompany Supplementary Information
Required by the Securities and Exchange
Commission Filed Separately from the
Basic Financial Statements**

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The Board of Directors and the Stockholders
Philippine Business Bank, Inc., A Savings Bank
350 Rizal Avenue Extension corner 8th Avenue
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We have audited the financial statements of Philippine Business Bank, Inc., A Savings Bank for the year ended December 31, 2015, on which we have rendered the attached report dated April 13, 2016. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The applicable supplementary information (see List of Supplementary Information) is presented for purposes of additional analysis in compliance with the requirements of the Securities Regulation Code Rule 68 and are not a required part of the basic financial statements prepared in accordance with Philippine Financial Reporting Standards. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PUNONGBAYAN & ARAULLO

By: Leonardo D. Cuaresma, Jr.
Partner

CPA Reg. No. 0058647
TIN 109-227-862
PTR No. 5321721, January 4, 2016, Makati City
SEC Group A Accreditation
Partner - No. 0007-AR-4 (until Apr. 30, 2018)
Firm - No. 0002-FR-4 (until Apr. 30, 2018)
BIR AN 08-002511-7-2014 (until Aug. 5, 2017)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2018)

April 13, 2016

Philippine Business Bank, Inc., A Savings Bank
List of Supplementary Information
December 31, 2015

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* These schedules and supplementary information are not included as these are not applicable to the Bank.

PHILIPPINE BUSINESS BANK, INC., A SAVINGS BANK

SEC Released Amended SRC Rule 68

Schedule A - Financial Assets

December 31, 2015

Name of Issuing Entity and Association of Each Issue	Number of Shares or Principal Amount	Amount Shown in the Statement Financial Position	Value Based on Market Quotation at Statement of Condition Date	Income Received and Accrued
1. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS				
Bureau of the Treasury	P 75,000,000	P 75,942,639	P 76,458,721	P 803,542
2. AVAILABLE-FOR-SALE FINANCIAL ASSETS				
A. Equity Securities	1	1,700,000	1,700,000	
Club Shares				
B. Debt Securities				
Bureau of the Treasury	99,992,673	101,857,966	102,244,136	1,602,473
Republic of the Philippines	1,797,692,000	1,829,335,803	1,829,335,803	16,993,600
Metropolitan Bank and Trust Co.	4,706,000	4,785,437	4,785,437	160,004
SM Investment Corporation	376,480,000	379,503,134	379,503,134	3,288,971
PTT Republic Company	117,650,000	107,516,806	107,516,806	970,613
ICTSI Treasury, Inc.	32,942,000	33,097,204	33,097,204	9,014
JGSH Philippines Ltd	94,120,000	94,839,077	94,839,077	1,807,235
Petron Corporation	35,295,000	36,196,787	36,196,787	1,066,203
Filinvest Development Corporation	211,770,000	209,465,942	209,465,942	2,225,056
Rizal Commercial Banking Corp.	185,651,700	193,007,220	193,007,220	3,484,837
Security Banking Corp.	101,179,000	103,232,935	103,232,934	1,643,035
	3,057,478,374	3,094,538,311	3,094,924,480	33,251,039
3. HELD-TO-MATURITY INVESTMENTS				
Bureau of the Treasury	4,318,500,000	5,487,613,699	5,659,564,581	22,508,360
Republic of Indonesia	447,200,000	461,113,796	461,113,797	11,255,183
	4,765,700,000	5,948,727,495	6,120,678,378	33,763,543
GRAND TOTAL	P 7,898,178,374	P 9,119,208,445	P 9,292,061,579	P 67,818,124

PHILIPPINE BUSINESS BANK, INC., A SAVINGS BANK
Schedule B - Amounts Receivable from Directors, Officers Employees, Related
Parties and Principal Stockholders (Other than Related Parties)
December 31, 2015

Name and Designation of debtor	Balance at beginning of the period	Additions	Deductions		Current	Non Current	Balance at end of period
			Amounts collected	Amounts written off			
<u>RECEIVABLES FROM CUSTOMER</u>							
Asiawide Airways, Inc.	P 500,000,000	-	-	-	P 500,000,000	-	P 500,000,000
Sps. Amor M. Salud Jr. and Dulce Gidget Salud Dingle, Agustin	1,058,492	-	140,447	-	918,045	-	918,045
Zest airways, Inc.	450,000,000	300,000	-	-	300,000	-	300,000
Advances to Officers and Employees	34,421,951	-	-	354,472	450,000,000	-	450,000,000
Pharma Rex Inc.	-	3,124,613	-	-	34,067,479	-	34,067,479
Alfredo M. Yao	241,676,000	4,797,000	-	-	3,124,613	-	3,124,613
Subtotal	1,227,156,443	8,221,613	494,919	-	1,234,883,137	-	1,234,883,137
<u>CONTINGENT ACCOUNTS</u>							
Zest Airways, Inc.	-	-	-	-	-	-	-
Mega Asia Bottling Corp.	1,500,000	-	500,000	-	1,000,000	-	1,000,000
Zest-O Corporation	5,000,000	-	-	-	-	-	5,000,000
Asiawide Refreshments	17,000,000	-	-	-	-	-	17,000,000
Subtotal	23,500,000	-	500,000	-	1,000,000	-	23,000,000
TOTAL.	P 1,250,656,443	P 8,221,613	P 994,919	-	P 1,235,883,137	-	P 1,257,883,137

PHILIPPINE BUSINESS BANK, INC., A SAVINGS BANK
 Schedule D - Intangible Assets - Other Assets
 December 31, 2015

Description	Beginning Balance	Additions at Cost	Charged to cost and expenses	Charged to other accounts	Other charges additions (deductions)	Ending Balance
Branch license	P 248,680,000	P -	(P 104,950)	P -	P -	P 248,575,050
Computer software	50,989,684	23,346,107	(18,184,042)	-	-	56,151,749
Goodwill	<u>49,878,393</u>	-	-	-	-	<u>49,878,393</u>
GRAND TOTAL	P 349,548,077	P 23,346,107	(P 18,288,992)	P -	P -	P 354,605,192

PHILIPPINE BUSINESS BANK, INC. A SAVINGS BANK
 Schedule E - Long-Term Debt
 December 31, 2015

Title of issue and type of obligation	Amount authorized by indenture	Amount shown under caption "Current portion of long-term debt" in related balance sheet	Amount shown under caption "Long-Term Debt" in related balance sheet	Interest Rate	Maturity Date
Development Bank of the Philippines	P	296,875 P	237,500 P	5.350%	March 31, 2016
		585,938	468,750	5.350%	March 31, 2016
		<u>312,500</u>	<u>250,000</u>	5.350%	March 31, 2016
	P	<u>1,195,313</u> P	<u>956,250</u> P		

Supplemental Information

The above debt is included as part of Bills Payable in the 2015 statement of financial position.

PHILIPPINE BUSINESS BANK, INC. A SAVINGS BANK
Schedule H - Capital Stock
December 31, 2015

Title of Issue	Number of Shares authorized	Number of shares issued and outstanding at shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of Shares Held by		
				Related parties	Directors, officers and employees	Others
Common Stock	870,000,000	536,458,437	-	334,909,360	41,642,456	159,906,621
Preferred Stock	130,000,000	62,000,000	-	62,000,000		
Total	1,000,000,000	598,458,437	-	396,909,360	41,642,456	159,906,621

PHILIPPINE BUSINESS BANK, INC. A SAVINGS BANK
350 Rizal Ave. Ext., 8th Avenue Grace Park, Caloocan City

**RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION
FOR THE YEAR ENDED DECEMBER 31, 2015**

Unappropriated Retained Earnings at Beginning of Year		P	1,659,819,127
Prior Years' Outstanding Reconciling Items, net of tax			
Deferred tax income	P	318,819,632	
Gain on foreclosure, net of tax		<u>75,662,701</u>	<u>394,482,333</u>
Unappropriated Retained Earnings Available for Dividend declaration at beginning of Year, as Adjusted			1,265,336,794
Net Profit Realized during the Year		<u>502,142,004</u>	
Non-actual/unrealized income, net of tax			
Deferred tax income		62,819,946	
Gain on foreclosure, net of tax		<u>61,647,614</u>	
		<u>124,467,560</u>	
Net income actually earned during the period			377,674,444
Other Transactions During the Year			
Dividend declarations during the period	(1,072,916,870)	
Appropriation of retained earnings	(<u>1,387,487)</u>	(<u>1,074,304,357)</u>
Unappropriated Retained Earnings Available for Dividend Declaration at End of Year			<u>P 568,706,881</u>

PHILIPPINE BUSINESS BANK, INC., A SAVINGS BANK

Schedule of Philippine Financial Reporting Standards and Interpretations
Adopted by the Securities and Exchange Commission and the
Financial Reporting Standards Council as of December 31, 2015

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements		✓		
Conceptual Framework Phase A: Objectives and Qualitative Characteristics		✓		
Practice Statement Management Commentary			✓	
<i>Philippine Financial Reporting Standards (PFRS)</i>				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters	✓		
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters	✓		
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters	✓		
	Amendment to PFRS 1: Government Loans	✓		
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
PFRS 3 (Revised)	Business Combinations	✓		
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	✓		
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
	Amendment to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures (effective when PFRS 9 is first applied)			✓
PFRS 8	Operating Segments	✓		
PFRS 9	Financial Instruments (2014)* (effective January 1, 2018)			✓
PFRS 10	Consolidated Financial Statements			✓
	Amendment to PFRS 10: Transition Guidance			✓
	Amendment to PFRS 10: Investment Entities			✓
	Amendment to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (effective date deferred indefinitely)			✓
	Amendment to PFRS 10: Investment Entities - Applying the Consolidation Exception* (effective January 1, 2016)			✓
PFRS 11	Joint Arrangements			✓
	Amendment to PFRS 11: Transition Guidance			✓
	Amendment to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations* (effective January 1, 2016)			✓

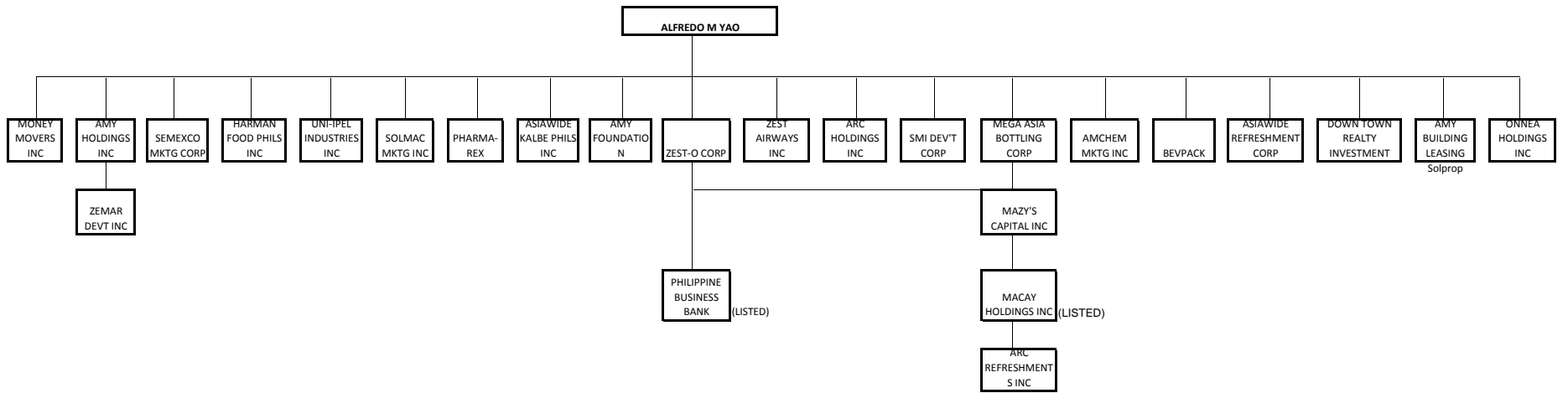
PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
PFRS 12	Disclosure of Interests in Other Entities			✓
	Amendment to PFRS 12: Transition Guidance			✓
	Amendment to PFRS 12: Investment Entities			✓
	Amendment to PFRS 10: Investment Entities – Applying the Consolidation Exception* (effective January 1, 2016)			✓
PFRS 13	Fair Value Measurement	✓		
PFRS 14	Regulatory Deferral Accounts* (effective January 1, 2016)			✓
Philippine Accounting Standards (PAS)				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendment to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendment to PAS 1: Disclosure Initiative* (effective January 1, 2016)		✓	
PAS 2	Inventories			✓
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events After the Reporting Period	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
PAS 16	Property, Plant and Equipment	✓		
	Amendment to PAS 16: Bearer Plants* (effective January 1, 2016)			✓
	Amendment to PAS 16: Clarification of Acceptable Methods of Depreciation and Amortization* (effective January 1, 2016)			✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Revised)	Employee Benefits	✓		
	Amendment to PAS 19: Defined Benefit Plans - Employee Contributions	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation	✓		
PAS 23 (Revised)	Borrowing Costs			✓
PAS 24 (Revised)	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Revised)	Separate Financial Statements			✓
	Amendment to PAS 27: Investment Entities			✓
	Amendment to PAS 27: Equity Method in Separate Financial Statements* (effective January 1, 2016)			✓
PAS 28 (Revised)	Investments in Associates and Joint Ventures			✓
	Amendment to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (effective date deferred indefinitely)			✓
	Amendment to PAS 28: Investment Entities - Applying the Consolidation Exception* (effective January 1, 2016)			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
PAS 32	Financial Instruments: Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendment to PAS 32: Classification of Rights Issues	✓		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
PAS 33	Earnings Per Share	✓		
PAS 34	Interim Financial Reporting	✓		
PAS 36	Impairment of Assets	✓		
	Amendment to PAS 36: Recoverable Amount Disclosures for Non-financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Amendment to PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization* (effective January 1, 2016)			✓
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions	✓		
	Amendments to PAS 39: The Fair Value Option	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC 9 and PAS 39: Embedded Derivatives	✓		
	Amendment to PAS 39: Eligible Hedged Items	✓		
	Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting	✓		
PAS 40	Investment Property	✓		
PAS 41	Agriculture			✓
	Amendment to PAS 41: Bearer Plants* (effective January 1, 2016)			✓
Philippine Interpretations - International Financial Reporting Interpretations Committee (IFRIC)				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities**	✓		
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds**	✓		
IFRIC 6	Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies			✓
IFRIC 9	Reassessment of Embedded Derivatives**	✓		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives**	✓		
IFRIC 10	Interim Financial Reporting and Impairment	✓		
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine Interpretations IFRIC - 14, Prepayments of a Minimum Funding Requirement and their Interaction**	✓		
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
IFRIC 17	Distributions of Non-cash Assets to Owners**	✓		
IFRIC 18	Transfers of Assets from Customers**	✓		
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments**	✓		
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine**	✓		
IFRIC 21	Levies	✓		
<i>Philippine Interpretations - Standing Interpretations Committee (SIC)</i>				
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			✓
SIC-15	Operating Leases - Incentives	✓		
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders**	✓		
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services**	✓		
SIC-32	Intangible Assets - Web Site Costs**	✓		

* These standards will be effective for periods subsequent to 2015 and are not early adopted by the Bank.

** These standards have been adopted in the preparation of financial statements but the Bank has no significant transactions covered in both years presented.



FINANCIAL SOUNDNESS INDICATORS
(As Required by SRC Rule)

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