PHILIPPINE BUSINESSBANK
a savings bank

Chasing Dreams

ANNUAL REPORT 2016

Our Mission

The basis for the Bank's growth shall be our commitment for higher standards everyday, in everything we do in providing competitive products and services and through enthusiastic execution and teamwork in producing satisfaction - for our customers, our shareholders, our associates and our communities.

Our Vision

By making things happen today, Philippine Business Bank will help build strong business communities where people can achieve their dreams.

Contents

“WE BELIEVE THAT SUPPORTING SMALL AND MEDIUM ENTERPRISES (SMEs) IS A BASIC ANCHOR FOR SUSTAINABLE ECONOMIC GROWTH DUE TO THEIR POTENTIAL IN DRIVING JOB CREATION, INNOVATION, AND EXPORTS..”

ALFREDO M. YAO
Chairman Emeritus

About Us

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

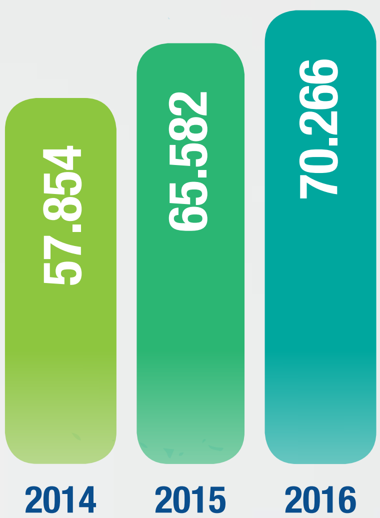
The Bank's focus is to become the bank of choice of the SME market segment. The BSP defines small and medium enterprises to be any business concern with assets between ₱3 million to ₱100 million, excluding the land value on which the entity's office, plant and equipment are situated.

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

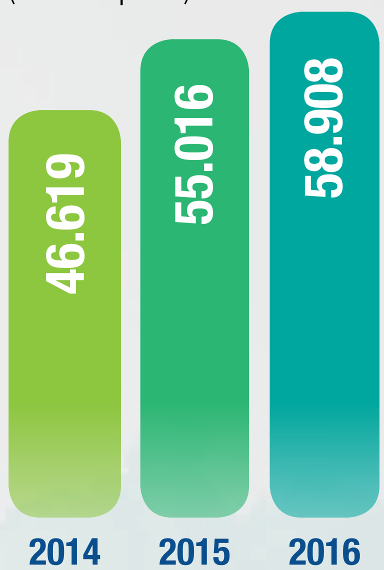
To become the bank of choice of the SME market, PBB has increased its branch presence in several commercial and industrial centres of the country and recruited branch and account officers with extensive client networks in these specific communities. The Bank's network grew from two (2) branches in 1997 to 139 branches as of December 31, 2016 with most branches located in areas with high concentration of small and medium businesses such as Caloocan, Malabon, Navotas, Valenzuela and Quezon City. PBB has also aggressively expanded its branch network in highly urbanized areas outside the Mega Manila such as Davao, General Santos, Bacolod, and Cebu. PBB believes that client proximity, understanding its targets' banking requirements, the reputation of its branch and account management staff within their respective communities, and the overall reputation of PBB, are the key growth factors in the banking business.

Financial Highlights

Total Resources
(in billion pesos)



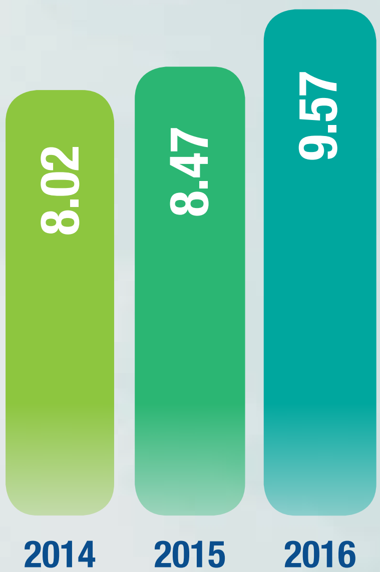
Deposit Liabilities
(in billion pesos)



Net Income
(in million pesos)

Total Loans
(in billion pesos)

Capital Fund
(in billion pesos)



Message from the Chairman Emeritus

Dear Shareholders:

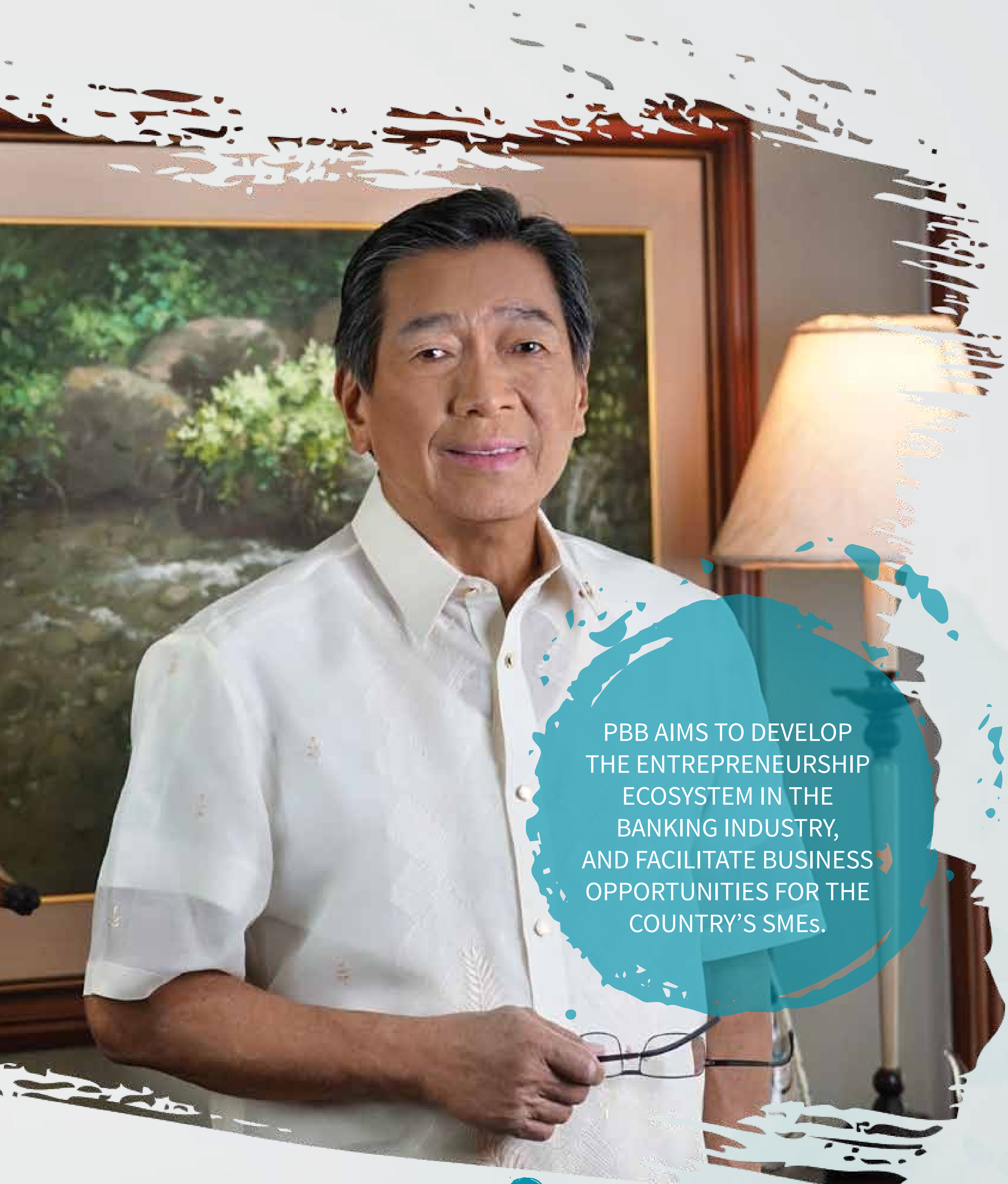
As we celebrate 19 years of MAKING THINGS HAPPEN…TODAY, Philippine Business Bank deeply appreciates the way individuals, corporates and SMEs have welcomed PBB into their lives, homes and businesses.

As the rise in number of the young entrepreneurs and growing affluence in the Philippines, PBB helps diversify the economy towards more sustainable growth. We believe that supporting small and medium enterprises (SMEs) is a basic anchor for sustainable economic growth - due to their potential in driving job creation, innovation, and exports. PBB aims to develop the entrepreneurship ecosystem in the banking industry, and facilitate business opportunities for the country's SMEs.

The provision of granting loan to the small and medium enterprises was a significant milestone related to future development of SMEs in the Philippines - formulating sound strategies and initiatives to increase SMEs' participation in the economy by providing financial - and business-support services; improving the business environment; facilitating market linkages; and promoting the culture of entrepreneurship in the country.

We are also grateful for the opportunity to work and partner with the people who trust PBB, and we look forward to a very bright future of continuing to create value and make a positive difference in this vibrant and growing nation.

ALFREDO M. YAO
Chairman Emeritus



PBB AIMS TO DEVELOP THE ENTREPRENEURSHIP ECOSYSTEM IN THE BANKING INDUSTRY, AND FACILITATE BUSINESS OPPORTUNITIES FOR THE COUNTRY'S SMEs.

Message from the Chairman

Dear Shareholders:

What do you enjoy about your community? The schools, malls, parks, friendly neighbors? Your local bank?

Philippine Business Bank has been the country's SME bank for 19 years. Many of you know our history. In 1997, when we started the Bank in 2nd Avenue, Caloocan City, our founding was all about helping our community, partnering with local companies to help grow their businesses and investing in the towns where we lived and worked.

Fueled by the desire to serve, we set out to build a different kind of bank and banking culture - one that inspired our employees and connected with our clients. An unwavering entrepreneurial spirit has always been our defining point. A singular focus on customer service is what elevates us above the competition.

Nearly two decades later, that simple idea – which we now call "service beyond expectations" – has made Philippine Business Bank the number one stand alone savings bank in the country. And while our community has grown to Luzon, Visayas and Mindanao and more than 150 branch locations, our mission was and still is for our clients to experience the true meaning of a local bank.

We are proud to call Caloocan City our home, where it all started and where our main office branch is situated. And we are proud to contribute to the strength, character and financial stability of the communities we serve. At PBB, we make things happen…today!

Thank you for banking with us.

FRANCIS T. LEE
Chairman

FUELED BY THE DESIRE
TO SERVE, WE SET OUT TO BUILD
A DIFFERENT KIND OF BANK AND
BANKING CULTURE - ONE THAT
INSPIRED OUR EMPLOYEES AND
CONNECTED WITH OUR CLIENTS.

Message from the President & CEO

Dear Shareholders:

The Philippines is expected to continue its stellar economic growth and stand out among its Asian neighbors this 2016. The country's optimistic outlook can be attributed to the private consumption which grew 7.3% in Q3 2016 and investment, fueled by the strong remittances and more local jobs in outsourcing, tourism, and construction.

2016 is the year of challenges and change for the Philippines. As the new president of the Philippines sets in, he being the country's biggest newsmaker this year, promised change.

RESILIENT

Given the challenging operating environment, the Board and senior management are very pleased with how we were able to manage our risks and still grow the business sensibly.

For full-year 2016, income rose by 33% from P502 million in 2015 to P669 million this year. Total assets were P70.226 billion at the end of 2016 which is 7.1% increase from last year's P65.582 billion. Our commitment to clients, the strength of PBB, and a capability and product set that increasingly rival the best in the country, has built resilience into the charter. Strong governance and risk management processes also undergird our business.

The Bank's core income, which is equivalent to net interest expenses less operating expenses plus non-trading other income, continued to expand. In 2012, PBB's core income stood at P70.6 million and by 2016, it has grown 9.9 times to P696.1 million.

The Bank will continue to strengthen its core business by expanding our branch network and our loan portfolio. Our PTPP, which measures the Bank's pretax cash earnings, continues to grow. We ended 2016 with a PTPP of over P1.0 billion.

GIVEN THE CHALLENGING OPERATING ENVIRONMENT, THE BOARD AND SENIOR MANAGEMENT ARE VERY PLEASED WITH HOW WE WERE ABLE TO MANAGE OUR RISKS AND STILL GROW THE BUSINESS SENSIBLY.

Message from the President & CEO

The diversity of our franchise was best exemplified by our loan book. We were able to grow our total loans from P41.738 billion in 2015 to P51.437 billion this year by growing our SME loan and corporate loans. We also extended credit for our regional clients' investments and corporate clients.

PBB's loan growth was a direct result of PBB's reorganization of its lending groups. The reorganization was completed during the first half of 2016 as the Bank streamlined its account management processes resulting in the establishment of the Institutional Banking Group (IBG).

IBG is comprised of the following units: Commercial Banking, Corporate Banking, and Consumer Banking. This recently completed re-engineering of the Bank's account management teams and the formation of the IBG has led to an immediate impact.

Capital fund stood at P9.57 billion, while the Group's capital position remained above the BSP's minimum requirements with Capital Adequacy Ratio Tier 1 (CAR) and Total CAR at 16.17% and 16.99% respectively as of December 31, 2016.

GROWING OUR FOOTPRINT

As a stand-alone savings bank, PBB is committed to leveraging our extensive footprint to intermediate the burgeoning trade and investment flows, as well as the growing regional connectivity, to serve our clients better. PBB ended this year with 150 branches nationwide.

PBB's global capabilities are also recognized by the regulators. In fact, PBB is the first savings bank granted by the BSP to offer Type 2 Limited Dealer Authority for foreign exchange forwards to its clients. Since PBB's market niche is the SMEs, the Bank has successfully developed a reputation as a partner that small and medium-sized enterprises, vital drivers of the economy, can count on. PBB has always been there to support them and with the approval of BSP, allowing the Bank to deal in deliverable forwards will provide our clients the ability to hedge their foreign exchange exposures.

Currently, the SME segment is getting more involved with international suppliers and customers. Thus, the hedging will help them control their FX exposures, which in turn, will make them more competitive.

PBB is also the first savings bank issued a Type 3 Limited User Authority, which states that "Any bank, including a trust entity acting on behalf of a trustor, that wishes to transact as end-user in any derivative instrument outside those generally authorized."

ENTREPRENEUR-DRIVEN PLATFORM

The rise of the young entrepreneurs and growing affluence in this part of the world, coupled with an increasing customer need for regional connectivity, present huge opportunities for a bank like PBB.

To position ourselves to lead in the SME space, PBB strengthened the regional management teams for this segment. The development of strategic blueprints for the SME businesses is also well underway.

Message from the President & CEO

STRENGTHEN THE WORKFORCE

In an industry where people are the most important asset, equipping our 1,373 people to execute on strategy is key to success. We believe that we must have a work environment that is fun and empowering. At the same time, we need to be relentless about developing the skills of our people.

In 2016, we hired senior officers to help with the marketing of new accounts and building stronger relationship with existing accounts. The senior officers are referred to as business development executives and are located to the main regions of the country. Our Human Resources Group continuously builds a strong talent pool able to shape the future of banking. Employees are encouraged to embrace trainings and seminars of best practices in the banking industry.

"WE BELIEVE THAT WE MUST HAVE A WORK ENVIRONMENT THAT IS FUN AND EMPOWERING. AT THE SAME TIME, WE NEED TO BE RELENTLESS ABOUT DEVELOPING THE SKILLS OF OUR PEOPLE."

MOVING FORWARD

Prospects for global growth remain tepid for 2017. We expect this period of slower growth to persist in the form of diverging monetary policy, continued currency volatility and concerns over global's outlook. Bearish commodity prices and currency volatility will continue to pose challenges to the economy. Over the longer term, the Philippine economy continues to look promising given its solid fundamentals and ongoing policy reforms to stimulate economic growth by improving labor productivity. Against this economic backdrop in 2017, we plan to grow our client base by exploring new business sectors in our Corporate Banking business and continue to build on our strengths in the SME Banking business, notably via lending. We will also continue to enhance our technology infrastructure across the bank, including our online banking through the cash management capabilities to ensure the quality of our clients' experience is consistent across all channels and to meet the evolving demands of our customers' businesses. Strengthening our risk management and compliance practices will continue to be a priority as we strive to maintain our strong asset quality, particularly in this uncertain environment. Our performance is guided by our time-tested principles of prudence and enterprise, and we continue to focus on the core fundamentals of banking – ensuring balance sheet strength and building capabilities for the future.

ACKNOWLEDGEMENT

With the support of an experienced management team and committed colleagues across the bank, we are well positioned to face short-term challenges and to deliver a strong performance as the economy picks up. I am very grateful to our Chairman Emeritus Ambassador Alfredo M. Yao for his guidance and leadership, as well as my fellow Board members for their insightful counsel and continued support, especially Vice Chairman Peter N. Yap who retired on 31 March 2016 after serving six years on the Board. On behalf of the Board, I thank the Chairman and all our people for their efforts throughout the year. Finally, a big thank you to our clients for your continued loyal support of PBB.

ROLANDO R. AVANTE
PRESIDENT & CEO

Operational Highlights

PBB First Savings Bank Allowed to Offer Type 2 Derivatives

Philippine Business Bank, the financial arm of the Yao Group of Companies, is the first savings bank granted by the BSP to offer Type 2 Limited Dealer Authority for foreign exchange forwards to its clients.

Prior to the amendments, under the existing regulatory framework of the Banko Sentral ng Pilipinas (BSP), only Universal and Commercial Banks are allowed to offer their own products to clients under either a Type 2 (Limited Dealer) or a Type 1 (Expanded Dealer) Authority. The new rules are "expected [to]…expand the FX risk hedging options of SMEs (small and medium enterprises) to the extent that they are better served by thrift banks."

Under these expanded rules, thrift banks can apply for a Type 2 dealer authority subject to the existing licensing process. However, on July 25, 2016, BSP's letter to PBB stated that it may now transact in FX forwards in accordance with the terms of the approved authority.

PBB's treasurer, Jay S. Cabalde remarked: "PBB's market niche is the SMEs. PBB has successfully developed a reputation as a partner that small and medium-sized enterprises, vital drivers of the economy, can count on. We have been always there to support them. With the approval of BSP, allowing us to deal in deliverable forwards will provide our clients the ability to hedge their foreign exchange exposures."

"Currently, the SME segment is getting more involved with international suppliers and customers.

JOSEPH EDWIN S. CABALDE
PBB'S TREASURER

Thus, the hedging will help them control their FX exposures, which in turn, will make them more competitive," Mr. Cabalde added. This new offering will be handled by Mr. Rowelito T. Cahilig, PBB's head of foreign exchange desk.

PBB is also the first savings bank issued a Type 3 Limited User Authority, which states that "Any bank, including a trust entity acting on behalf of a trustor, that wishes to transact as an end-user in any derivative instrument outside those generally authorized."

Today, there are 139 PBB branches across the Philippines that serve the needs and interests of the bank's clients.

Insular Savers Bank Receives the BSP Pagtugon Award

Insular Savers Bank (ISB), a rural bank acquired by Philippine Business Bank, was conferred by the Bangko Sentral ng Pilipinas (BSP) with the Pagtugon Award. This award is given to financial institutions that have excelled in addressing client issues and concerns. Insular Saver has always prioritized their clients by delivering excellent service and providing responsive and innovative solutions to its clients.

Insular Savers Bank (ISB), is a local rural bank with eight branches. It was established in 1997 by the Martirez family of the Unicapital Group, and offers loan portfolio consisting primarily of consumer (salary and real estate mortgage loans; and second hand car financing) and commercial loans. ISB is known to offer teacher's loan branded "Makaguro Loan", a multi-purpose loan facility extended to eligible permanent teaching and non-teaching personnel of DepEd via Automatic Payroll Deduction System.

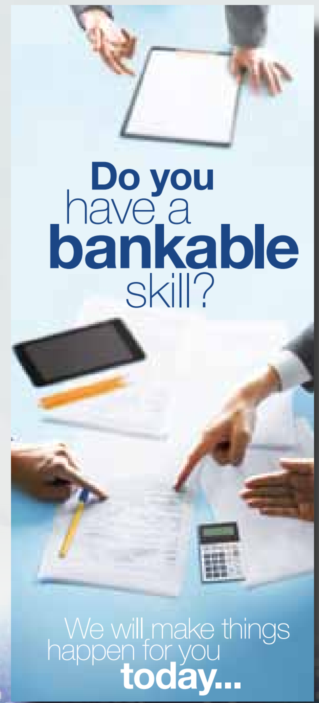
"We are proud to have made the acquisition of Insular Savers Bank," remarked PBB's President & CEO, Rolando R. Avante. "This acquisition underscores PBB's thrust to expand its presence throughout the region, particularly in its target market – the SMEs. This will open up more business lines for PBB," Mr. Avante added.

The award given to ISB validated their client commitment, as BSP recognized ISB as the most responsive bank to address its customers' needs ardently and treats responsiveness as a vital quality of service excellence.

The 13th Awards Ceremony and Appreciation Lunch for BSP stakeholders in the National Capital Region was held on July 13, 2016 at the BSP Assembly Hall, BSP Complex in Manila. This event was hosted by the Chairman of the Monetary Board and Governor of the Banko Sentral ng Pilipinas, Amando M. Tetangco, Jr., together with the members of the Monetary Board.

National Finance Job Fair

PBB participated in the **National Finance Job Fair** organized by **The Junior Confederation of Finance Associations- Philippines (JCFAP)** which brought together more than 5,000 talented individuals under one roof, held on **January 16, 2016** at the **SMX Convention Center, Pasay City**. This event is concurrent with the organization's National Finance Summit and Ten Outstanding Finance Students.



Seminars

INTERNAL SEMINARS

SN	TITLE OF SEMINAR	TOTAL NUMBER OF EMPLOYEES ATTENDED FOR THE YEAR 2016
1	Alert Module on AMLA Base 60 System	255
2	AMLA for Board of Directors and Senior Officers	88
3	AMLA For Clients	42
4	AMLA Orientation for New Hires	178
5	AMLA Orientation/Refresher Seminar	426
6	AMLA Refresher Course	159
7	AMLA Refresher Orientation for Senior Officers	88
8	Branch Based Selling Seminar	110
9	Change Advocate Committee Session	14
10	CIF Orientation Seminar	76
11	Compliance Coordinatorship Meeting	29
12	Conflict Management Seminar	25
13	Conflict Resolution on Credit Issues bet. BBG & Lending Units	21
14	Core Credit Course: Basic Accounting	20
15	Core Credit Course: Financial Analysis for Credit Evaluation	19
16	Core Credit Course: Financial Statement Analysis & Corporate Finance	19
17	Corporate Governance Seminar	31
18	Counterfeit Detection Seminar	188
19	Credit Risk Analysis	22
20	ERMG Framewok Implementation	209
21	Estate Planning Orientation	18
22	Exchange of Ideas About Credit	11
23	FCDU GL Online System Training	141
24	First Aid and Basic Life Support	41
25	Fraud & Risk Awareness Seminar	131
26	Macroeconomics, Industry Analysis, and Firm Analysis	23
27	Megaloans Seminar	32
28	Negotiating Skills Workshop	35
29	ORCSA Refresher Orientation	80
30	ORCSA Refresher Orientation for BOO	77
31	Product & Services Refresher Course	58
32	Signature Verification	147
33	Supervisory Development Program	23
34	UITF Orientation	18

EXTERNAL SEMINARS

SN	TITLE OF SEMINAR	DATES
1	17th ECOP MGM: Compensation and Benefits Trends	January 21, 2016
2	Fundamentals of Information Systems Audit	January 23, 30 & February 6, 2016
3	All About Payroll and Withholding Taxes	January 27, 2016
4	Service Desk Analyst Certification Course	January 27-29, 2016
5	HP Elite PCs	February 2, 2016
6	Trade and Cargo Fraud Seminar	February 19, 2016
7	Detecting Misrepresentations in Financial Reporting	February 20, 2016
8	Related Party Transactions	February 24, 2016
9	Ethics & Good Governance	February 26, 2016
10	Accounting for Non-Accountants and Financial Analysis	February 26-27, 2016
11	Local Employee Taxation	February 29, 2016
12	Treasury Certification Program	February 29-March 16, 2016
13	Certificate in Human Resource Planning & Acquisition	February 29-March 16, 2016
14	2016 HR Beat	March 1, 2016
15	Bancnet Technology Update	March 2, 2016
16	Financial Education (Fin-Ed) Expo for the Working Sector	March 3, 2016
17	Globe 2016 Financial Solutions Forum	March 3, 2016
18	BSP Economic and Financial Learning Program Activities	March 3, 2016
19	Strategic Recruitment and Selection	March 4, 2016
20	BSP Circular #706, AMLA Law, RA 10365 and the AMLA Risk Rating System	March 4, 2016
21	Joint MAP-PCCI Tax Forum 2016	March 7, 2016
22	Accounting Profession – Case & Analysis	March 9, 2016
23	Effective Conversation Fluency	March 11, 2016
24	Epson Tech Summit 2016	March 11, 2016
25	Job Evaluation & Salary Structuring	March 16-18, 2016
26	Company Policy: How to Define, Interpret, and Execute Company Policies	March 17, 2016
27	Forum on BSP Interest Rate Corridor System	March 18, 2016
28	The Software Defined Data Center Workshop	March 29, 2016
29	Training Development Management	March 30, 2016
30	SWIFT Standards Forum Philippines 2016	April 8, 2016
31	Celebrating Women in the Workplace	April 12, 2016
32	Security Summit 2016	April 12, 2016
33	Course 20461C Querying Microsoft SQL Server	April 13-16,23, 2016
34	Linux System Administration 101	April 17, 2016
35	Asia SME Summit – Build Better Businesses! Build Better Nations	April 20, 2016
36	Oracle Day Manila 2016	April 21, 2016
37	Compliance with Operational Risk Management Guidelines	April 22, 2016
38	CPD Package	April 22-May 14, 2016
39	Lean Six Sigma Seminar	April 23, 2016
40	System Analysis and Design	April 24, 2016
41	Recruitment Management	April 26, 2016
42	615th General Membership Meeting	April 27, 2016
43	Tips & Tricks in Microsoft Excel for SMEs	April 28, 2016
44	Credit and Collection Management Seminar	April 30, 2016
45	Windows 10 Open Forum	May 4, 2016
46	Course 20462C Administering Microsoft SQL Server Databases	May 18-21, & 28, 2016
47	Hands-On Web Hacking Class	May 27, 2016
48	A Manager's Technical Guide in Motivating the Workers	June 8, 2016
49	6th Executive Labor Updates to Tackle New NCR Wage Order and Two-Tiered Wage System	June 9, 2016
50	Happy at Work Conference 2016	June 14, 2016
51	Course 20463C Implementing a Data warehouse with Microsoft SQL Server	June 15-18 & 25, 2016
52	BSP Circular #855,#857, Financial Inclusion and Updated AML Regulations	June 16-17, 2016
53	Basic Occupational Safety and Health (BOSH)	June 21-24, 2016
54	Certified Security Trainer Review and Certification Program	June 21-25, 2016
55	Nimble Storage Cisco	June 23, 2016

SPONSORING ORGANIZATION	NO. OF PARTICIPANTS
Powermax Consultancy	2
ISACA	2
Powemax Consulting Group Inc.	1
SAS Management, Inc.	1
S1 Technology	1
Phil. Chamber of Commerce & Industry	3
PICPA	1
BAIPHIL	16
PICPA	1
BAIPHIL	2
Punongbayan & Araullo	3
Ateneo - BAP Institute of Banking	1
PMAP	1
BAIPHIL	2
BANCNET	1
Financial Consumer Protection Department (BSP)	11
Globe Telecom	1
Bangko Sentral ng Pilipinas	9
Powermax Consultancy	2
BAIPHIL	2
MAP	3
PICPA	1
PICPA	1
Advance Solutions Inc	1
PMAP	1
Powermax Consultancy	2
TOAP	3
Unison Inc.	3
BusinessMaker Academy Inc.	2
SWIFT	1
Willis Towers Watson	1
Computer World	1
Edupro Inc.	3
UPSITF	2
PLDT Smart SME Nation	1
Oracle	2
BAIPHIL	7
PICPA-NMMC	2
BAIPHIL	1
UPSITF	3
BusinessMaker Academy Inc.	1
People Management Association of the Phils.	1
Philippine Chamber of Commerce and Industry	3
Business Coach Inc.	2
ZENSHIN	1
Edupro Inc.	3
ISACA	2
Kairos Management Technologies	2
Employers Confederation of the Philippines	4
Salt & Light Ventures	2
Edupro Inc.	3
Chamber of Thrift Bank	4
PEME Consultancy Inc.	2
EDC Security Training Academy	1
Jump Solutions	2

EXTERNAL SEMINARS

SN	TITLE OF SEMINAR	DATES
56	Organizational Project Management Maturity Model (OPM3)	June 23-24, 2016
57	TOAP Summit 2016	June 27-28, 2016
58	72nd BAP Treasury Certification Program	June 27-July 13, 2016
59	Fraud Prevention, Accounting and Auditing Updates	July 9, 2016
60	TeamMate Audit Seminar 2016	July 12, 2016
61	Conducting Job Analysis and Writing of Job Descriptions	July 14, 2016
62	ABCOMP-AMLO 2nd Biennial AML Conference	July 14-15, 2016
63	Accountancy Week Celebration Metro Manila Day	July 18, 2016
64	Treasury Operations Certification Program	July 21-23 & 28-30, 2016
65	CISCO Defense Against the Dark Arts	July 21, 2016
66	BSP Cir. #889 and The Sales and Marketing Guidelines for Supervised Institution	July 22, 2016
67	Employee Dismissal: How to Legally and Ethically Terminate Employment	July 22, 2016
68	Signature Verification and Fraud Detection Seminar	July 23, 2016
69	The Demise of Contractualization	July 27, 2016
70	SEC Corporate Governance Forum	August 3, 2016
71	CCNA Accelerated 200-125	August 6, 13, 20, 27, & Sept. 3
72	Developmental Course on Treasury Products	August 6 – Oct. 22, 2016
73	DOLE Family Welfare Program Seminar	August 12, 2016
74	Developmental Course on Treasury Products: Basics of Fixed Income Securities	August 13, 2016
75	Globe Digital Marketing Solutions for Financial Institutions	August 17, 2016
76	Philippine HR Congress 2016	August 17-18, 2016
77	Signature Verification & Forgery Detection Seminar	August 20, 2016
78	6th Certified Payroll Professional Program	August 27, Sept. 3 & 10, 2016
79	Fortinet 361 Degrees Security	September 1, 2016
80	Do's & Dont's in Hiring and Firing Endo Workers	September 1, 2016
81	Regional Briefings for the Implementation of check Image Clearing System (CICS)	September 3, 2016
82	Revised ISBP on LC Transactions	September 6-7, 2016
83	CCNA 200-125 V3 + VOIP + Active Directory 2012 +Firewall Administration Training with Examination	September 11 – October 9, 2016
84	Schneider Electric Solutions Day	June 17, 2016
85	Fraud Risk Management	September 24, 2016
86	Repurchase Repo Transactions	September 15-16, 2016
87	Basic Occupational Safety and Health (BOSH) Training for Nurses Program	September 26 – October 1, 2016
88	Advance Property Appraisal: Problems & Challenges in Valuation of Properties Seminar	September 29, 2016
89	Cisco 1	October 8 – December 17, 2016
90	Basic Non Life Insurance	Sept. 16, Oct. 21, Nov. 18, 2016
91	Developmental Course on Treasury Products: Bond Duration/Learning Check-Financial Math & Fixed Income Securities	September 17, 2016
92	IT Risk Management, IT Risk Rating System, & IT Regulatory Updates	October 14, 2016
93	Work Attitude & Values Enhancement/Big Picture Mindset	October 14, 2016
94	Know Your Money and Counterfeit Detection Seminar	October 15, 2016
95	Deep Dive to Metasploit	October 21-22, 2016
96	Developmental Course on Treasury Products: Bootsstrapping/Learning Check-Spot Forward & FX Swaps	October 15, 2016
97	Developmental Course on Treasury Products: Financial Options	October 22, 2016
98	New Labor & HR Policies under the Duterte Administration	October 26, 2016
99	74th BAP Treasury Certification Program	November 7-23, 2016
100	2016 Annual Disclosure Rules Seminar	November 10, 2016
101	A Regulatory Prospective on Trust Activities & Administration	November 11 & 18, 2016
102	2016 FWCOMPHIL Program Review & Evaluation & 2017 Planning Workshop	November 17-19, 2016
103	Orientation on Current Policies regarding Contractualization	November 18, 2016
104	Establishing Internal Controls in Banks	November 19, 2016
105	SEC-PSE Corporate Governance Forum 2016	November 22, 2016
106	6 C's of Customer Service	November 24, 2016
107	Seminar Defining Process Performance Indicators	November 19, 2016
108	Operating System Security and Auditing	November 28-29, 2016
109	Year-End Tax Planning Strategies	December 2, 2016
110	Database Security and Auditing	December 12-13, 2016

SPONSORING ORGANIZATION	NO. OF PARTICIPANTS
ECC International Corp.	1
Trust Officers Association of the Phils.	1
Ateneo De Manila University	3
PICPA	2
Wolters Kluwer	2
Powermax Consultancy	2
Association of Bank Compliance Officer of Phils.	3
PICPA	1
Ateneo - BAP Institute of Banking	1
Forefront Innovative Technologies	2
BAIPHIL	2
Vision Connect Events	1
ORO Banker's Club	2
Kairos Management Technologies	2
Securities and Exchange Commission	3
Eyenet Training Center	1
BAIPHIL	3
DOLE CAMANAVA	4
BAIPHIL	1
Globe Telecom	1
Ariva Events Management Inc.	4
Benguet Bankers Association	14
CIPP	3
Firemon, MEC, MSI-ECS	1
Kairos Management Technologies	1
Philippine Clearing House Corporation	2
Center for Global Best Practices	1
Eyenet Training Center	1
Schneider	1
BAIPHIL	4
Money Market Association of the Phils., Inc.	2
Occupational Health Nurses Assoc. of the Phils., Inc.	1
Credit Management Association of the Phils.	2
Mapua Information Technology Center	3
Charter Ping An Insurance Corporation	3
BAIPHIL	1
BAIPHIL	1
Ariva Events Management Inc.	3
Baguio-Benguet Bankers Association	7
ISACA	1
BAIPHIL	1
BAIPHIL	3
Powermax Consulting Group Inc.	2
Ateneo - BAP Institute of Banking	2
The Philippine Stock Exchange	3
BAIPHIL	3
DOLE CAMANAVA	3
DOLE CAMANAVA	2
BAIPHIL	3
Makati Business Club Inc.	4
Salt & Light Ventures	1
BAIPHIL	6
ISACA	1
Powermax Consultancy	3
ISACA	1

Operational Highlights

Loan Pinas PLDT

Alerto Ako organized by the BSP

Consumer Protection

Financial Education segment conducted by the BSP

Event Highlights

19 Years of Progress

In the 19 years since its inception, in 1997, Philippine Business Bank (PBB) has successfully developed a reputation as a partner that small and medium-sized enterprises (SMEs), vital drivers of the economy, can count on.

Through its extensive expansion endeavors, coupled with strategic partnerships and provision of innovative banking services, the bank has nurtured such reputation, helping scores of SMEs prosper and, in turn, the economy grow.

Despite opening during the Asian Financial Crisis, PBB made an impressive feat of establishing 15 branches in the subsequent two years. Today, there are 138 PBB branches across the Philippines that serve the needs and interests of the bank's clients.

The phenomenal growth is a testament to its success in leveraging on its reputation and implementing its strategic plans competently.

PBB's focus of expansion has shifted away from Metro Manila. Rolando R. Avante, president and chief executive officer of the bank, said that, in the past few years, only a handful of branches were established in Metro Manila whereas around 70 were set up in the provinces, mostly in Southern Luzon, Visayas and Mindanao, whose local economies have the potential to grow.

"This is the evidence that in PBB, we feel more of our relevance in the provinces, in the countryside rather here in Metro Manila," Mr. Avante said.

Last year, the bank earmarked up to P200 million for its capital spending budget, most of which were allocated to fund its expansion plans as well as its systems upgrade.

In addition to erecting its own branches, PBB has made significant acquisitions over the years. In the last year alone, it took over Insular Savers Bank, Bataan Savings and Loan Inc., and Cavite-based Rural Bank of Kawit Inc., rural banks with notable

deposit and client bases in the respective areas in which they operate.

PBB has also been devoting resources into training its workforce to make them more responsive to their clients whose needs are evolving. "As you expand your business, definitely the demand for a better skill set of your people also increases," Mr. Avante said. "Your people have to be attuned to the demands of the work and the environment."

Another undertaking that the bank has continually engaged in is drawing strategic partners and potential investors.

A Potent Helping Hand

"By making things happen today, Philippine Business Bank will help build strong business communities where people can achieve their dreams" is a vision that has guided the bank in all of its 19 years. The recent partnership of the bank and Starlite Ferries, a shipping company based in Batangas City, Batangas, illustrates how that vision is turned into a reality.

Starlite Ferries offers roll-on and roll-off (RORO) ferry services between Batangas City and Calapan, Oriental Mindro, and between Roxas, Oriental Mindoro and Malay, Aklan. With financing from PBB, it has been able to acquire brand-new vessels, which cost around $10 million each, thus realizing its objective of modernizing its fleet.

But the help extended by PBB does more than that. It sends a powerful signal to other RORO operators to bring their ships up to date as a way to improve the image of traveling through ferry, which is stigmatized as perilous, and to make the delivery of goods more efficient, which is impossible with timeworn vessels.

"You are doing business on one end with Starlite," Mr. Avante said, "on the other end, you are addressing the concerns of people on travel, trade, tourism."

"THE PHENOMENAL GROWTH IS A TESTAMENT TO ITS SUCCESS IN LEVERAGING ON ITS REPUTATION AND IMPLEMENTING ITS STRATEGIC PLANS COMPETENTLY."

Food Exposition

May 6 to 8, 2016
SMX Convention Center

Annual Stockholders' Meeting

The Philippine Business Bank (PBB) Annual Stockholders' Meeting was held on May 27, 2016 at the Philippine Diamond Hotel.

In his address, Mr. Rolando R. Avante, President and CEO, commented on the 2015 financial year and the bank's game plan for 2016. The presentation comprised a report on PBB's 2015 strong financial results, how these reflected their operations in line with their set targets. Mr. Avante remarked: "At the end of December 2015, PBB has 1,216 employees, and 134 branches. Expansion has been a way to establish a physical presence in a new community. Branches represent channels to nurture lifelong clients by building relationships, providing hands-on support and targeting our offerings."

"PBB's focus of expansion has shifted away from Metro Manila. In the past few years, only a handful of branches were established in Metro Manila whereas more than 70 were set up in the provinces, mostly in Southern Luzon, Visayas and Mindanao, whose local economies have the potential to grow," Mr. Avante added.

The Board of Directors of PBB
(standing from left to right)
Benjamin R. Sta. Catalina, Jr., Paterno H. Dizon, Honorio O. Reyes-Lao, Amador T. Vallejos, Jr., Roberto A. Atendido, Danilo A. Alcoseba, Corp. Secretary Atty. Roberto S. Santos
(seated from left to right)
Vice Chairman Jeffrey S. Yao, Chairman Francis T. Lee, Chairman Emeritus Amb. Alfredo M. Yao, Pres. & CEO Rolando R. Avante, Dra. Leticia M. Yao

Event Highlights

Starlite Inauguration

June 1, 2016
Batangas Port

Business World's Economic Forum

July 12, 2016
Shangri-La Hotel - BGC


THERING OF THE BEST MINDS IN PHILIPPINE
BusinessWorld
ECONOMI
FORUM
uly 12, 2016, Grand Ballroom, Shangri-La at the Fort, Bonifacio Glo
HARTING
ROGRESS
2020
INTEGRATION
DISRUPTION
PBB
PHILIPPINE
BUSINESSBANK
a savings bank
Making Things Happen... Today!

(Left) Ms. Elizabeth Pardo-Orbeta, CFE – PFA Director, Education; (Center) Ms. Judith C. Songlingco, PBB AVP/Head of Product Development & Corporate Affairs; (Right) Ms. Bing Sibal-Limjoco, CFE – PFA Vice Chairman

(Left) Ms. Judith C. Songlingco, PBB AVP/Head of Product Development & Corporate Affairs; (Right) Dr. Alan Escalona, PFA President

PBB Renews Its Partnership with PFA

Philippine Business Bank strengthens its thrust in supporting the small and medium enterprises by renewing its partnership with the Philippine Franchise Association as Bronze Sponsor of Franchise Asia Philippines 2016.

PBB provides support to SMEs, particularly the franchisees seeking to boost their businesses. As PFA promotes and sustains the growth of franchising as a tool for national development, PBB on the other hand, helps small companies make the most out of business opportunities as a one-stop-shop for all their financial needs.

The Franchise Asia Philippines 2016 promotes entrepreneurship, rewards successful entrepreneurs, and inspires others to set up their own businesses, commenced on July 22 – 24, 2016 at the SMX Convention Center.

24th Metro Manila Business Conference

July 29, 2016
Manila Hotel

Event Highlights

PBB Supports the Philippine Chamber of Commerce & Industry

Press Briefing

Aug. 2016
Cafe Adriatico

Philippine Business Bank (PBB) – the financial arm of the Yao Group of Companies participated in the recently concluded 42nd Philippine Business Conference and Expo of the Philippine Chamber of Commerce and Industry held at the Grand Ballroom of Marriott Hotel.

The conference and expo is a two-day event that gathered close to a thousand delegates from member-chambers of PCCI nationwide, diplomatic corps, business councils, industry associations, and counterpart chambers from the United States, Sri Lanka and Bangladesh. The business conference featured plenary and breakout sessions where participants got first-hand information related to updates on easing the cost of doing business, competitive infrastructures that would strengthen competitiveness and open trade opportunities. The event also became an avenue to talk on the cooperation of the ASEAN, East Asian and Asia-Pacific economies, the legislative agenda promoting inclusive growth, the interventions backing the local economies, generating supply of workforce equipped with skills demanded by the industries, among others.

With this year's theme: Giant Steps 2016 and Beyond, the conference highlights the sectors that businesses consider important to economic growth.

"This has to take on an even active role in shaping our country's future as we zoom ahead

Delegates from the YAO Group of Companies:
PBB: (1st row left to right)
Branch Head Debbie Tan; VP Dulce Siy, Region Head; AVP Judith Songlingco, Marketing Head; SVP Alice Rodil, Head Comptroller; VP Dolora Palma, Region Head;

Macay Holdings, Inc.: (2nd row left to right)
Advisor – Martial Beck; Movenpick Resort and Spa Boracay – GM, Alberto Ocasio

to an increasingly competitive, integrated global economic landscape. 'Giant Steps 2016 and Beyond' encompasses the vision of everyone in this room — that of the inclusive economy where people enjoy quality life of the world-class Philippine business sector," PCCI President George Barcelon said.

The business conference has always been a venue for the awarding of winners of the competition for the business idea and development award, Alfredo M. Yao intellectual property award, Injap Sia young entrepreneur, most outstanding chamber award, most business-friendly local government unit awards, and ecology and environment awards.

As mentioned by last year's PCCI President, Amb. Alfredo M. Yao: "PCCI is dedicated to serving the business community and providing education and support services to further evolve local industries and enterprises - particularly small- and medium-size enterprises - into globally competitive ventures. PCCI has focused its strategies to create synergies among government, local businesses led by the chambers and development stakeholders."

PBB takes part in that same strategy; support for the financing of projects implemented for SMEs which is the key policy objective of the Bank, as the SME sector represents the engine of growth and innovation.

PBB is making a difference by widening its presence across the country. Operating 139 branches will help the Bank reach more people and more business partners, as PBB continues to go where the small and medium enterprises thrive.

Risk Management

Enterprise Risk Management Framework

Managing the various kinds of risks Philippine Business Bank encounters in its businesses is an integral part of its operations. PBB has developed an integrated Risk Management Framework involving the Board of Directors, Senior Management, the Business Units and the Bank's Enterprise Risk Management Group (ERMG).

The Board of Directors sets PBB's risk management direction through the Risk Oversight Committee (ROC). It is mandated to set risk appetite, approve frameworks, policies and processes for managing risk, and recognize risks that needed to be accepted and managed within the purview of the risk appetite. This Committee continuously operates at the forefront of PBB's risk governance by specifying the risk-taking parameters, tolerances and expected rewards by which business risks are to be taken. Furthermore, it allocates appropriate capital for absorbing potential losses from various risks attendant in the risk-taking activities.

PBB RISK MANAGEMENT OBJECTIVE AND FUNDAMENTALS

Bank Wide Objective: To achieve a corporate risk culture, processes and structures that are directed towards the effective management of potential opportunities and adverse effects to the bank's business as well as optimization of capital in terms of risk taking activities.

Risk Management Fundamentals:

1. Portfolio management by designated & accountable risk personnel,
2. Allocation of capital based on associated risks for each business unit,
3. Denotation of processes and output into quantifiable measurements,
4. Transparency and meritocracy

The Bank's Enterprise Risk Management framework employs an integrated approach to the identification, measurement, control and disclosure of risks in all aspects of the banking operations. The risk management infrastructure covers operational, market and liquidity, reputation, credit and counterparty and other downside risks consistent with risk management guidelines of the regulatory agencies and aligned with best practices on risk management.

PBB RISK MANAGEMENT PROCESS

The Group envisions to have risk and return consciousness in the Bank, anchored on reliable Management Information Systems, conversant and competent risk takers/ constituents and good internal control, monitoring and escalation system.

The Group was established to institutionalize the Risk Management Process, to wit:

IDENTIFY	ASSESS	CONTROL	MONITOR AND REPORT
Identify key risk exposures, threats and vulnerability.	Measure extent of exposure and impact to earnings, capital, liquidity. Prioritize risk exposures.	Implement the risk appetite of the Board through risk policies.	Monitor effectiveness of risk controls. Report risk exposures.

The ROC, supported by Enterprise Risk Management Group (ERMG) and in constant coordination with executive and other board-level committees, oversees the risk profile and risk management framework/processes of PBB. This ensures that risks arising from the Bank's business activities are properly managed and integrated into/used as basis for overall governance, strategy and planning, decision making and accountability purposes at all relevant levels of the organization.

The Enterprise Risk Management Group (ERMG), headed by the Chief Risk Officer, develops and reviews Risk Policies, and raises to management the various aspects of risk facing PBB. In addition, it also performs an oversight and monitors the performance of the different Business Units.

The Bank's philosophy is that responsibility for risk management resides at all levels in the organization. The Bank's corporate governance aimed to achieve corporate culture, processes and structures that are directed towards the effective management of potential opportunities and adverse effects. ERMG shall continue to improve the framework in support of the Bank's strategic plans in order to achieve its mission, vision and objectives.

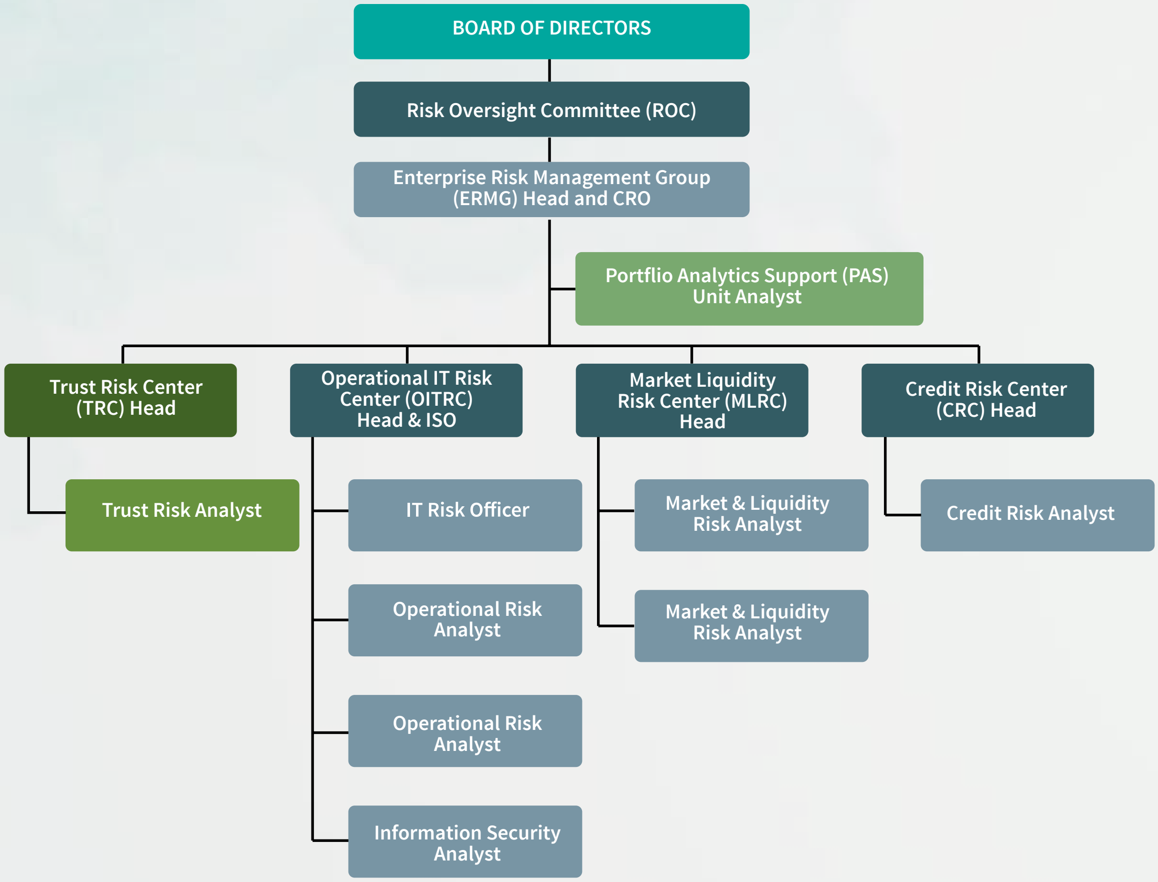
Every organization's optimal efficiency depends heavily on the effectiveness of its risk management processes thus PBB's day-to-day activities are undertaken under the integrated risk management approach.

Risk Management

OVERVIEW: ERMG ORGANIZATIONAL STRUCTURE

Develop and manage the enterprise risk management thrust of the Bank by aligning the bank strategies to its risk management objectives.

Promotes a corporate risk culture and implements relevant risk management framework to optimize capital and institute best practices.



Credit Risks

PBB takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss to PBB by failing to discharge an obligation. Credit exposures arise principally in loans and advances, debt securities and other bills.

The Bank boasts of its knowledge of the SME segment as one of its strengths. Hence, the Bank puts acknowledgment in its qualitative assessment of its loan portfolio in addition to the quantitative aspects of credit risk assessment. The Bank has a very thorough pre-approval screening of loan accounts and has taken the initiative to implement an internal credit scoring model to measure and monitor credit risks for its covered portfolio. This is complemented by a regular credit review process as well as monthly portfolio risk evaluation to identify risk trends and credit risk red flags. The Bank sets aside adequate loss provisions to cover for its credit risks consistent with BSP regulations and following accounting standards. Cognizant of the convergence of the Basel Capital Adequacy Framework and international accounting standards such the International Financial Reporting Standards, the Bank starts aligning its Loan Loss Methodology towards the 2018 implementation of the new reporting standard.

PBB assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty. PBB has internal credit risk rating system that measure the borrower's credit risk based on quantitative and qualitative factors. For retail, the consumer credit scoring system is a formula-based model for evaluating each credit application against a set of characteristics that experience has shown to be relevant in predicting repayment. PBB regularly validates the performance of the rating systems and their predictive power with regard to default events, and enhances them if necessary

The PBB structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a regular basis and subjected to annual or more frequent review, when considered necessary. Limits on large exposures and credit concentration are approved by the Board of Directors.

When entering into new markets or new industries, the PBB focuses on corporate accounts and retail customers with good credit rating and customers providing sufficient collateral, where appropriate or necessary.

In recognition of the need for risk management measures to complement its continuously growing loan portfolio, the Bank implements dynamic credit process streamlining program to ensure that commensurate controls are in place while the Bank continues to device ways to improve its credit process and service delivery. The Bank also has instituted improvements in its credit policies, which includes stricter monitoring of large exposures and credit concentrations to ensure portfolio diversification.

Risk Management

CREDIT RISK MANAGEMENT FRAMEWORK

Identification of risk at the loan origination stage thru the use of credit scoring models

Management of credit exposure based on risk evaluation on risk adjusted return perspective.

Formulation and review of credit risk management policies and procedures align with best practices.

Risk governance thru the Board, Risk Oversight Committee and the Enterprise Risk Management Group

Monitoring the credit risk and its impact to financial risk

Development and enhancement of the Enterprise Risk Management Monitoring System and institute the implementation Bankwide.

CREDIT RISK IDENTIFICATION	CREDIT LIMIT AND PRICING STRUCTURE & LIMIT CHANGE MANAGEMENT	SCORING MODELS
Credit scoring at the origination stage Loan Portfolio Analysis Pre-approval scoring analysis Industry Analysis Account Profitability Analysis Post approval analysis Past Due Analysis Stress Testing	Statutory/Regulatory Limits Single Borrower's Limit Risk Asset Classification Concentration Limits Specific Industry Borrower Group Counterparty Exposure Country Risk Credit premium based on credit grade (Pricing)	Internal Credit Risk Rating System Pre-approval scoring on consumer loans and micro finance. Payment rating system

Market and Liquidity Risks

The Bank continues to review its treasury limits system to ensure that it only enters into transactions allowed under its existing policies and that adequate capital is available to cover for risk exposures.

The Bank has an automated system for the trading (front office), settlements and control (back office), and risk measurements and analyses (middle office) processes. This includes, among others, the integration of pre-deal limit checking, on-demand position monitoring, automated limit reporting and breach approval, and preset value-at-risk (VaR) calculations. The Bank utilizes the delta-normal model for its VaR calculations and is complemented by regular stress testing and backtesting procedures.

PBB stands by its reputation in high regard as evidenced by the faithful performance of its commitments and by upholding the trust bestowed upon it by its clients. This, and the management of potential losses related to funding and trading liquidity are the reasons the Bank seriously manages liquidity risks. It has a functional Asset and Liability Committee which oversees the regular liquidity management of the Bank through the Treasury Services Group and with oversight from the Board through the Risk Oversight Committee. Regular liquidity gap reports and maximum cumulative outflow monitoring is done on management level. The Bank also has a comprehensive Liquidity Contingency Plan which identifies specific fund sources during potential liquidity crunch scenarios. Stress testing is also done regularly to complement its liquidity risk measurement tools.

PBB is also very keen in its interest rate gap position. Management uses repricing gap reports, earning-at-risk (EAR), and sensitivity analysis to lookout for the potential effect of a rising or a falling interest rate scenario to the Bank's interest income objective. Management monitors compliance to set EAR limits regularly to ensure that interest rate risks sought are within the bounds set by the Board.

MARKET AND LIQUIDITY RISK MANAGEMENT FRAMEWORK

Manage the market risk from Treasury Services Group's (TSG) activities as well as the Bank's exposure to liquidity risk and interest rate risks in the Banking book.

Consolidation of bank wide information affecting Market and Liquidity Risk exposure.

Utilization of Market and Liquidity Management Tools, to wit:

TRADING BOOK		BANKING BOOK	
VaR	PnL	Interest Rate Gap/EAR	Stress Testing
Duration	Stress Testing	Liquidity Gap/ MCO	Sensitivities
MTM			

Operational Risk Management

"CONTROL FIRST BEFORE TRANSACTION EXECUTION"

– This is PBB's motto and being fostered among all PBB employees.

Operational risk is the risk arising from failure of people, systems, process, and external event. It is under these areas that the monitoring tools and risk assessments are organized.

Risk Management

The main goals of Operational Risk Management are:

- Develop an internal risk assessment methodology and operational risk data base management system linked to the operational risk management and business planning process
- Strengthen the risk control system to reduce risk, manage disruption, ensure business continuity, reduce overall costs and improve service efficiency
- Ensure compliance with other local and global risk and capital regulation (e.g. MORB of the BSP, BIS) at all times i.e. under normal and stressed operating conditions
- Streamline the PBB risk governance structure for the control and oversight of operational risk
- Empower business units with the responsibility and accountability of the business risks they assume on a daily basis
- Institutionalize a risk culture and sensitivity to potential losses including people empowerment, accountability and ownership of risks
- Minimize the potential for loss to avoid potentially large or catastrophic operational risk losses thus ensuring that capital resources are preserved;
- Create an organizational culture that places high priority on effective operational risk management and adherence to sound operating controls.
- Promote high ethical and integrity standards, and for establishing a culture within the organization that emphasizes and demonstrates to all levels of personnel the importance of risk awareness and internal control

PBB promotes a corporate risk culture and sensitivity to potential losses through regular trainings and ongoing bank wide risk awareness program.

Part and parcel of Operational Risk Management in PBB are the IT and Information Security risk management. The Bank values the confidentiality, availability, and integrity of all the information it holds. This includes the protection of client information to the full extent allowable under the law as well as the utmost protection of its clients utilizing information technology systems. To uphold this, the Bank regularly updates its information security policies and make sure that it is properly implemented and disseminated across all units of the Bank.

The bank adheres to the mandated definition of the Bangko Sentral ng Pilipinas (BSP) for IT risk under BSP Cir. No. 808 series of 2013 . Technology has become one of the major players in most of the Bank's decisions when considering projects that require solutions or automation. With the increased number of dependency on technology, the risk associated with its use increases. Use of technology to improve efficiency or effectiveness of business processes may result to Information Technology Risk due to unmanaged projects and/or resources.

As part of the strategic goals, PBB needs to constantly introduce new or enhanced products and services, improve systems and processes, and implement updates and innovations in IT to secure and manage voluminous information and maintain their competitive position. IT projects, when managed improperly, often result in late deliveries, cost overruns, or poor quality applications. Inferior applications can result in underused, unsecure, or unreliable systems. Retrofitting functional, security, or automated-control features into applications is expensive, time consuming, and often results in less effective features. Therefore, PBB carefully manages IT-related projects to ensure they meet organizational needs on time and within budget.

Information Security Risk also takes place with the use of technology due to possible compromise of confidentiality, integrity and availability of information and systems. Because of the underlying information technology and security risks, the use of IT/S Risk Management Framework becomes essential to ensure that both Information Technology and Security Risks are properly identified, measured, managed/controlled, monitored and reported.

Enterprise Risk Management Milestones for 2016

The focus of the Enterprise Risk Management Group (ERMG) in 2016 was the strengthening of the bank wide risk management capabilities. Towards this goal, the following were the highlights of activities for the year 2016:

- Development of the proprietary ERMG Monitoring System geared towards Improvement of the Management Information System.
- The Market & Liquidity Risk Center was involved in the continuous enhancement of the Treasury system to reflect the Bank's strategies commensurate to its risk appetite for its market risk control and monitoring. The implementation is expected to improve the management of the trading to market volatility exposure.
- In terms of franchise development, related to its Type 2 Derivative License, PBB is able to offer FX Forward contract to its trade finance clients.
- As to liquidity risk, the Maximum Cumulative Outflow model was tweaked by enhancing the report to distinguish the liquidity gap by books and currency and by improving the model assumptions through the study of historical behaviour of deposits & ROPA.
- Enhancement of the wide Operational Risk and Control Self-assessment (ORCSA) towards a more cohesive Business Impact Analysis leading to a more relevant BCP.
- Performed Information security and risk awareness programs thru the regular classroom orientation for newly hired employees, regular employees, periodic email blasts/advisories, to educate employees and clients.
- PBB continue to undertake various strengthening/hardening of the IT Risk Mitigating Tools –

OPERATIONAL RISK MANAGEMENT FRAMEWORK

Manage the risk that can lead to potential loss of earnings or capital as a result of failures of weakness(es) of people, systems, and internal processes or events external to the bank through which a bank operates.

OPERATIONAL RISK	IT RISK	BUSINESS CONTINUITY MANAGEMENT
Operational Risk and Control Self-assessment	IT Risk Assessment	7p's of effective BCM.
Loss Event Monitoring	INFOSEC/IT risk policies (e.g. SDLC, Information Classification, Network, Anti-Virus, Cyber-security, Password, Email, Access Controls, ITG facilities), etc	Business Impact Analysis
KRIs and KPIs	Information Asset Registry	Business Continuity Program
Legal Case Monitoring	Security Event Monitoring	BCP Task Force Committee and Business Recovery Group
Awareness Program		BCP Call-Tree

Board of Directors

ALFREDO M. YAO
CHAIRMAN EMERITUS

FRANCIS T. LEE
CHAIRMAN

Executive Committee
Manpower, Compensation & Remuneration Committee
Trust Committee
Asset & Liability Committee
Credit Committee
Bid Committee
Remedial & Special Assets Committee
Management Committee

JEFFREY S. YAO
VICE CHAIRMAN

Executive Committee
Manpower, Compensation
& Remuneration Committee
Management Committee
Asset & Liability Committee
Credit Committee
Committee on Employee Discipline
Audit Committee
Risk Oversight Committee
IT Steering Committee
Remedial & Special
Assets Committee

ROLANDO R. AVANTE
PRESIDENT & CEO

Executive Committee
Manpower, Compensation
& Remuneration Committee
Trust Committee
Asset & Liability Committee
Credit Committee
Remedial & Special Assets
Committee
Anti-Money Laundering
Committee
Committee on Employee
Discipline
Management Committee

HONORIO O. REYES-LAO
DIRECTOR

Trust Committee
Risk Oversight Committee

Board of Directors

AMADOR T. VALLEJOS, JR.
DIRECTOR

Audit Committee
Risk Oversight Committee
Corporate Governance Committee/ Nomination Committee
IT Steering Committee
Manpower, Compensation & Remuneration Committee

DANILO A. ALCOSEBA
DIRECTOR

Audit Committee
Risk Oversight Committee
Corporate Governance Committee/ Nomination Committee

DRA. LETICIA M. YAO
DIRECTOR

Trust Committee

ROBERTO A. ATENDIDO
DIRECTOR

Audit Committee
Risk Oversight Committee
Corporate Governance Committee/ Nomination Committee

PATERNO H. DIZON
INDEPENDENT DIRECTOR

Audit Committee
Risk Management Committee
Corporate Governance Committee/ Nomination Committee

BENJAMIN R. STA. CATALINA, JR.
INDEPENDENT DIRECTOR

Audit Committee
Risk Oversight Committee
Corporate Governance Committee/ Nomination Committee

Management Committee

REYNALDO T. BORINGOT
SVP/ BUSINESS DEVELOPMENT OFFICER (LUZON)

JOSEPH EDWIN S. CABALDE
SVP/ TREASURER

Asset and Liability Committee
IT Steering Committee

ROSENDO G. SIA
SVP/ BUSINESS DEVELOPMENT OFFICER (VISAYAS & MINDANAO)

ROSELLE M. BALTAZAR
FVP/ HEAD OF CENTRAL OPERATIONS

IT Steering Committee
Anti-Money Laundering Committee

AGUSTIN E. DINGLE, JR.
FVP/ HEAD OF COMPLIANCE

Anti-Money Laundering Committee

FELIPE V. FRIGINAL
FVP/ HEAD OF BRANCH BANKING

Asset and Liability Committee
IT Steering Committee
Bid Committee
Anti-Money Laundering Committee
Committee on Employee Discipline
Credit Committee

BELINDA C. RODRIGUEZ
FVP/ CHIEF RISK OFFICER

Risk Oversight Committee
Asset and Liability Committee

LIZA JANE T. YAO
FVP/ HEAD OF GENERAL SERVICES

Asset and Liability Committee
Bid Committee
Credit Committee

ROLANDO G. ALVENDIA
VP/ HEAD OF ACCOUNTING

EFREN P. MERCADO
VP/HEAD OF COMMERCIAL BANKING 3&4

Asset and Liability Committee

EDUARDO R. QUE
VP/ HEAD OF CORPORATE BANKING

Asset and Liability Committee

CLARISSA S. RIVERA
VP/ HEAD OF CONSUMER BANKING

Asset and Liability Committee

Management Committee

ATTY. ROBERTO S. SANTOS
VP/ CORPORATE SECRETARY/
HEAD OF LEGAL

Committee on Employee Discipline
Remedial and Special Assets Committee
Anti-Money Laundering Committee

JOHN DAVID D. SISON
VP/ INVESTOR RELATIONS OFFICER/ HEAD OF CORPORATE PLANNING

Asset and Liability Committee

MIAMI V. TORRES
VP/ HEAD OF
CREDIT SERVICES

Credit Committee

ENRICO T. TEODORO
VP/ OIC OF INFORMATION TECHNOLOGY

IT Steering Committee

IRIS P. ALMERINO
AVP/ HEAD OF
COMMERCIAL BANKING 2

Asset and Liability Committee

MA. DORIS C. DE CHAVEZ
AVP/ HEAD OF CREDIT REVIEW

JACQUELINE A. KORIONOFF
AVP/ HEAD OF
COMMERCIAL BANKING 1

Asset and Liability Committee

TADEO D. MEDRANO
AVP/ HEAD OF
TECHNOLOGY CONTROL

LUNINGNING T. RAMOS
AVP/ HEAD OF SYSTEMS &
METHODS AND BRANCH
OPERATIONS & CONTROL

IT Steering Committee
Committee on Employee Discipline

LAURENCE R. RAPANUT
AVP/ HEAD OF AUDIT

Audit Committee
Committee on Employee
Discipline
Bid Committee

TERESITA S. SION
AVP/ HEAD OF TRUST

Trust Committee

JUDITH C. SONGLINGCO
AVP/ HEAD OF PRODUCT
DEVELOPMENT & CORPORATE
AFFAIRS

ANGELINE H. HWANG
CHIEF LENDING OFFICER
(Consultant)

Credit Committee

Our Success Stories

In 1976, a small business that vended used engines and spare parts imported from Japan was founded by Ricarido King together with his wife, Rosalinda. It was based in Cebu, in a 12-square-meter office, which had only two tables.

Over a span of 40 years, it has grown into one large organization, called AG Group of Companies, that is engaged in manifold commercial activities.

It now sells brand-new Japanese-Chinese- and American-branded trucks and heavy equipment, mainly to construction companies and local government. It has branched out into real estate development, building homes and memorial parks, and into warehousing. More recently, it has started trading Harley-Davidson motorcycles.

The success of the enterprise can be credited to many factors, including hard work, determination and acumen of the couple, as well as of their sons, Richard and Regan, who handle the real-estate and trading arms respectively of the group.

But there is one key ingredient in AG's continued expansion and transformation: Philippine Business Bank (PBB). "We grow steadily through the support of the banking institution, PBB," said, Ricardo King, chairman and chief executive officer of the group.

PBB has been a partner of the AG Group of Companies ever since the conglomerate was still in the early days in the business of distributing vehicles and equipment in Visayas, and then in Mindanao, providing it with the necessary financial support. Mr. Regan King said the bank even extended help to their clients.

About three years ago, when the firm decided to diversify into real estate, PBB was quick to lend a hand. Mr. King said that at the time, they "did not play at a level that was not considered substantial in the industry" and so other banks were not paying attention to them.

"To PBB, whether it was substantial or not, they listened. They listened and they tried their very best to understand how our business model works," he said. The bank was able to come up the facilities and the support they needed, he added, allowing them to develop their real-estate venture.

"It's not every day that you get to deal with a bank that does not impose its own views of the industry," Mr. Richard King said. "They are able to accommodate how you would like to be an innovator in the industry."

The bank's hands-on approach and its closeness with its clients are what Mr. King considers the factors that make them stay and that give them the great confidence that the bank will never leave their clients behind.

To the patriarch of the King family, the most memorable experience with PBB is the extent to which the institution believes in him. "They do not ask anything from me, only that I do my best to do business, and they support me," he said.

On Philippine Business Bank's 20th anniversary, the Kings would like to pass on good wishes to a partner that, through the years, has proved to be tried and true. "I pray that you will have more years… to be able to achieve your goals and continue to be the bank for the entrepreneurs," Mr. King said.

Hands-on Approach

AG GROUP OF COMPANIES

Setting Sails for Success
STARLITE FERRIES, INC.

Philippine Business Bank (PBB), which is celebrating its 20th year of providing assistance to local small and medium enterprises this 2017, does not just look at its strategic partnerships as a way to further expand its business. It also regards some of these tie-ups, like that with Starlite Ferries, Inc., as indirect corporate social responsibility initiatives.

Starlite Ferries is a Batangas City-based shipping company that seeks to provide safer and more convenient sea travel to the public through its modernized fleet. So far, it has four brand-new roll-on, roll-off (Ro-Ro) vessels currently plying select routes in the country, with the fifth one expected to come in March this year.

These brand-new, all-steel ships have modern equipment and amenities such as children's playpens, breastfeeding stations and elevators. They are also equipped with CCTV cameras in multiple strategic locations to guarantee a carefree trip for the passengers. Majority of these Ro-Ro ships were funded by PBB.

"When we began in 1995, sea transport back then was not as reliable and efficient. It was the old-style shipping— ships were not leaving on time, customer service was not that good, and safety was not a priority. So, there was an opportunity for Starlite Ferries to fill in the void," recalled Starlite Ferries President Francis S. Cusi.

Starting with its first ship named Starlite Ferry, which is in service to this day, the company has continued to build on three principles —adherence to ship departure schedules, keeping the vessels clean and safe, and excellent customer service. This formula, Mr. Cusi said, is what got Starlite Ferries through its more than two decades of existence. In keeping it afloat in previous years, however, several challenges had to be dealt with, number one of which was in terms of buying vessels.

"It was a challenge since we were only limited to buying second-hand ships from Japan. Back then, cost was really high and we were not much of a developed country. We could not afford to buy brand-new ships at that time. So that was the main challenge," said Mr. Cusi. Second-hand Japan—made ships according to him are designed for calm seas, making them unsuitable for the Philippine rough waters.

Revolutionizing the country's Ro-Ro industry has thus become Starlite Ferries's goal, he added. PBB, for its part, has been an indispensable partner of the company in realizing it.

Our Success Stories

"PBB is very supportive. They see the value in investing in brand-new ships. It is not just a business venture. There is also a sense of fulfillment in helping the Filipino community, the Mindorenos, the people from Batangas, and eventually the whole Philippines. It is what made us choose PBB. They also believe in our values," he said, adding that he himself witnessed this when they, along with some people from PBB, went to Japan in the inauguration of their first PBB-financed brand-new Ro-Ro vessel.

"They were very active. It was not just simple investment from them. They were pretty much very willing also to learn, to see the progress because they were also excited that we would be bringing a brand-new ship. It was the first in the Philippines. So we also felt their excitement at that time and we shared that experience with them," Mr. Cusi said.

Asked about his company's plans, Mr. Cusi said that Starlite Ferries intends to expand its shipping business to the entire Philippines. It also looks forward to tapping into other industries as well, still with PBB's support.

"We are very confident in investing with PBB. As its client, of course we like to see them very stable, very steady in their growth. Because as they grow, we will grow along with them and that will open more opportunities for us also in the near future," he said.

He is very much thankful for PBB's investment in Starlite Ferries, saying that the riding public likewise appreciates the brand-new ships. "People all over the Philippines are actually clamoring for Starlite to deploy in different routes. And hopefully in the coming years, there would be more ships to come."

A Solid Partnership

FTC GROUP OF COMPANIES

At the helm of the Davao-based firm FTC Group of Companies is Ian Y. Cruz, president and chief executive officer (CEO). He is the mastermind behind the 33-storey Aeon Towers, also known as Davao City's tallest and most modern structure yet. The ambitious feat may have earned him a few raised eyebrows but he believes that through sheer determination and perseverance, nothing is impossible.

"We wanted to prove them wrong. That Davao is now ready to have the Aeon Towers," Mr. Cruz mentioned in an interview.

Aiming to break away from the traditional property development practices in Mindanao, it is perhaps surprising to know that the FTC Group of Companies did not have any roots on the property segment as they are fairly new to the real estate business.

"Our family is part of a very diversified business in Davao City. We were never in the real estate trade until I fantasized and focused on it," he shared. Upon the construction of the FTC Tower, the conglomerate's initial real estate project, the FTC Group of Companies, ventured in the hospitality industry among others. The said mixed-use development offers a dormitel, office spaces, as well as medical facilities through the La Vie Dialysis Center.

This eventually opened the company's doors to the birth of Aeon Towers, a "smart" condominium equipped with a four-star hotel and commercial areas. The high-rise property is said to have been garnering sales from domestic and foreign clients, apart from Overseas Filipino Workers that see the project as a high-yield investment or a valuable property asset.

According to Mr. Cruz, the Aeon Towers provides commercial space at the ground levels, hotels in the middle floors, and residential areas in the higher parts. The Aeon Towers likewise includes amenities such as an infinity pool that is situated at the topmost floor, which was inspired by Singapore's Marina Bay Sands, a gym and spa, kiddie pool areas, jogging paths, function rooms, meeting rooms, and conference halls.

"PBB IS A DREAM FINANCIAL PARTNER. THE BANK IS OUR BEST FRIEND."

Its expected turnover to clients is in December 2017.

The head honcho then shared that 95% of Aeon Towers' units are currently sold out. "We are very happy. Everybody is loving it and saying we are doing a good job. The market is reacting positively to it and we are looking forward to building Tower 2 in the future," noted Mr. Cruz.

In spite of that, none of these would have been achievable without FTC Group of Companies' solid partnership with Philippine Business Bank (PBB). Mr. Cruz recalled that they were first approached by PBB to express their interest in future collaborations.

"The meeting with PBB president and CEO Rolando R. Avante was very successful. PBB understood what the FTC Group of Companies needed from a financial institute. We discussed on several opportunities and the positive side, moving forward to help us build the Aeon Towers," said Mr. Cruz.

"As a first timer in the real estate business, the difficulty is finding a financial institution to fund our project. It's usually the challenge of new developers like us. But after we have talked to PBB, especially with the help of Mr. Avante, everything has been going well and is moving faster. They see the FTC Group of Companies as a firm that's sincere to its projects and dreams," he added.

He also shared that the partnership between the two companies is nothing short of "fantastic" as PBB is always there to assist them with their needs. "It is a real blessing that PBB has approached us because after that, everything became a reality. Without the help of PBB, I think this will not happen. Our dreams will not happen," Mr. Cruz added.

Besides that, Mr. Cruz stated that PBB goes beyond a regular bank's standard service, extending their facilities even on weekends if needed.

Mr. Cruz was all praises for PBB saying, "We are looking forward to a more fruitful relationship and partnership with PBB especially now that we are growing as a company."

He recalled that the FTC Group of Companies' most memorable moment with PBB was when they had signed the partnership agreement with the said thrift bank to put up the Aeon Towers project. "That day, we said to ourselves that we really had someone to lean on for this project."

"PBB is a dream financial partner. The bank is our best friend," he said."

Branch of the Year
Grace Park, Caloocan

It is surprising how many people will put their money in just any bank. All banks are not created equal, and let's just say that some have proven more solvent than others.

The 21st century has brought various opportunities and challenges in the banking sector particularly in the branches with the convergence of multi-generational workforce. This phenomenon created a specific need for managers to be a lot more than just "task masters" but a profession on its own that is accountable for the outputs of others through all means necessary, whether the straightforward direction-setting delegation to the hazier forms of motivating by mentoring and influencing.

Great banks understand their clients and their markets extraordinarily well. They know what their customers want, and they create a value proposition that makes their customers both happy and loyal. This has been the mantra of Grace Park, Caloocan Branch headed by Ms. Merle C. Singson that made their branch the number one branch for 2016.

Only a toddler in PBB family, Grace Park, Caloocan Branch was inaugurated on September 2013, yet where other branches would just hit break-even on its third year, Grace Park Branch exceeded the set targets in terms of deposits, loans, investments, customer satisfaction and office workspace. Though, office cleanliness was never part of the criteria of becoming the branch of the year, it is just worth mentioning.

An office workspace can be helpful or harmful in doing business. Naturally, the office is the main environment for work. The core job of the Branch Head is to create the space where people can do incredible work and in that perspective, the office becomes a huge part of the job.

Grace Park Branch is PBB's branch of the year because of their set of motivations and values. They see their role as one that can catalyze the development of sustainability by acting alongside their clients – the entrepreneurs and depositors – whose interests they are responsible for balancing in a healthy way.

Grace Park Branch is located at 249 Rizal Ave., Extension, corner 7th Avenue, Grace Park, Caloocan City.

Products & Services

Savings Account

- Minimum initial deposit/Placement: P1,000.00
- Minimum maintaining balance to earn interest: P1,000.00
- Interest rate: .25% p.a.
- Easy monitoring thru a passbook

Checking Account

- Minimum Initial Deposit/Placement:
  P2,000.00 (individual)
  P5,000.00 (corporate)
- Maintaining balance: P2,000.00 (individual)
  P5,000.00 (corporate)
- Non-interest bearing

Automatic Transfer Account (ATA)

- Minimum Initial Deposit/Placement: P2,000.00 (SA) P5,000.00 (CA)
- Minimum maintaining balance to earn interest: P2,000.00 (Savings)
- Interest rate: .25% p.a. for S/A
- Interest crediting: quarterly for S/A

Payroll Account

- Minimum Initial Deposit/Placement:
  P100.00 (Savings) P100.00 (Checking)
  Mother Account -Checking: P50,000.00 + (1,000.00 x No. of Employees)
- Maintaining balance: P100.00 (Savings)
  P100.00 (Checking)
  Mother Account -Checking: P50,000.00+ (1,000.00 x No. of Employees)
- Minimum maintaining balance to earn interest: P1,000.00 (Savings)
- Interest rate: .25% p.a. (Savings)
- Interest crediting: quarterly (Savings)

CASA (ATA) (Auto-Transfer)

Individual:

- Minimum Initial Deposit/Placement:
  P2,000.00 (SA)
  P5,000.00 (CA)
- Minimum maintaining balance to earn interest: P2,000.00 (Savings)
- Interest rate: .25% p.a. for S/A
- Interest crediting: quarterly for S/A

Corporate:

- Minimum Initial Deposit/Placement:
  P5,000.00 (SA)
  P10,000.00 (CA)
- Minimum maintaining balance to earn interest: P5,000.00 (Savings)
- Interest rate: .25% p.a. for S/A
- Interest crediting: quarterly for S/A
- Daily transactions recorded in Passbook/ Bank Statement

Campus Savers

- Minimum Initial Deposit/Placement: P100.00
- Maintaining balance: P100.00
- Minimum maintaining balance to earn interest: P500.00
- Interest rate: .25% p.a.
- Interest crediting: quarterly
- Easy monitoring thru a passbook
- Open to all students from elementary to college

Time Deposit

- Minimum Initial Deposit/Placement: P1,000.00
- Minimum maintaining balance to earn interest: P1,000.00
- Interest rate: pre-determined based on the amount and term of placement
- Term of Deposit/Placement: 30 to 360 days
- Interest crediting: at maturity
- Transaction Records: Certificate of Time Deposit

Hi-Green Funds

- Minimum Initial Deposit/Placement: $20,000.00
- Maintaining balance: $20,000.00
- Minimum maintaining balance to earn interest: $20,000.00
- Interest rate: pre-determined based on the amount and term of placement
- Term of Deposit/Placement: 6 months
- Interest crediting: at maturity
- Transaction Records: Certificate of Time Deposit

Hi-5 TD

- Minimum Initial Deposit/Placement: P50,000.00
- Minimum maintaining balance to earn interest: P50,000.00
- Interest rate: pre-determined based on the amount and term of placement
- Term of Deposit/Placement: 5 years+1 day
- Interest crediting: monthly
- Transaction Records: Certificate of Time Deposit

Products and Services

FCDU Savings

Individual:

- Minimum Initial Deposit/Placement: $100.00
- Maintaining balance: $100.00
- Minimum maintaining balance to earn interest: $500.00
- Interest rate: .25% p.a.
- Interest crediting: quarterly

Corporation:

- Minimum Initial Deposit/Placement: $500.00
- Maintaining balance: $500.00
- Minimum maintaining balance to earn interest: $500.00
- Interest rate: .25% p.a.
- Interest crediting: quarterly
- Easy monitoring thru a passbook

FCDU Time Deposit

- Minimum Initial Deposit/Placement: $1,000.00
- Minimum maintaining balance to earn interest: $1,000.00
- Interest rate: pre-determined based on the amount and term of placement
- Term of Deposit/Placement: 30.60.90.180 days
- Interest crediting: at maturity
- Transaction Records: Certificate of Time Deposit

Commercial, Industrial and Developmental Loans

- Bills Purchase
- Term Loan
- Omnibus Line
- Discounting Line
- Trade Finance
  - Import LC Opening
  - Negotiation / DP / DA / Transaction
  - Domestic LC Opening
  - Export LC Advising / Negotiation
  - Issuance of Credit Line Certification
  - Issuance of Bank Guarantee

- Agricultural Loans
- Specialized Lending Facilities for SMEs
  - DBP IGLF and ISSEP II Programs
  - SSS Developmental Loans
- Floor Stock / Inventory Financing
- Contract to Sell (CTS) Financing Facilities

Consumer Loans

- Auto Loan / Bus & Taxi Loan
- Salary Loan
- Housing Loan

Trust Products and Services

- PBB Diamond Fund – a UITF
- Living Trust
- Employee Benefit Plans Under Trust
- Trustee of Pre-Need Plans
- Escrow Agency
- Mortgage Trust
- Investment Management Arrangement / Personal or Corporate

Other Business Services

- Remittance Services
  - Mail & Telegraphic Transfers (Domestic & International)
  - Western Union Money Transfer
  - Money Movers
- Local Payment Orders
  - Manager's Check/ Gift Check/ Demand Draft
- Foreign Drafts
- Safety Deposit Box Facilities
- Night Depository Box (available at selected branches* The Fort, Calamba, Batangas City)
- Group Payroll Services
- Bills Payment/ Collection Services
- SSSPayments / PhilHealth

Our Branches

METRO MANILA

A. Mabini - C3
Adriatico - Malate
Banawe
Banawe - Kaliraya
Better Living Parañaque
Binondo Corporate Center
Bonifacio Global City
Camarin
Carmen Planas
Commonwealth
Conception - Marikina
Congressional Avenue - Quezon City Branch
Cubao
Del Monte
Edsa - Caloocan Business Center
Edsa - Monumento
Elcano
Grace Park
Greenhills
Jose Abad Santos
Kamias - Anonas
Karuhatan - Malinta
Kaybiga
Las Piñas
Legaspi Village - Makati
Madrigal Business Park
Main Office (Caloocan)
Makati
Malabon
Malabon Rizal
Mandaluyong
Marikina
Muntinlupa
Navotas
Novaliches
Ortigas
Pasay
Pasay - Malibay
Pasig Blvd - Kapitolyo
Paso De Blas
Paterno - Quiapo
Pedro Gil - Paco
Quintin Paredes
Retiro
Roosevelt
Salcedo Village - Makati
Samson Road
Sucat Parañaque Branch
The Fort
Timog Rotonda
Valenzuela
West Avenue

PROVINCIAL

Angeles
Antipolo
Antipolo - Masinag
Bacolod
Baguio City
Balanga
Baliuag
Batangas
Benguet - La Trinidad
Binakayan
Biñan Laguna
Bocaue
Boracay
Butuan
Cabanatuan
Cagayan De Oro
Cagayan De Oro - Cogon
Cainta
Calamba
Calapan
Candon - Ilocos Sur
Carmona - Cavite
Cauayan, Isabela
Cebu - Banilad
Cebu City - Consolacion
Cebu City - Downtown
Cebu - Escario
Cebu City - Talisay
Dagupan
Dasmariñas - Cavite
Davao - Bajada
Davao - Lanang
Davao - C.M. Recto
Davao - Panabo
Davao - Sales
Davao - Toril
Dipolog City
Dumaguete Branch
Gapan City
General Santos City
General Santos - Santiago Blvd.
General Tinio
Iligan
Iloilo
Imus
Iriga - Camarines Sur
Kalibo
Kawit
La Union
Laoag
Lapu-Lapu City
Legazpi City
Lipa City
Lucena City
Malolos
Mandaue
Meycauayan
Molino, Bacoor
Muzon
Naga
Olongapo
Ortigas Ave. Ext. - Cainta
Ozamis City
Panabo, Davao
Pangasinan - Lingayen
Paniqui - Tarlac
Puerto Princesa, Palawan
Roxas City
San Fernando
San Pablo
San Pedro - Laguna
Santiago, Isabela
SBMA - Subic
Sorsogon
Sta. Maria, Bulacan
Sta. Rosa, Laguna
Surigao
Tacloban
Tagbilaran
Tagum City, Davao
Tanauan
Tarlac
Taytay
Trece Martires - Cavite
Tuguegarao
Urdaneta
Vigan
Zamboanga

Our Branches

METRO MANILA BRANCHES

A. Mabini - C3
200 A. Mabini St., Maypajo,
Caloocan City
Phone: (632) 287-8895; 287-6621
Fax: (632) 288-1249

Adriatico - Malate
G/F Hostel 1632
Adriatico Street, Malate, Manila
Phone: (632) 353- 3258; 450-1482
Fax: (632) 353-3262

Banawe
Unit 5-7 Solmac Bldg., 84 Dapitan
cor. Banawe St., Sta. Mesa
Heights, Quezon City
Phone: (632) 410-8350;
708-5810; 410-9019
Fax: (632) 410-8656

Banawe Kaliraya
Motorex Philippines, Inc. Building
148 Banawe cor. Kaliraya St.,
Brgy. Tatalon, Quezon City
Phone: (632) 448-6613;
711-0918; 711-1015
Fax: (632) 711-0918

Better Living - Parañaque
156 Doña Soledad Ave.,
Better Living Subdivision
Brgy. Don Bosco, Parañaque City
Phone: (632) 846-8727; 975-9901
Fax: (632) 846-8163

Binondo Corporate Center
1126 Soler St., Binondo, Manila
Phone: (632) 242-0601;
242-7927; 310-3785
Fax: (632) 310-3784

Bonifacio Global City
Stall CS 152 and 153
MC Home Depot
32nd St. corner Bonifacio Blvd.,
Bonifacio Global City, Taguig
Phone: (632) 831-8127; 507-2325
Fax: (632) 831-9971

Camarin
Zabarte Town Center 588
Camarin Road cor. Zabarte Road,
North Caloocan City
Phone: (632) 962-0232;
962-0160; 962-0627
Fax: (632) 962-0160

Carmen Planas
869 Carmen Planas St.,
Binondo, Manila
Phone: (632) 245-5066;
245-5083; 522-7972
Fax: (632) 245-5226

Commonwealth
G/F Datamex - College of
St. Adeline Commonwealth Ave.,
East Fairview Park Subdivision,
Quezon City
Phone: (632) 376-9477; 428-7104
Fax: (632) 376-2358

Concepcion - Marikina
Bayan-Bayanan Ave.,
Concepcion Uno, Marikina City
Phone: (632) 955-6172; 948-5688
Fax: (632) 948-4213

Congressional Avenue - Quezon City Branch
No. 622 Congressional Ave.,
Barangay Bahay Toro,
Quezon City
Phone: (632) 921-2919; 921-2932
Fax: (632) 453-7242

Cubao
Units D, E & F Timbol Bldg.,
915 Aurora Blvd., Cubao, Quezon City
Phone: (632) 709-3649; 709-3695
Fax: (632) 438-9966

Del Monte
284-286 Del Monte Ave.,
Quezon City
Phone: (632) 708-5801;
749-9103; 414-2726
Fax: (632) 749-9103

EDSA - Caloocan Business Center
574 Epifanio delos Santos,
EDSA Highway, Caloocan City
Phone: (632) 363-2493; 363-0105
Fax: (632) 363-1635

EDSA Monumento
261 EDSA Highway, Barangay 85,
Zone 8, Caloocan City
Phone: (632) 949-8673; 294-1837
Fax: (632) 294-1830

Elcano
730 Elcano St., Binondo, Manila
Phone: (632) 241-9824; 241-5629
Fax: (632) 241-4287

Grace Park
249 Rizal Ave. Extension
corner 7th Ave., Grace Park,
Caloocan City
Phone: (632) 361-1004;
361-0941; 577-6536
Fax: (632) 361-0941

Greenhills
G/F LGI Building, Ortigas Ave.,
Barangay Greenhills, San Juan
Phone: (632) 234-9018; 576-8365
Fax: (632) 234-9016

Jose Abad Santos
1737-1739 Jose Abad Santos
Tondo, Manila
Phone: (632) 230-2340;
230-4033; 964-8216
Fax: (632) 230-4099

Kamias - Anonas
G/F Armon's Building
142 Kamias Road cor. Anonas St.,
Quezon City
Phone: (632) 366-6874; 434-1491
Fax: (632) 366-6876

Karuhatan - Malinta
G/F MS Apartelle Building
415 McArthur Highway
Dalandanan, Valenzuela City
Phone: (632) 282-0231; 2833348

Kaybiga
Guillmar Marble Corporation Bldg.,
#297 General Luis St., Kaybiga,
Caloocan City
Phone: (632) 352-7872; 417-0165
Fax: (632) 352-7791

Las Piñas
Unit 1 & 2 G/F
San Beda Commercial
Zapote Alabang Road, Las Piñas
Phone: (632) 874-7966;
808-7292; 871-0092
Fax: (632) 875-0589

Legaspi Village - Makati
Sunrice Terraces, 100 Perea St.,
Legaspi Village
Barangay San Lorenzo,
Makati City
Phone: (632) 551-2416;
551-2419; 310-5929
Fax: (632) 551-2416

Madrigal Business Park
Unit 102 G/F Corporate Center
1906 Finance Drive, Madrigal
Business Park, Muntinlupa City
Phone: (632) 822-6646; 822-6716
Fax: (632) 822-2706

Main Office (Caloocan)
350 Rizal Ave. Ext. corner
8th Ave. Grace Park,
Caloocan City
Phone: (632) 363-3333
Fax: (632) 363-0291

Makati
137 Yakal Street, Makati City
Phone: (632) 892-6768;
817-5720; 892-8498
Fax: (632) 812-4755

Malabon
155 Governor Pascual Ave.,
Malabon City
Phone: (632) 288-0078; 446-3444
Fax: (632) 287-7873

Malabon Rizal
726 Rizal Avenue
Barangay Tañong, Malabon City
Phone: (632) 447-6044;
376-1434; 376-1433
Fax: (632) 447-6044

Mandaluyong
Unit I Facilities Centre
Shaw Blvd., Mandaluyong City
Phone: (632) 470-3244; 718-0103
Fax: (632) 531-3537

Marikina
306 J.P. Rizal St., Sta. Elena,
Marikina City
Phone: (632) 646-5864; 933-3109
Fax: (632) 646-6294

Muntinlupa
G/F Units 1 and 2
#50 National Road,
Putatan, Muntinlupa City
Phone: (632) 798-0284;
511-7354; 987-2220
Fax: (632) 551-0010

Navotas
G/F Teresita Bldg., North Bay Blvd.,
Navotas City
Phone: (632) 355-4143;
355-4159; 383-1410
Fax: (632) 355-4574

Novaliches
Krystle Bldg., 858 Quirino Highway,
Novaliches, Quezon City
Phone: (632) 936-3467; 938-4038
Fax: (632) 418-3132

Ortigas
E Prime 24-A
CW Home Depot- Ortigas,
#1 Doña Julia Vargas Ave. corner
Meralco Ave., Barangay Ugong,
Pasig City
Phone: (632) 503-3468; 656-2461
Fax: (632) 656-3303

Pasay
2241 C.K. Sy Bldg., Taft Ave.,
Pasay City
Phone: (632) 551-5830;
836-7108; 836-7109
Fax: (632) 551-5833

Pasay - Malibay
Unit E, J&B Building
641 Epifanio delos Santos Ave.
(EDSA), Malibay, Pasay City
Phone: (632) 622-8158;
403-3231; 403-2386
Fax: (632) 843-1172

Our Branches

Pasig Blvd - Kapitolyo
G/F Unit 4 Elements on
Rosemarie Bldg., Pasig Blvd.
corner Rosemarie Street,
Pasig City
Phone: (632) 234-0607; 446-0183
Fax: (632) 234-0608

Paso de Blas
Paso de Blas Road cor.
P. Santiago St.,
Barangay Paso de Blas,
Valenzuela City
Phone: (632) 292-4136; 292-3575
Fax: (632) 293-1933

Paterno - Quiapo
707 Paterno St., Barangay 307,
Quiapo, Manila
Phone: (632) 354-9670; 310-5217
Fax: (632) 354-9695

Pedro Gil - Paco
1077 Pedro Gil St., Paco, Manila
Phone: (632) 498-1952; 354-5141
Fax: (632) 354-3239

Quintin Paredes
G/F Downtown Center Bldg.,
Quintin Paredes St.,
Binondo, Manila
Phone: (632) 522-8039; 522-0871
Fax: (632) 241-7123

Retiro
No. 84 Units A & B N.S.
Amorante Ave., Brgy. Salvacion,
La Loma, Quezon City
Phone: (632) 625-8213;
711-2175; 711-2538
Fax: (632) 363-0291

Roosevelt
Sun Square Bldg.,
323 Roosevelt Ave.,
Brgy. San Antonio,
San Francisco Del Monte,
Quezon City
Phone: (632) 376-1135;
376-1426; 411-6345
Fax: (632) 411-6345

Salcedo Village - Makati
Unit GDA-1, LPL Center,
130 L.P. Leviste St.,
Salcedo Village, Makati City
Phone: (632) 550-2482;
621-9220; 550-2482
Fax: (632) 550-2480

Samson Road
117 D & E Samson Road,
Caloocan City
Phone: (632) 310-9068; 332-8506
Fax: (632) 332-9495

Sucat Parañaque
Unit B-10-A JAKA Plaza Mall
A. Santos Ave., Sucat,
Parañaque City
Phone: (632) 552-2548; 501-6247
Fax: (632) 552-2547

The Fort
Units 104-105 Forbeswood Towers,
Forbestown Center Rizal Ave.,
cor. Burgos Circle,
Bonifacio Global City, Taguig City
Phone: (632) 856-6653; 856-6654
Fax: (632) 856-6652

Timog Rotonda
A.A. Tanco Bldg.
#55 Timog Avenue cor.
Tomas Morato Ave.,
Brgy. South Triangle, Quezon City
Phone: (632) 441-0895; 950-6003
Fax: (632) 376-9530

Valenzuela
215 McArthur Highway,
Karuhatan, Valenzuela City
Phone: (632) 443-8113;
443-8118; 292-3296
Fax: (632) 443-9030

West Avenue
Unit 102, West Ave. Strip,
53 West Ave., Brgy. Paltok,
Quezon City
Phone: (632) 709-7109
Fax: (632) 411-0355

PROVINCIAL

Angeles
Lot 5 Blk 1 McArthur Highway,
Angeles City
Phone: (045) 626-2088 to 89;
888-7205
Fax: (045) 626-2087

Antipolo
Units 3 & 4 Megathon Bldg.
Circumferential Road,
Brgy. San Roque, Antipolo City
Phone: (632) 697-3051 or 54;
630-5186
Fax: (632) 697-3018

Antipolo - Masinag
Unit 104 G/F Rikland Centre,
Marcos Highway, Mayamot,
Antipolo City
Phone: (632) 654-6654 ; 250-2135
Fax: (632) 654-6034

Bacolod
Philamlife Bacolod Bldg., Lacson St.,
cor. Galo Street, Bacolod City
Phone: (034) 435-5745;
435-5734; 435-5683
Fax: (034) 435-5744

Baguio City
G/F CTTL Bldg. Abanao Ext.,
Baguio City
Phone: (074) 447-2692; 447-2694
Fax: (074) 447-2693

Balanga
Don Manuel Banzon Ave.
Balanga City, Bataan
Phone: (047) 237-1137; 237-1136
Fax: (047) 300-0283 / 300-8204

Baliuag
B.S. Aquino Ave. Bagong Nayon
Baliwag, Bulacan
Phone: (044) 673-5216; 673-5452
Fax: (044) 766-3485

Batangas
Cifra Plaza, No. 114 Rizal Ave.
corner P. Zamora Street,
Barangay 16, Batangas City
Phone: (043) 702-2385;
702-1182; 702-1162
Fax: (043) 425-0053

Benguet - La Trinidad
KM 5, La Trinidad, Benguet
Phone: (074) 422-97-94;
422-9792; 422-9793
Fax: (074) 422-9794

Binakayan
Tirona Highway, Binakayan
Kawit, Cavite
Phone: (046) 434-7455; 434-9009

Biñan Laguna
G/F S.A.P. Building
5230 National Highway
Brgy. San Vicente,
Biñan City, Laguna
Phone: (049) 576-0209

Bocaue
McArthur Highway, Brgy. Wakas,
Bocaue, Bulacan
Phone: (044) 233-3615;
896-2440; 896-2596
Fax: (044) 248-6103

Boracay
Barangay Balabag,
Boracay Island, Malay, Aklan
Phone: (036) 663-0019; 506-3046
Fax: (036) 506-3051

Butuan
Montilla Boulevard cor.
T. Calo St., Butuan City,
Agusan Del Norte
Phone: (085) 815-0512; 815-0513
Fax: (085) 300-0293

Cabanatuan
Paco Roman St.,
Cabanatuan City, Nueva Ecija
Phone: (044) 940-1470;
464-7411; 464-7417
Fax: (044) 940-1491

Cagayan de Oro
Lapasan Highway corner
Camp Alagar,
Cagayan de Oro City
Phone: (088) 231-6680;
231-6682; 231-6683
Fax: (088) 231-6681

Cagayan de Oro - Cogon
ALLA Inc. Building, JR Borja St.,
(near corner Corrales Ave.)
Barangay 32, Cagayan De Oro City,
Misamis Oriental
Phone: (088) 323-1625;
880-2989; 323-1735
Fax: (088) 880-2990

Cainta
Unit B5 and B6, The Avenue,
Felix Ave., Cainta, Rizal
Phone: (632) 645-6631; 647-5622
Fax: (632) 681-1658

Calamba
G/F Unit 2 Kim-Kat Annex Bldg.,
National Highway, Brgy. Parian,
Calamba, Laguna
Phone: (049) 545-0980;
508-0059; 834-3283
Fax: (632) 420-820

Calapan
Ast Tolentino Building,
J.P. Rizal St.,
Brgy. San Vicente East,
Calapan City, Oriental Mindoro
Phone: (043) 743-0003;
459-0015; 459-0024
Fax: (043) 288-1082

Candon - Ilocos Sur
G/F BZ Building,
#15 National Highway,
Barangay San Isidro,
Candon City, Ilocos Sur
Phone: (077) 604-0171; 604-0172

Carmona - Cavite
Units F & G, Jupan C. Lim Building
Governor's Drive, Brgy. Bancal,
Carmona, Cavite
Phone: (046) 460-5706; 460-5708

Our Branches

Cauayan, Isabela
Maharlika Highway,
Brgy. San Fermin,
Cauayan City, Isabela
Phone: (078) 652-0293; 652-0294;
652-0301; 260-0032

Cebu - Banilad
A.S. Fortuna Street Banilad,
Mandaue City, Cebu
Phone: (032) 268-7340; 268-7347
Fax: (032) 268-7347

Cebu - Consolacion
Highway Consolacion
(fronting Cebu Home Builders)
Barangay Cansaga,
Consolacion, Cebu
Phone: (032) 236-3476; 236-4299
Fax: (032) 423-0514

Cebu City - Downtown
G/F Lianting Bldg.
130 F. Gonzales Street, Cebu City
Phone: (032) 253-2518;
255-6490; 255-6607
Fax: (032) 253-2366

Cebu - Escario
Unit G-08, Capitol Square,
Escario St., Cebu City
Phone: (032) 513-3209;
513-3259; 232-0145

Cebu City - Talisay
Door 3 Rosalie Building,
Gaisano Fiesta Mall, Tabunok,
Cebu South Road
(AKA Tabunok Highway),
Talisay City, Cebu
Phone: (032) 520-7852; 520-7853
Fax: (032) 505-9048

Dagupan
Rizal St., Dagupan City,
Pangasinan
Phone: (075) 523-4701;
523-4781; 516-2045
Fax: (075) 523-4732

Dasmariñas - Cavite
Unit G2 Annie's Plaza Dasma,
Barangay San Agustin I,
Dasmariñas City, Cavite
Phone: (046) 431-4926;
431-7368; 431-7854
Fax: (046) 431-7564

Davao - Bajada
G/F DCCCII Bldg., J.P. Laurel Ave.
Bajada, Davao City
Phone: (082) 222-5146;
300-4386; 222-2316
Fax: (082) 300-4385

Davao - Lanang
Fuji One Building, KM. 7,
Lanang, Davao City
Phone: (082) 234-2879;
234-2933; 305-4621
Fax: (082) 300-8876

Davao - C.M. Recto
JRL Building 107 C.M. Recto Ave.,
Brgy. 38-D, Davao City
Phone: (082) 224-3294; 224-3969

Davao - Panabo
Wharf Road, Brgy. Sto. Niño,
Poblacion, Panabo City,
Davao Del Norte
Phone: (084) 629-0060; 628-4005
Fax: (084) 629-0050

Davao - Sales
Door 7 & 8 JM Bldg.
Governor Sales St., Davao City
Phone: (082) 222-4281; 222-4452
Fax: (082) 224-4457

Davao - Toril
Gaisano Grand Mall Toril,
Unit 8B GL & GL 9, Saavedra St.,
Toril, Davao City
Phone: (082) 293-9005;
324-1472; 824-1480
Fax: (082) 285-9154

Dipolog City
No. 331 P. Burgos St.,
(near corner Rizal Ave.)
Dipolog City,
Zamboanga Del Norte
Phone: (065) 908-1576;
908-1700; 212-1424
Fax: (065) 212-1425

Dumaguete Branch
Ground Floor C&L Suites Inn,
485 Perdices Street cor.
Pinili Street, Brgy. Poblacion 3,
Dumaguete City
Phone: (035) 400-4800;
421-1474; 522-2709
Fax: (035) 522-2710

Gapan City
Tinio St., Brgy. San Vicente,
Gapan City, Nueva Ecija
Phone: (044) 486-1439;
486-2437; 486-0893

General Santos City
GSC Sun City Suites,
Sun City Complex
B-1-03 & B-1-04 National Highway
Lagao, General Santos City
Phone: (083) 301-6014;
301-6015; 552-0591
Fax: (083) 301-6014

General Santos - Santiago Blvd.
Santiago Boulevard,
Barangay Dadiangas South,
General Santos City
Phone: (083) 552-5712; 552-2209
Fax: (083) 552-2209

General Tinio
Poblacion Central (Papaya)
Gen. Tinio, Nueva Ecija
Phone: (044) 973-0468;
973-0598; 973-0716
Fax: (044) 973-0468

Iligan
Doromal Building, Quezon Ave.
Extension, Barangay Villaverde,
Iligan City
Phone: (063) 222-3971;
302-0107; 302-0074
Fax: (063) 222-4197

Iloilo
25 Quezon Street, Iloilo City
Phone: (033) 336-5250;
336-5933; 336-9086
Fax: (033) 336-9472

Imus
Aguinaldo Highway,
Tanzang Luma, Imus, Cavite
Phone: (046) 472-3663; 472-3664
Manila Line : (632) 875-1854
Fax: (046) 529-8630

Iriga - Camarines Sur
Sur Highway 1 coner Violeta St.,
San Miguel, lriga City
Phone: (054) 456-0528; 456-0665

Kalibo
Roxas Ave., Poblacion,
Kalibo City, Aklan
Phone: (036) 390-0040;
390-0039; 500-7253
Fax: (036) 390-0039

Kawit
Gregoria Street
Poblacion Kawit, Cavite
Phone: (046) 484-7614

La Union
G/F Virginia Bldg. Quezon Ave.,
corner Flores St.,
Dominion Bus Terminal,
National Highway,
San Fernando City, La Union
Phone: (072) 242-0350;
242-0210 ; 242-3836
Fax: (072) 242-0372

Laoag
G/F Laoag Allied Marketing Bldg.
Barangay 19, Rizal St., Laoag City
Phone: (077) 772-3027;
772-3042; 771-1523
Fax: (077) 772-3041

Lapu-Lapu City
G/F AMCO Building
M. L. Quezon National Road
Pajo, Lapu-Lapu City, Cebu
Phone: (032) 495-2831;
236-3018 ; 495-8231
Fax: (032) 238-8590

Legazpi City
D' Executive Building, Rizal St.,
Barangay Tinago,
Legazpi City, Albay
Phone: (052) 736-0011;
480-8595; 480-2815
Fax: (052) 736-0019

Lipa City
Units 1, 2, 3 & 4 Trinity Business
Center Ayala Highway,
Brgy. Balintawak, Lipa City
Phone: (043) 706-1310;
706-1312; 771-1523
Fax: (043) 455-1020

Lucena City
Quezon Ave., Lucena City
Phone: (042) 797-1839;
797-0528; 322-0086
Fax: (042) 797-1838

Malolos
G/F Unit 4 & 5 DJ Paradise Hotel
McArthur Highway Dakila,
Malolos City, Bulacan
Phone: (044) 794-6254;
896-0965; (0917) 558-4584
Fax: (044) 794-6254

Mandaue
Unit 1-2 Wireless Plaza Bldg.
H. Cortes Ave. cor. Highway Seno
Subangdaku, Mandaue City
Phone: (032) 345-4462;
345-1520; 345-5274
Fax: (032) 45-2657

Meycauayan
Medical Plaza Bldg.
McArthur Highway, Banga,
Meycauayan, Bulacan
Phone: (044) 840-4855; 769-6327
Fax: (044) 769-6329

Molino, Bacoor
SolaGrande Centre,
Molino Business Centre,
Molino Road, Molino 2,
Bacoor, Cavite
Phone: (046) 416-3821; 512-0386
Fax: (046) 416-3827

Our Branches

Muzon
807 Luwasan Muzon,
City of San Jose del Monte,
Bulacan
Phone: (044) 760-4703;
760-4709; 691-2141
Fax: (044) 760-4711

Naga
Unit C G/F CBD Plaza Hotel Ninoy
and Cory Ave., Central Business
District II Triangulo, Naga City
Phone: (054) 811-2816; 811-2854;
811-2193; 473-6303
Fax: (054) 473-6309

Olongapo
2420 Rizal Ave., Brgy. East
Bajac-Bajac, Olongapo City
Phone: (047) 222-9949;
222-9951; 222-9957
Fax: (047) 222-9950

Ortigas Ave. Ext. - Cainta
G/F Crosspoint Commercial Area,
Resta 2, Ortigas Ave. Ext.,
Cainta Junction, Brgy. Sto. Domingo,
Cainta, Rizal
Phone: (632) 941-4145

Ozamis City
G/F Insular Life Bldg.,
Don Anselmo Bernad Ave.
(National Highway) corner
Jose Abad Santos St.,
Ozamis City, Misamis Occidental
Phone: (088) 319-0308; 319-0309
Fax: (088) 545-0987

Pangasinan - Lingayen
17 Avenida Rizal West,
Barangay Poblacion, Lingayen,
Pangasinan
Phone: (075) 633-2880; 633-2879

Paniqui, Tarlac
G/F Unit 8, Green Field Building,
Zamora Street, Poblacion Sur,
Paniqui, Tarlac
Phone: (045) 606-1085

Puerto Princesa, Palawan
New Carlos Bldg.,
271 Rizal Ave., Central Business
District, Maningning,
Puerto Princesa City, Palawan
Phone: (048) 433-0151;
433-0060; 433-0049
Fax: (048) 433-0159

Roxas City
G/F SJS Building,
San Roque St., Ext., Barangay 8,
Roxas City, Capiz
Phone: (036) 620-3420; 620-3470
Fax: (036) 522-1980

San Fernando
G/F Hyatt Garden Bldg.
McArthur Highway, Dolores
City of San Fernando,
Pampanga
Phone: (045) 961-0524;
961-1854; 860-3858
Fax: (045) 961-0523

San Pablo
Lynderson Building,
Lopez Jaena St.,
San Pablo City, Laguna
Phone: (049) 300-0149; 521-1158
Fax: (049) 521-1121

San Pedro - Laguna
Alex Building, National Highway,
Barangay Poblacion,
San Pedro, Laguna
Phone: (632) 843-4099; 843-4098
Fax: (632) 808-7352

Santiago
City Road (near cor. Camacam St.)
Barangay Centro East,
Santiago, Isabela
Phone: (078) 305-3068;
258-0070; 258-0073
Fax: (078) 305-3079

SBMA - Subic
Unit 1-1 and 1-2 Subic Creative
Center Bldg., Lot C5A, Block C,
Manila Ave. cor. Dewey Ave.,
Subic Commercial and Light
Industrial Park, Central Business
District, Subic Bay Freeport Zone
Phone: (047) 250-3570; 250-3571

Sorsogon
Chiang Kai Shek School Building,
Magsaysay Avenue,
Sorsogon City
Phone: (056) 558-0010; 558-0011
Fax: (056) 421-6422

Sta. Maria
Angelica Bldg. Gov. F. Halili Ave.,
Bagbaguin, Sta. Maria,
Bulacan
Phone: (044) 641-2546;
815-3983; 288-2713
Fax: (632) 299-6326

Sta. Rosa
#100 Balibago located along
National Highway corner
Roque Lasaga Street, Balibago
Sta. Rosa Laguna
Phone: (049) 534-5622; 534-5624;
534-5627; 534-5629
Fax: (049) 837-2324

Surigao
Diez St., Barangay Taft,
Surigao City, Surigao Del Norte
Phone: (086) 310-0346

Tacloban
Zamora St., Tacloban City
Phone: (053) 526-0616;
832-0002; 832-0074
Fax: (053) 832-0065

Tagbilaran
EB Gallares Building,
C.P. Garcia Avenue,
Tagbilaran City, Bohol
Phone: (038) 411-0831;
411-0832; 411-0837
Fax: (038) 411-0832

Tagum City, Davao
Roxas St. corner Osmeña St.,
Tagum City, Davao
Phone: (084) 216-1724;
216-1725; 216-1726
Fax: (084) 216-1726

Tanauan
Jose P. Laurel Avenue,
Barangay Poblacion,
Tanauan City
Phone: (043) 702-7408; 700-7409
Fax: (043) 702-7407

Tarlac
Liwayway Bldg.,
F. Tañedo Street, Tarlac City
Phone: (045) 491-1353;
491-1350; 491-4795
Fax: (045) 491-1352

Taytay
Brgy. San Juan, Taytay, Rizal
Phone: (632) 234-2580; 218-3871
Fax: (632) 234-1899

Trece Martires - Cavite
VPG Building, Tanza-Trece
Martires Road, Brgy. San Agustin,
Trece Martires City, Cavite
Phone: (046) 416-7605; 416-7606

Tuguegarao
#6 Rizal St., Barangay 8,
Tuguegarao City
Phone: (078) 501-1049;
304-0243; 884-0496
Fax: (078) 844-0292

Urdaneta
Unit 1, The Pentagon - GNC Bldg.,
Mc Arthur Highway, Nancayasan,
Urdaneta, Pangasinan
Phone: (075) 568-5886;
568-1073; 656-2108; 656-3012
Fax: (075) 568-5876

Vigan
Luisa Trading Building,
Quezon Ave. cor. Salcedo St.,
Brgy. 3, Vigan City
Phone: (077) 673-0067;
250-2664; 250-2659
Fax: (077) 604-0282

Zamboanga
Wee Agro Bldg. Veterans Ave.,
Zamboanga City
Phone: (062) 310-0657;
955-2201; 955-1024
Fax: (062) 955-1047

OFFSITE ATMS

Baliuag - Ruay
Rugay Maternity Hospital
M. Cruz St., Sabang,
Baliuag, Bulacan

Colon - Cebu
V. Peliña Bldg., corner
Panganiban St. and Colon St.,
Cebu City

Domestic - Terminal 4
Check-in Area Terminal 4
(Old Domestic) Domestic Airport,
Pasay City

Lanang - Bajada
Jetti Bloomfields Compound,
Lanang Davao, City

Manna - Mall
Diversion Road, Pagdaraoan
San Fernando Zabarte,
La Union

Market Market
Fiesta Market ATM Center,
Market-Market,
Bonifacio Global City,
Taguig City

Mary Mount
Mary Mount Maternity and
Children Hospital,
Brgy. Camalig
Meycauayan, Bulacan

Molito
Madrigal Ave. corner
Alabang-Zapote Road
Brgy. Ayala Alabang
Muntinlupa City

NAIA Terminal 3
NAIA Terminal 3 Arrival Area
Pasay City

Corporate Social Responsibility

Blood Donation

The Blood Donation Activity in partnership with the Philippine National Red Cross – Caloocan Chapter, Feb. 10 to 12, 2016.

BALIK ESKUWELA 2016

On May 28, 2016, AMY Foundation Balik Eskuwela Project successfully pushed through in partnership with Brgy. 12, Zone 11 located in Caloocan City.

Over 100 selected indigent elementary and some high school students received their corresponding school supplies such as notebooks, papers, pencils, pens, crayons, and bags. The kids were very thankful and even expressed their excitement to go back to school and use their new school supplies.

PNU RECOGNITION PROGRAM 2016

Just like in the previous years, AMY Foundation was once again recognized and honored during the Philippine Normal University's Recognition Program for the Scholarship Donors held at the Main Auditorium, Geronimo Pecson Hall last March 2, 2016.

The certification of appreciation was duly received by the Coordinator for Volunteers, Ms. Luningning T. Ramos, on behalf of the Foundation.

AMY Foundation has been in partnership with PNU since 2007 in providing scholarships to the economically deprived but academically deserving students of the said school. Currently, AMY Foundation has ten (10) slots under its roster of scholars for PNU.

Corporate Social Responsibility

2016 AMY Foundation Christmas Party for the Indigent

It is the season to be jolly, and a time for the Annual AMY Foundation Christmas Party!

On December 16, 2016, officers, staff, and volunteers of AMY Foundation celebrated the Christmas Party for the indigent children in Brgy. 167 Silanganan, District I of Caloocan. The partner barangay was responsible for the logistics while the Foundation provided for the packed breakfast, toys and candies for over 100 indigent children residing in the said barangay.

Officers and volunteers of AMY Foundation

AMY Foundation Treasurer Ms. Leni G. Ecat with the children, happily holding their game prizes.

Executive Director / Project Coordinator Ms. Alice P. Rodil giving her Christmas Message to the children.

The program started with a prayer led by the Foundation Treasurer Ms. Arlene G. Ecat and was immediately followed by the opening remarks of Coordinator for Volunteers Ms. Luningning T. Ramos.

The kids excitedly participated in the party games prepared and administered by the active volunteers of the Foundation. Executive Director / Project Coordinator Ms. Alice P. Rodil gave an inspirational message before she led the distribution of toys and candy giveaways for all the kids. The children were all happy and even requested the Foundation to celebrate again the Christmas Party in their barangay for the next year.

This Christmas Party is being done annually by the Foundation and being held in different barangays within Caloocan and Metro Manila areas.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Philippine Business Bank, Inc.** (the Bank) is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the year ended **December 31, 2016,** in accordance with the prescribed financial reporting framework indicated therein, 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.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative to do so.

The Board of Directors is responsible for overseeing the Bank's financial reporting process.

The Board of Directors reviews and approves the financial statements, including the schedules attached therein, and submits the same to the stockholders.

Punongbayan & Araullo, the independent auditors appointed by the stockholders, has audited the fmancial statements of the Bank in accordance with Philippine Standards on Auditing, and in their report to the stockholders, have expressed their opinion on the fairness of presentation upon completion of such audit.

FRANCIS T. LEE
Chairman of the Board

ROLANDO R. AVANTE
President & CEO

ROSELLE M. BALTAZAR
COG Head & Assistant Controller

Signed this 31st day of March 201t7

REPORT OF INDEPENDENT AUDITORS

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Philippine Business Bank, Inc., A Savings Bank (the Bank), which comprise the statements of financial position as at December 31, 2016 and 2015, 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, 2016, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2016 and 2015, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2016 in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the Auditors' *Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audits of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

(a) Proper Measurement of Loans and Other Receivables

Description of the Matter

As of December 31, 2016, the loans and other receivables of the Bank amounted to P51,437,111,465, net of allowance for impairment of P1,233,668,289. Loans and other receivables were the most significant resources of the Bank as it represented 73% of the total resources. Under Philippine Accounting Standards (PAS) 39, *Financial Instruments: Recognition and Measurement,* an entity shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets measured at amortized cost (such as loans and other receivables) is impaired. The relevant accounting policies of the Bank in the measurement and impairment of financial assets are described in Note 2 to the financial statements. The Bank's management exercised significant judgment and used subjective estimates in determining when and how much to recognize as impairment loss on loans and other receivables. These judgment and estimates are set out in Note 3 to the financial statements. The management makes critical judgments on the credit risk rating classification of each borrower by considering their financial conditions, repayment performance, making industry analysis and assessing management quality. The management also makes significant estimates in individual impairment assessment by discounting estimated future cash flows at its original effective interest rate and in collective impairment assessment by using historical credit loss rates.

The materiality of the balance of loans and other receivables and the subjectivity of management's judgment and estimates in determining the related allowance for impairment are considered to be matters of significance to our audit.

The Bank's disclosures on the loans and other receivables and the related allowance for impairment and, the related credit risk are included in Notes 14 and 4 to the financial statements, respectively.

How the Matter was Addressed in the Audit

Our audit procedures to address the risk of material misstatement relating to the adequacy of the allowance for impairment on loans and other receivables, which was considered to be a significant risk, included:

- obtaining an understanding of the Bank's credit policy and loan impairment process;
- testing of controls over the approval, recording and monitoring of loans and other receivables, and calculating and recording of the allowance for impairment;
- checking and evaluating the methodologies, inputs and assumptions used by management whether it was in accordance with the individual and collective impairment assessments prescribed by PAS 39;

- evaluating the management's forecast of recoverable cash flows and valuation of collaterals on selected loans;
- for loan accounts assessed individually, recomputing the recoverable amount determined by the Bank and comparing it against the carrying value as of December 31, 2016; and,
- for loan accounts assessed collectively, assessing the reasonableness of credit loss rates through recomputation using the historical and current data of the Bank.

(b) Valuation of Financial Instruments

Description of the Matter

As of December 31, 2016, the financial assets of the Bank that were carried at fair value are composed of financial assets at fair value through profit or loss and available-for-sale securities amounting to P3,274,168,284 and P3,811,726,524, respectively. The fair valuation of these financial assets was a key area of focus in our audit due to the use of inputs from external sources [i.e. Philippine Dealing & Exchange Corp. (PDEx) and Bloomberg], in computing the market value of these financial assets.

The disclosures of the Bank on exposure to financial instruments valuation risk are included in Note 4 to the financial statements.

How the Matter was Addressed in the Audit

Our audit procedures, included among others, the following:

- evaluating whether fair value prices used were appropriate;
- testing the inputs by independently comparing such against reliable market sources, such as PDEx and Bloomberg; and,
- recomputing the fair values based on the inputs and comparing with the market values determined by the Bank.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Bank's Securities and Exchange Commission (SEC) Form 20-IS (Definitive Information Statement), SEC Form 17-A and the Annual Report for the year ended December 31, 2016, but does not include the financial statements and our auditors' report thereon. The SEC Form 20-IS, SEC Form 17-A and Annual Report for the year ended December 31, 2016 are expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRS, 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.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with PSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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, 2016 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 PFRS. 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.

The engagement partner on the audits resulting in this independent auditors' report is Leonardo D. Cuaresma, Jr.

PUNONGBAYAN & ARAULLO

By: Leonardo D. Cuaresma, Jr.
Partner

CPA Reg. No. 0058647
TIN 109-227-862
PTR No. 5908621, January 3, 2017, 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)

March 31, 2017

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015
(*Amounts in Philippine Pesos*)

	Notes	2016	2015
RESOURCES			
CASH AND OTHER CASH ITEMS	9	**P 1,098,616,524**	P 1,279,302,155
DUE FROM BANGKO SENTRAL NG PILIPINAS	9	**6,225,701,096**	7,672,637,783
DUE FROM OTHER BANKS	10	**1,633,340,396**	2,825,982,401
TRADING AND INVESTMENT SECURITIES			
At fair value through profit or loss	11	**3,274,168,284**	75,942,639
Available-for-sale	12	**3,811,726,524**	3,094,538,311
Held-to-maturity	13	**-**	5,948,727,495
LOANS AND OTHER RECEIVABLES - Net	14	**51,437,111,465**	41,737,830,222
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	15	**535,995,638**	562,634,722
INVESTMENT PROPERTIES - Net	16	**448,389,581**	675,770,624
OTHER RESOURCES - Net	17	**1,800,547,430**	1,708,795,604
TOTAL RESOURCES		**P 70,265,596,938**	P 65,582,161,956
LIABILITIES AND EQUITY			
DEPOSIT LIABILITIES	18		
Demand		**P 1,113,474,091**	P 2,318,743,667
Savings		**23,117,049,313**	19,346,525,011
Time		**34,677,237,336**	33,350,950,832
Total Deposit Liabilities		**58,907,760,740**	55,016,219,510
BILLS PAYABLE	19	**-**	956,250
ACCRUED EXPENSES AND OTHER LIABILITIES	20	**1,787,751,339**	2,095,433,359
Total Liabilities		**60,695,512,079**	57,112,609,119
EQUITY	21		
Capital stock		**5,984,584,370**	5,984,584,370
Additional paid-in capital		**1,998,396,816**	1,998,396,816
Surplus		**1,681,880,366**	1,092,456,161
Revaluation reserves		**(94,776,693)**	(605,884,510)
Total Equity		**9,570,084,859**	8,469,552,837
TOTAL LIABILITIES AND EQUITY		**P 70,265,596,938**	P 65,582,161,956

See Notes to Financial Statements.

STATEMENTS OF PROFIT OR LOSS
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(Amounts in Philippine Pesos)

	Notes	**2016**	2015	2014
INTEREST INCOME				
Loans and other receivables	14	**P 2,753,015,521**	P 2,646,100,805	P 2,366,883,969
Trading and investment securities	11, 12, 13	**347,450,912**	424,837,162	431,775,906
Due from Bangko Sentral ng Pilipinas and other banks	9, 10	**106,688,143**	69,705,482	37,236,220
		3,207,154,576	3,140,643,449	2,835,896,095
INTEREST EXPENSE				
Deposit liabilities	18	**734,334,592**	753,904,091	596,886,481
Bills payable	19	**12,786**	3,331,735	2,221,806
Others	23	**385,402**	1,082,509	1,508,448
		734,732,780	758,318,335	600,616,735
NET INTEREST INCOME		**2,472,421,796**	2,382,325,114	2,235,279,360
IMPAIRMENT LOSSES	14, 17	**157,043,157**	172,050,358	189,887,127
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		**2,315,378,639**	2,210,274,756	2,045,392,233
OTHER INCOME				
Trading gains - net	11, 12, 13	**335,383,026**	69,474,667	34,827,391
Service charges, fees and commissions		**151,446,102**	132,425,882	127,487,177
Miscellaneous - net	22	**84,734,375**	73,430,963	144,153,797
		571,563,503	275,331,512	306,468,365
OTHER EXPENSES				
Salaries and other employee benefits	23	**635,523,891**	543,446,728	479,552,337
Taxes and licenses	31	**354,104,708**	328,317,557	306,352,118
Occupancy	27	**274,470,716**	250,346,533	209,871,217
Depreciation and amortization	15, 16	**153,072,322**	137,495,289	122,622,015
Insurance		**139,095,054**	128,348,739	109,164,821
Management and other professional fees		**125,373,997**	93,426,123	88,896,599
Representation and entertainment		**34,865,345**	32,269,518	31,944,122
Miscellaneous	22	**295,973,454**	266,516,503	224,813,032
		2,012,479,487	1,780,166,990	1,573,216,261
PROFIT BEFORE TAX		**874,462,655**	705,439,278	778,644,337
TAX EXPENSE	25	**205,838,450**	203,297,274	242,439,233
NET PROFIT		**P 668,624,205**	P 502,142,004	P 536,205,104
Earnings Per Share				
Basic and Diluted	30	**P 1.10**	P 0.94	P 0.88

See Notes to Financial Statements.

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(Amounts in Philippine Pesos)

	Notes	2016	2015	2014
NET PROFIT		**P 668,624,205**	P 502,142,004	P 536,205,104
OTHER COMPREHENSIVE INCOME (LOSS)				
Item that will not be reclassified subsequently to profit or loss				
Remeasurements of post-employment defined benefit plan	23	**22,612,985**	3,715,322	(2,187,913)
Tax income (expense)	25	**(6,783,896)**	(1,114,597)	656,374
		15,829,089	2,600,725	(1,531,539)
Items that will be reclassified subsequently to profit or loss				
Fair value gains (losses) on available-for-sale securities during the year - net	12	**772,317,899**	(53,101,385)	124,563,684
Fair value losses (gains) reclassified to profit or loss	12	**(270,581,452)**	6,615,377	393,988,832
Amortization of fair value gains (losses) on reclassified securities	12, 13	**(6,457,719)**	(11,070,376)	4,986,463
		495,278,728	(57,556,384)	523,538,979
Other Comprehensive Income (Loss) - Net of Tax		**511,107,817**	(54,955,659)	522,007,440
TOTAL COMPREHENSIVE INCOME		**P 1,179,732,022**	P 447,186,345	P 1,058,212,544

See Notes to Financial Statements.

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
Amounts in Philippine Pesos

	Notes	Capital Stock		Additional Paid-in Capital	Surplus		Revaluation Reserves		
		Preferred Stock	Common Stock		Appropriated	Unappropriated	Unrealized Fair Value Losses on Available-for-sale Securities	Accumulated Actuarial Losses	Total Equity
BALANCE AS OF JANUARY 1, 2016		P 620,000,000	P 5,364,584,370	P 1,998,396,816	P 4,799,387	P 1,087,656,774	(P 577,298,405)	(P 28,586,105)	P 8,469,552,837
Appropriation for trust reserves	21	-	-	-	1,190,165	(1,190,165)	-	-	-
Cash dividends	21	-	-	-	-	(79,200,000)	-	-	(79,200,000)
Total comprehensive income w	12, 23, 25	-	-	-	-	668,624,205	495,278,728	15,829,089	1,179,732,022
BALANCE AS OF DECEMBER 31, 2016		**P 620,000,000**	**P 5,364,584,370**	**P 1,998,396,816**	**P 5,989,552**	**P 1,675,890,814**	**(P 82,019,677)**	**(P 12,757,016)**	**P 9,570,084,859**
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	21	-	1,072,916,870	-	-	(1,072,916,870)	-	-	-
Appropriation for trust reserves	21	-	-	-	1,387,487	(1,387,487)	-	-	-
Total comprehensive income loss	12, 23, 25	-	-	-	-	502,142,004	(57,556,384)	2,600,725	447,186,345
BALANCE AS OF DECEMBER 31, 2015		P 620,000,000	P 5,364,584,370	P 1,998,396,816	P 4,799,387	P 1,087,656,774	(P 577,298,405)	(P 28,586,105)	P 8,469,552,837
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	21	-	858,333,500	-	-	(858,333,500)	-	-	-
Cash dividends	21	-	-	-	-	(62,325,000)	-	-	(62,325,000)
Appropriation for trust reserves	21	-	-	-	1,647,698	(1,647,698)	-	-	-
Total comprehensive income (loss)	12, 23, 25	-	-	-	-	536,205,104	523,538,979	(1,531,539)	1,058,212,544
BALANCE AS OF DECEMBER 31, 2014		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

See Notes to Financial Statements.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(Amounts in Philippine Pesos)

	Notes	2016	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		**P 874,462,655**	P 705,439,278	P 778,644,337
Adjustments for:				
Gain on sale of available-for-sale (AFS) securities		**(323,546,622)**	(58,211,032)	(16,408,262)
Impairment losses	14, 17	**157,043,157**	172,050,358	189,887,127
Depreciation and amortization	15, 16	**153,072,322**	137,495,289	122,622,015
Gain on sale of properties - net	22	**(14,957,797)**	(15,028,632)	(27,801,013)
Loss (gain) on foreclosure - net	22	**-**	2,480,845	(87,676,870)
Operating profit before working capital changes		**846,073,715**	944,226,106	959,267,334
Decrease (increase) in financial assets at fair value through profit or loss		**(3,198,225,645)**	95,949,165	745,739,073
Increase in loans and other receivables		**(10,292,691,231)**	(1,811,234,055)	(9,327,174,393)
Increase in other resources		**(114,557,645)**	(459,404,376)	(30,923,718)
Increase in deposit liabilities		**3,735,627,968**	8,396,811,884	8,737,396,882
Increase (decrease) in accrued expenses and other liabilities		**(489,921,837)**	(879,949,701)	745,196,586
Cash generated from (used in) operations		**(9,513,694,675)**	6,286,399,023	1,829,501,764
Cash paid for income taxes		**(223,708,542)**	(185,189,537)	(177,589,674)
Net Cash From (Used in) Operating Activities		**(9,737,403,217)**	6,101,209,486	1,651,912,090
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale of AFS securities		**9,013,850,949**	896,760,480	1,552,254,682
Acquisition of AFS securities	12	**(1,844,594,612**	(2,274,907,422)	(443,590,778)
Proceeds from sale of investment and other properties	16, 17	**422,360,427**	55,820,368	128,723,649
Payments for business combination	17	**(223,539,299)**	(275,104,857)	(15,000,000)
Acquisition of bank premises, furniture, fixtures and equipment	15	**(142,983,302)**	(178,055,371)	(149,373,100)
Proceeds from sale of bank premises, furniture, fixtures and equipment	15	**33,672,003**	6,236,962	268,663
Net Cash From (Used In) Investing Activities		**7,258,766,166**	(1,769,249,840)	1,073,283,116
CASH FLOWS FROM FINANCING ACTIVITIES				
Net availments (settlements) of bills payable		**(956,250)**	(308,565,602)	115,594,051
Payment of cash dividends	21	**-**	-	(62,325,000)
Net Cash From (Used In) Financing Activities		**(956,250)**	(308,565,602)	53,269,051
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(2,479,593,301)**	4,023,394,044	2,778,464,257

	Notes	2016	2015	2014
CASH AND CASH EQUIVALENTS				
AT BEGINNING 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
Foreign currency notes and coins on hand	17	**63,871,020**	58,364,936	35,575,147
		11,841,793,359	7,818,399,315	5,039,935,058
CASH AND CASH EQUIVALENTS				
AT END OF THE YEAR				
Cash and other cash items	9	**1,098,616,524**	1,279,302,155	1,174,011,464
Due from Bangko Sentral ng Pilipinas	9	**6,225,701,096**	7,672,637,783	4,554,441,827
Due from other banks	10	**1,633,340,396**	2,825,982,401	2,031,581,088
Securities under reverse repurchase agreement	14	**345,154,260**	-	-
Foreign currency notes and coins on hand	17	**59,387,782**	63,871,020	58,364,936
		P 9,362,200,058	P 11,841,793,359	P 7,818,399,315

Supplemental Information on Noncash Investing and Financing Activities:

1. On December 29, 2016, the Bank's Board of Directors approved the declaration of cash dividends on preferred shares amounting to P79.2 million. As of December 31, 2016, the cash dividends remain unpaid (see Note 21).
2. In 2016, in anticipation of its planned disposal, the Bank reclassified its entire HTM investments to AFS securities with a carrying value of P6,085.7 million. The entire reclassified HTM investments were subsequently disposed of within the same year (see Note 13).
3. In 2016, the Bank reclassified to AFS securities certain corporate debt securities included as part of loans and other receivables amounting to P698.2 million (see Note 14).
4. Transfers from loans and other receivables to investment properties as a result of foreclosures amounted to P175.7 million, P29.1 million and P284.2 million in 2016, 2015 and 2014, respectively (see Note 16), while transfers from loans and other receivables to other resources in 2016, 2015 and 2014 amounted to P16.2 million, P0.5 million and P1.0 million, respectively (see Note 17). Amounts mentioned were exclusive of gains (losses) on foreclosure amounting to (P2.5 million) and P87.7 million in 2015 and 2014, respectively (nil in 2016) (see Note 22).
5. 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 the stockholders in the same years of declaration (see Note 21).
6. 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).

Other Information -

Securities under reverse repurchase agreement and Foreign currency notes and coins are included as part of Cash and Cash Equivalents for cash flow purposes but are presented as part of Loans and Other Receivables and Other Resources, respectively, in the statements of financial position see Note 2.5.

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016, 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, 2016 and 2015, the Bank operates within the Philippines with 139 and 134 branches, respectively, located nationwide.

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

1.2 Approval of the Financial Statements

The financial statements of the Bank as of and for the year ended December 31, 2016 (including the comparative financial statements as of December 31, 2015 and for the years ended December 31, 2015 and 2014) were authorized for issue by the Bank's Board of Directors (BOD) on March 31, 2017.

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 resource, 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 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 2016 that are Relevant to the Bank

The Bank adopted for the first time the following amendments and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2016:

PAS 1 (Amendments)	:	Presentation of Financial Statements – Disclosure Initiative
PAS 16 and PAS 38 (Amendments)	:	Property, Plant and Equipment, and Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization
PAS 16 and PAS 41 (Amendments)	:	Property, Plant and Equipment, and Agriculture – Bearer Plants
Annual Improvements	:	Annual Improvements to PFRS (2012-2014 Cycle)

Discussed below and in the succeeding page are the relevant information about these amended standards and improvements.

(i) PAS 1 (Amendments), *Presentation of Financial Statements – Disclosure Initiative*. The amendments encourage entities to apply professional judgment in presenting and disclosing information in the financial statements. Accordingly, they clarify 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. Moreover, the amendments clarify that an entity's share in other comprehensive income of associates and joint ventures accounted for using equity method should be presented based on whether or not such other comprehensive income item will subsequently be reclassified to profit or loss. They further clarify 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 (Amendments), *Property, Plant and Equipment,* and PAS 38 (Amendments), *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization.* The amendments in PAS 16 clarify 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, amendments to PAS 38 introduce 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.

The amendments also provide guidance that the expected future reductions in the selling price of an item that was produced using the asset could indicate an expectation of technological or commercial obsolescence of an asset, which may reflect a reduction of the future economic benefits embodied in the asset.

(Amounts in Philippine Pesos or As Otherwise Indicated)

(iii) PAS 16 (Amendments), *Property, Plant and Equipment*, and PAS 41 (Amendments), *Agriculture – Bearer Plants.* The amendments define a bearer plant as a living plant that is used in the production or supply of agricultural produce, is expected to bear produce for more than one period and has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales. On this basis, bearer plant is now included within the scope of PAS 16 rather than PAS 41, allowing such assets to be accounted for as property, plant and equipment and to be measured after initial recognition at cost or revaluation basis in accordance with PAS 16. The amendments further clarify that produce growing on bearer plants remains within the scope of PAS 41.

(iv) Annual Improvements to PFRS (2012-2014 Cycle). Among the 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:

- PAS 19 (Amendments), *Employee Benefits – Discount Rate: Regional Market Issue*. The amendments clarify 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.

- PFRS 5 (Amendments), *Non-current Assets Held for Sale and Discontinued Operations – Changes in Methods of Disposal.* The amendments clarify 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. They also state 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 (Amendments), *Financial Instruments: Disclosures – Servicing Contracts*. The amendments provide 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.

(b) Effective in 2016 that are not Relevant to the Bank

The following new PFRS, amendments and annual improvements to existing standards are mandatorily effective for annual periods beginning on or after January 1, 2016 but are not relevant to the Bank's financial statements:

PAS 27 (Amendments)	:	Separate Financial Statements – Equity Method in Separate Financial Statements
PFRS 10, PFRS 12 and PAS 28 (Amendments)	:	Consolidated Financial Statements, Disclosure of Interests in Other Entities, and Investments in Associates and Joint Ventures – Investment Entities – Applying the Consolidation Exception
PFRS 11 (Amendments)	:	Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations
PFRS 14	:	Regulatory Deferral Accounts
Annual Improvements to PFRS (2012-2014 Cycle)		
PFRS 7 (Amendments)	:	Financial Instruments: Disclosures – Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements
PAS 34 (Amendments)	:	Interim Financial Reporting – Disclosure of Information "Elsewhere in the Interim Financial Report"

(c) Effective Subsequent to 2016 but not Adopted Early

There are new PFRS and amendments to existing standards effective for annual periods subsequent to 2016, 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 7 (Amendments), *Statement of Cash Flows – Disclosure Initiative* (effective from January 1, 2017). The amendments are designed to improve the quality of information provided to users of financial statements about changes in an entity's debt and related cash flows (and non-cash changes). They require an entity to provide disclosures that enable users to evaluate changes in liabilities arising from financing activities. An entity applies its judgment when determining the exact form and content of the disclosures needed to satisfy this requirement. Moreover, they suggest a number of specific disclosures that may be necessary in order to satisfy the above requirement, including: (a) changes in liabilities arising from financing activities caused by changes in financing cash flows, foreign exchange rates or fair values, or obtaining or losing control of subsidiaries or other businesses; and, (b) a reconciliation of the opening and closing balances of liabilities arising from financing activities in the statement of financial position including those changes identified immediately above.

(ii) PAS 12 (Amendments), *Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses* (effective from January 1, 2017). The focus of the amendments is to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost. The amendments provide guidance in the following areas where diversity in practice previously existed: (a) existence of a deductible temporary difference; (b) recovering an asset for more than its carrying amount; (c) probable future taxable profit against which deductible temporary differences are assessed for utilization; and, (d) combined versus separate assessment of deferred tax asset recognition for each deductible temporary difference.

(iii) PFRS 9 (2014), *Financial Instruments* (effective from January 1, 2018). This new standard on financial instruments will replace PAS 39, *Financial Instruments: Recognition and Measurement,* 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.

(iv) PFRS 15, *Revenue from Contracts with Customers* (effective from January 1, 2018). This standard will replace PAS 18, *Revenue*, and PAS 11, *Construction Contracts*, the related Interpretations on revenue recognition: IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreement for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers,* and Standing Interpretations Committee 31, *Revenue – Barter Transactions Involving Advertising Services*. This new standard establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. The core principle in the said framework is for an entity to recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Management is currently assessing the impact of this standard on the Bank's financial statements.

(v) PFRS 16, *Leases* (effective from January 1, 2019). The new standard will eventually replace PAS 17, *Leases*.

For lessees, it requires to account for leases "on-balance sheet" by recognizing a "right of use" asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the "right-of-use" asset is accounted for similarly to a purchased asset and depreciated or amortized. The lease liability is accounted for similarly to a financial liability using the effective interest method. However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under PAS 17 where lease payments are recognized as expenses on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee's benefit).

For lessors, lease accounting is similar to PAS 17. In particular, the distinction between finance and operating leases is retained. The definitions of each type of lease, and the supporting indicators of a finance lease, are substantially the same as PAS 17's. The basic accounting mechanics are also similar, but with some different or more explicit guidance in few areas. These include variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

Management is currently assessing the impact of this new standard in its financial statements.

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, *Operating Segments,* 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, *Financial Instruments: Presentation*. 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, 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, foreign currency notes and coins on hand and securities under reverse repurchase agreement (SPURRA) with original maturities of three months or less from placement date.

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 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. In 2016, in anticipation of its planned disposal, the Bank reclassified its entire HTM investments to AFS securities. In accordance with PAS 39, the whole HTM category was tainted [see Notes 3.1(a) and 13]. The entire reclassified HTM investments were subsequently disposed of within the same year.

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 Asset

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, particularly plain vanilla foreign exchange swaps, 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 (recognized as part of Miscellaneous under Other Resources account) and as liabilities (recognized under Accrued Expenses and Other Liabilities account) 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.

Dividend distributions to shareholders are recognized as financial liabilities upon declaration by the Group and subsequent approval of the BSP. Starting 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 of the 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 financial assets at FVTPL at the valuation date and gain or loss from foreign exchange trading.

(c) Service Charges, Fees and Commissions

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

2.17 Leases

The Bank accounts for its leases as follows:

(a) Bank as Lessee

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

(b) Bank as Lessor

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

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

2.18 Foreign Currency Transactions and Translation

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

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

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

2.19 Impairment of Non-financial Assets

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

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

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

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

2.20 Employee Benefits

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

(a) Post-employment Defined Benefit Plan

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

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

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

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

(b) Post-employment Defined Contribution Plan

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

(c) Termination Benefits

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

(d) Bonus Plans

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

(e) Compensated Absences

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

2.21 Income Taxes

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

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

Deferred tax is accounted for, using the liability method, on temporary differences at the end of each reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the 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 attributable to common shares 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, 2016 and 2015, 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) Classification of Financial Assets at 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. This classification requires significant judgment. In making this judgment, the Bank evaluates its intention and ability to hold such investments up to maturity.

If the Bank fails to keep these investments at maturity other than for the allowed specific circumstances as allowed under the standards, 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.

In 2016, in anticipation of its planned disposal, the Bank reclassified its entire HTM investments to AFS securities, which were subsequently disposed of within the same year (see Note 13). The whole HTM investments category was accordingly tainted and the Bank is prohibited from holding investments under HTM investments category for the next two financial reporting years [see Note 2.5(a)(iii)].

(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 assessed that no securities are impaired as of December 31, 2016 and 2015. Future changes in those information and circumstance might significantly affect the carrying amount of the assets.

(c) Distinction Between 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) *Classification of Acquired Properties and Determination of 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, and as Investment Properties if the Bank intends to hold the properties for capital appreciation or as financial assets (properties other than land and building) 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) *Distinction Between 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, 2016 and 2015, 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 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) *Estimation of Impairment of Financial Assets (AFS Securities, HTM Investments and Loans and Other Receivables)*

The Bank reviews its AFS securities, HTM investments and loans and other receivable portfolios 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 Note 14. There are no impairment losses recognized on AFS securities and HTM investments in 2016, 2015 and 2014.

(b) *Fair Value Measurement 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) *Estimation of Useful Lives of Bank Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Resources (e.g. Computer Software and Branch Licenses)*

The Bank estimates the useful lives of bank premises, furniture, fixtures and equipment, investment properties, except land, and other resources (e.g. computer software and branch licenses) 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, investment properties and other resources (e.g. computer software and branch licenses) are analyzed in Notes 15, 16 and 17, 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) *Determination of 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 in the coming years, as of December 31, 2016 and 2015 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) Estimation of 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 integrate 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).

	Notes	**2016**	2015
Due from BSP	9	**P 6,225,701**	P 7,672,638
Due from other banks	10	**1,633,340**	2,825,982
Financial assets at FVTPL	11	**3,274,168**	75,943
AFS securities	12	**3,810,027**	3,092,838
HTM investments	13	**-**	5,948,727
Loans and other receivables – net	14	**51,437,111**	41,737,830
Other resources	17	**30,190**	29,118
		P 66,410,537	P 61,383,076

The credit risk quality of the Bank's financial assets is further described below and in the succeeding pages:

(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 with credit risk are Due from BSP, Due from Other Banks, and SPURRA under Loans and Other Receivables. Due from Other Banks are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of P500,000 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, 2016 and 2015 (amounts in thousands):

	2016	2015
Individually impaired		
Wholesale and retail trade	**P 433,125**	P 523,163
Services	**270,126**	370,977
Consumption	**141,279**	87,060
Manufacturing	**136,849**	131,050
Real estate, renting and construction	**119,146**	413,800
Others	**581,601**	555,143
Gross amount	**1,682,126**	2,081,193
Allowance for impairment	**(888,470)**	(700,825)
Carrying amount	**793,656**	1,380,368
Collectively impaired		
Wholesale and retail trade	**11,420,466**	11,163,616
Services	**10,122,336**	5,989,315
Real estate, renting and construction	**4,596,961**	3,516,952
Manufacturing	**4,471,631**	2,597,782
Others	**328,687**	687,531
Gross amount	**30,940,081**	23,955,196
Allowance for impairment	**(345,198)**	(375,800)
Carrying amount	**30,594,883**	23,579,396
Past due but not impaired		
Carrying amount	**20,403**	68,943
Neither past due nor impaired		
Carrying amount	**20,028,169**	16,709,123
Total carrying amount	**P 51,437,111**	P 41,737,830

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

An aging of past due but not impaired accounts of loans and other receivables reckoned from the last payment date follows (amounts in thousands):

	2016	2015
Up to 30 days	**P 20,402**	P 65,714
31 to 60 days	**-**	3,229
	P 20,403	P 68,943

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, Due from Other Banks and Derivative financial assets under Other Resources amounting to P7,084.2 million, P1,633.3 million and P0.5 million, respectively, as of December 31, 2016 and P9,117.5 million, P2,826.0 million and P1.1 million, respectively, as of December 31, 2015. These are considered as neither past due nor impaired.

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 resources 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, 2016 and 2015 follow (amounts in thousands):

	2016		
	Foreign Currency	Philippine Peso	Total
Financial Assets:			
Cash and other cash items	P -	P 1,098,617	P 1,098,617
Due from BSP	-	6,225,701	6,225,701
Due from other banks	862,129	771,211	1,633,340
Financial assets at FVTPL	48,701	3,225,467	3,274,168
AFS securities	2,796,477	1,015,250	3,811,727
Loans and other receivables - net	1,196,171	50,240,940	51,437,111
Other resources	58,240	31,681	89,921
	P 4,961,718	**P 62,608,867**	**P 67,570,585**
Financial Liabilities:			
Deposit liabilities	P 4,805,746	P 54,102,015	P 58,907,761
Accrued expenses and other liabilities	-	1,605,710	1,605,710
	P 4,805,746	**P 55,707,725**	**P 60,513,471**

(Amounts in Philippine Pesos or As Otherwise Indicated)

	2015		
	Foreign Currency	Philippine Peso	Total
Financial Assets:			
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	92,932	319	93,251
	P 6,487,218	P 56,240,993	P 62,728,211
Financial Liabilities:			
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
	P 6,460,631	P 50,495,228	P 56,955,859

(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-book financial position items as of December 31, 2016 and 2015 based on the expected interest realization or recognition are in the succeeding pages (amounts in thousands).

	Less than One Month	One to Three Months	Three Months to One Year	More than One Year	Non-rate Sensitive	Total
2016						
Resources:						
Cash and other cash items	P -	P -	P -	P -	P 1,098,617	P 1,098,617
Due from BSP	6,225,701	-	-	-	-	6,225,701
Due from other banks	1,633,340	-	-	-	-	1,633,340
Trading and investment securities	29,967	25,945	-	7,028,283	1,700	7,085,895
Loans and other receivables - net	32,252,007	6,145,414	3,829,367	2,123,885	7,086,438	51,437,111
Other resources*	-	-	-	-	2,784,933	2,784,933
Total Resources	40,141,015	6,171,359	3,829,367	9,152,168	10,971,688	70,265,597
Liabilities and Equity:						
Deposit liabilities	15,021,238	10,267,125	8,531,549	871,958	24,215,891	58,907,761
Accrued expenses and other liabilities	-	-	-	-	1,787,751	1,787,751
Total Liabilities	15,021,238	10,267,125	8,531,549	871,958	26,003,642	60,695,512
Equity	-	-	-	-	9,570,085	9,570,085
Total Liabilities and Equity	15,021,238	10,267,125	8,531,549	871,958	35,573,727	70,265,597
On-book Gap	25,119,777	(4,095,766)	(4,702,182)	8,280,210	(24,602,039)	-
Cumulative On-book Gap	25,119,777	21,024,011	16,321,829	24,602,039	-	-
Contingent Resources	-	-	-	-	-	-
Contingent Liabilities	-	-	-	-	1,411,317	1,411,317
Off-book Gap	-	-	-	-	(1,411,317)	(1,411,317)
Net Periodic Gap	25,119,777	(4,095,766)	(4,702,182)	8,280,210	(26,013,356)	(1,411,317)
Cumulative Total Gap	**P25,119,777**	**P21,024,011**	**P16,321,829**	**P24,602,039**	**(P 1,411,317)**	**P -**
2015						
Resources:						
Cash and other cash items	P -	P -	P -	P -	P 1,279,302	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	9,032,028	1,700	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*	-	-	-	-	2,947,202	2,947,202
Total Resources (*balance carried forward*)	P40,211,766	P 3,293,740	P 3,508,288	P14,340,164	P 4,228,204	P65,582,162

** Other resources includes Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Resources.*

(Amounts in Philippine Pesos or As Otherwise Indicated)

	Less than One Month	One to Three Months	Three Months to One Year	More than One Year	Non-rate Sensitive	Total
Total Resources (*balance brought forward)*	P40,211,766	P 3,293,740	P 3,508,288	P14,340,164	P 4,228,204	P65,582,162
Liabilities and Equity:						
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	23,123,956	(5,219,598)	(3,862,572)	(7,705,004)	(6,336,782)	-
Cumulative On-book Gap	23,123,956	17,904,358	14,041,786	6,336,782	-	-
Contingent Resources	-	-	-	-	-	-
Contingent Liabilities	-	-	-	-	1,341,367	1,341,367
Off-book Gap	-	-	-	-	(1,341,367)	(1,341,367)
Net Periodic Gap	23,123,956	(5,219,598)	(3,862,572)	(7,705,004)	(7,678,149)	(1,341,367)
Cumulative Total Gap	P23,123,956	P17,904,358	P 14,041,786	P 6,336,782	(P 1,341,367)	P -

(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 (amounts in millions).

		2016		2015
VaR Position:				
Financial assets at FVTPL	**P**	**4,404**	P	1,440
AFS securities		**1,180**		1,451
VaR Ranges:				
Minimum	**P**	**318**	P	6,214
Maximum		**4,825**		11,200
Average		**1,758**		1,787

Stress test on the December 31, 2016 and 2015 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:

2016				
	Current	**Sensitivities**		
Currency	**Market Value**	**+100 bps**	**+300 bps**	**+500 bps**
Philippine peso	P 4,240,717,456	(P 290,148,383)	(P 870,445,148)	(P 1,450,741,914)
US dollar	2,845,177,352	(270,291,848)	(810,875,545)	(1,351,459,242)
Total	**P 7,085,894,808**	**(P 560,440,231)**	**(P 1,681,320,694)**	**(P 2,802,201,156)**

2015				
	Current	Sensitivities		
Currency	Market Value	+100 bps	+300 bps	+500 bps
Philippine peso	P 179,500,605	(P 13,233,739)	(P 39,701,216)	(P 66,168,694)
US dollar	2,990,980,345	(333,852,546)	(1,001,557,637)	(1,669,262,728)
Total	P 3,170,480,950	(P 347,086,285)	(P 1,041,258,853)	(P 1,735,431,422)

(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-book financial position items as of December 31, 2016 and 2015 is presented below and in the next page (amounts in thousands).

	Less than One Month	One to Three Months	Three Months to One Year	More than One Year	Total
2016					
Resources:					
Cash and other cash items	P 1,098,617	P -	P -	P -	P 1,098,617
Due from BSP	6,225,701	-	-	-	6,225,701
Due from other banks	1,633,340	-	-	-	1,633,340
Trading and investmentsecurities	29,961	24,922	1,012	7,030,000	7,085,895
Loans and other receivables	10,200,458	12,256,627	13,583,207	15,396,819	51,437,111
Other resources*	21,410	4,722	105,353	2,653,448	2,784,933
Total Resources	19,209,487	12,286,271	13,689,572	25,080,267	70,265,597
Liabilities and Equity:					
Deposit liabilities	39,151,368	10,352,886	8,531,549	871,958	58,907,761
Accrued expenses and other liabilities	1,646,275	2,064	102,668	36,744	1,787,751
Total Liabilities	40,797,643	10,354,950	8,634,217	908,702	60,695,512
Equity	-	-	-	9,570,085	9,570,085
Total Liabilities and Equity	40,797,643	10,354,950	8,634,217	10,478,787	70,265,597
On-book Gap	(21,588,156)	1,931,321	5,055,355	14,601,480	-
Cumulative On-book Gap	(21,588,156)	(19,656,835)	(14,601,480)	-	-
Contingent Resources	-	-	-	-	-
Contingent Liabilities	29,665	587,008	682,635	37,501	1,336,809
Off-book Gap	(29,665)	(587,008)	(682,635)	(37,501)	(1,336,809)
Net Periodic Gap	(21,617,821)	1,344,313	4,372,720	14,563,979	(1,366,809)
Cumulative Total Gap	(P 21,617,821)	(P 20,273,508)	(P 15,900,788)	(P 1,336,809)	P -
2015					
Resources:					
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*	452,757	-	133,815	2,360,630	2,947,202
Total Resources (*balance carried forward*)	P20,373,138	P10,576,043	P10,929,100	P 23,703,881	P65,582,162

** Other resources includes Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Resources.*

	Less than One Month	One to Three Months	Three Months to One Year	More than One Year	Total
Total Resources (*balance brought forward*)	P20,373,138	P10,576,043	P10,929,100	P23,703,881	P65,582,162
Liabilities and Equity:					
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	2,285,952	22,737	51,570	(264,826)	2,095,433
Total Liabilities	11,013,234	13,175,972	11,661,536	21,261,867	57,112,609
Equity	-	-	-	8,469,553	8,469,553
Total Liabilities and Equity	11,013,234	13,175,972	11,661,536	29,731,420	65,582,162
On-book Gap	9,359,904	(2,599,929)	(732,436)	(6,027,539)	-
Cumulative On-book Gap	9,359,904	6,759,975	6,027,539	-	-
Contingent Resources	-	-	-	-	-
Contingent Liabilities	29,665	587,008	682,635	37,501	1,336,809
Off-book Gap	(29,665)	(587,008)	(682,635)	(37,501)	(1,336,809)
Net Periodic Gap	9,330,239	(3,186,937)	(1,415,071)	(6,065,040)	(1,336,809)
Cumulative Total Gap	P 9,330,239	P 6,143,302	P 4,728,231	(P 1,336,809)	P -

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 enumerated below.

- 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 RANo. 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 (AMLD), monitors AMLA compliance and conducts regular compliance testing of business units.

The AMLD 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 the Bank 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 risk.

The following are the risk-based capital adequacy of the Bank as of December 31, 2016, 2015 and 2014 (amounts in millions):

		2016		2015		2014
Net Tier 1 Capital	**P**	**9,241**	P	8,709	P	8,275
Tier 2 Capital		**470**		376		407
Total Qualifying Capital	**P**	**9,711**	P	9,085	P	8,682
Risk Weighted Assets						
Credit Risk Weighted Assets	**P**	**48,738**	P	43,382	P	38,348
Operational Risk Weighted Assets		**3,930**		3,580		3,233
Market Risk Weighted Assets		**4,477**		4,378		139
Total Risk-Weighted Assets	**P**	**57,145**	P	51,340	P	41,720

(Amounts in Philippine Pesos or As Otherwise Indicated)

	2016	2015	2014
Capital ratios:			
Total qualifying capital expressed as percentage of total risk-weighted assets	**17.0%**	17.7%	20.8%
Net Tier 1 capital expressed as percentage of total risk-weighted assets	**16.2%**	17.0%	19.8%

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

As of December 31, 2016 and 2015, the Bank has satisfactorily complied with thecapital-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 in the National Capital Region and have more than 50 branches are required to comply with the minimum capital requirement of P2.0 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:

	Notes	Carrying Values	Fair Values
December 31, 2016:			
Financial Assets			
Loans and receivables:			
Cash and other cash items	9	**P 1,098,616,524**	**P 1,098,616,524**
Due from BSP	9	**6,225,701,096**	**6,225,701,096**
Due from other banks	10	**1,633,340,396**	**1,633,340,396**
Loans and other receivables	14	**51,437,111,465**	**51,437,111,465**
Other resources	17	**89,390,653**	**89,390,653**
Financial assets at FVTPL	11	**3,274,168,284**	**3,274,168,284**
AFS securities	12	**3,811,726,524**	**3,811,726,524**
Derivative financial assets	17	**529,631**	**529,631**
		P 67,570,584,573	**P 67,570,584,573**
Financial Liabilities			
At amortized cost:			
Deposit liabilities	18	**P 58,907,760,740**	**P 58,907,760,740**
Accrued expenses and other liabilities	20	**1,605,709,712**	**1,605,709,712**
		P 60,513,470,452	**P 60,513,470,452**
December 31, 2015:			
Financial Assets			
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
Derivative financial assets	17	1,099,128	1,099,128
		P 62,728,211,838	P 62,698,301,533
Financial Liabilities			
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
		P 56,955,858,973	P 56,955,858,973

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, 2016 and 2015 are subject to offsetting, enforceable master netting arrangements and similar agreements (amounts in millions):

	Financial assets	Financial liabilities available for set-off	Collateral received	Net Amount
December 31, 2016				
Loans and receivables				
Receivables from customers	**P 3,304**	**P -**	**P 3,304**	**P -**
December 31, 2015				
Loans and receivables				
Receivables from customers	P 2,693	P 1	P 2,691	P 1

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):

	Financial liabilities	Financial assets available for set-off	Collateral given	Net Amount
December 31, 2016				
Deposit liabilities	**P 3,304**	**P 3,304**	**P -**	**P -**
December 31, 2015				
Deposit liabilities	P 2,691	P 2,691	P -	P -
Bills payable	1	-	1	-
	P 2,692	P 2,691	P 1	P -

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, *Fair Value Measurement*, 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, 2016 and 2015 (amounts in millions).

	Level 1	Level 2	Level 3	Total
December 31, 2016				
Financial assets at FVTPL				
Government bonds	**P 1,043**	**P 2,231**	**P -**	**P 3,274**
AFS securities				
Government debt securities	**1,381**	**88**	**-**	**1,469**
Corporate debt securities	**2,341**	**-**	**-**	**2,341**
	3,722	**88**	**-**	**3,810**
Derivative financial assets	**-**	**1**	**-**	**1**
	P 4,765	**P 2,320**	**P -**	**P 7,085**
December 31, 2015				
Financial assets at FVTPL				
Government bonds	P -	P 76	P -	P 76
AFS securities				
Government debt securities	1,853	78	-	1,931
Corporate debt securities	1,162	-	-	1,162
	3,015	78	-	3,093
Derivative financial assets	-	1	-	1
	P 3,015	P 155	P -	P 3,170

The Bank has golf club shares amounting to P1.7 million as of December 31, 2016 and 2015 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.

The Bank has no outstanding derivative liabilities as of December 31, 2016. As of December 31, 2015, it had an outstanding derivative liabilities presented under Accrued Expenses and Other Liabilities in the statements of financial position amounting to P1.9 million (see Note 20). Derivative liabilities are categorized within Level 2, 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).

	Level 1	Level 2	Level 3	Total
December 31, 2016				
Financial Assets:				
Cash and other cash items	P 1,099	P -	P -	P 1,099
Due from BSP	6,226	-	-	6,226
Due from other banks	1,633	-	-	1,633
Loans and other receivable	-	-	51,437	51,437
Other resources	89	-	-	89
	P 9,047	**P -**	**P 51,437**	**P 60,484**
Financial Liabilities:				
Deposit liabilities	P 58,908	P -	P -	P 58,908
Accrued expenses and other liabilities	-	-	1,606	1,606
	P 58,908	**P -**	**P 1,606**	**P 60,514**
December 31, 2015				
Financial Assets:				
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
	P 12,399	P 5,390	P 41,738	P 59,527
Financial Liabilities:				
Deposit liabilities	P 55,016	P -	P -	P 55,016
Bills payable	-	-	1	1
Accrued expenses and other liabilities	-	-	1,937	1,937
	P 55,016	P -	P 1,938	P 56,954

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 of 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 P617.3 million and P803.3 million as of December 31, 2016 and 2015, 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 2016 and 2015.

8. SEGMENT REPORTING

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

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

(a) *Consumer Banking* – includes auto financing, home financing, and salary or personal loans;

(b) *Corporate Banking* – includes term loans, working capital credit lines, bills purchase and discounting lines; and,

(c) *Treasury Operations* – manages liquidity of the Bank and is a key component in revenue and income generation through its trading and investment activities.

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

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

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

	Corporate Banking	Consumer Banking	Treasury Operations	Total
December 31, 2016				
Statement of Profit or Loss				
Net interest income	P 2,007	P 204	P 261	P 2,472
Non-interest income	229	7	336	572
Total income (after interest expense)	2,236	211	597	3,044
Operating expenses	(1,586)	(100)	(484)	(2,170)
Pre-tax profit	650	111	113	874
Tax expense	(153)	(26)	(26)	(205)
Net profit	**P 497**	**P 85**	**P 87**	**P 669**
Statement of Financial Position				
Total Resources				
Segment assets	P 49,630	P 3,565	P 16,605	P 69,800
Intangible assets	52	-	-	52
Deferred tax assets	414	-	-	414
	P 50,096	P 3,565	P 16,605	P 70,266
Total Liabilities	P 43,078	P 3,021	P 14,597	P 60,696
Other segment information				
Depreciation and amortization	P 109	P 7	P 37	P 153
Capital expenditures	P 103	P 7	P 33	P 143

(Amounts in Philippine Pesos or As Otherwise Indicated)

	Corporate Banking	Consumer Banking	Treasury Operations	Total
December 31, 2015				
Statement of Profit or Loss				
Net interest income	P 1,921	P 173	P 288	P 2,382
Non-interest income	196	9	70	275
Total income (after interest expense)	2,117	182	358	2,657
Operating expenses	(1,387)	(76)	(489)	(1,952)
Pre-tax profit (loss)	730	106	(131)	705
Tax income (expense)	(210)	(31)	38	(203)
Net profit (loss)	P 520	P 75	(P 93)	P 502
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	343	-	-	343
	P 41,033	P 3,027	P 21,522	P 65,582
Total Liabilities	P 38,978	P 2,428	P 15,707	P 57,113
Other segment information				
Depreciation and amortization	P 93	P 6	P 38	P 137
Capital expenditures	P 163	P 2	P 13	P 178
December 31, 2014				
Statement of Profit or Loss				
Net interest income	P 1,573	P 144	P 518	P 2,235
Non-interest income	271	-	35	306
Total income (after interest expense)	1,844	144	553	2,541
Operating expenses	(1,304)	(61)	(398)	(1,763)
Pre-tax profit	540	83	155	778
Tax expense	(162)	(28)	(52)	(242)
Net profit	P 378	P 55	P 103	P 536
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	286	-	-	286
	P 39,658	P 2,229	P 15,968	P 57,855
Total Liabilities	P 35,310	P 1,918	P 12,604	P 49,832
Other segment information				
Depreciation and amortization	P 86	P 5	P 32	P 123
Capital expenditures	P 137	P 2	P 10	P 149

9. CASH AND DUE FROM BSP

This account is composed of the following:

		2016	2015
Cash and other cash items		**P 1,098,616,524**	P 1,279,302,155
Due from BSP			
Mandatory reserves		**4,265,701,096**	3,802,637,783
Other than mandatory reserves		**1,960,000,000**	3,870,000,000
		6,225,701,096	7,672,637,783
		P 7,324,317,620	P 8,951,939,938

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 (see Note 17)] 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 2016, 2015 and 2014, except for the amounts within the required reserve as determined by the BSP. The total interest income earned amounted to P89.1 million, P58.6 million and P31.2 million in 2016, 2015 and 2014, 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:

	2016	2015
Local banks	**P 991,507,588**	P 2,036,612,414
Foreign banks	**641,832,808**	789,369,987
	P 1,633,340,396	P 2,825,982,401

Interest rates on these deposits range from 0.25% to 1.75% per annum in 2016, 2015 and 2014. The total interest income earned amounted to P17.6 million, P11.1 million and P6.0 million in 2016, 2015 and 2014, 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:

	2016	2015
US dollars	**P 862,128,548**	P 2,372,753,175
Philippine peso	**771,211,848**	453,229,226
	P 1,633,340,396	P 2,825,982,401

(Amounts in Philippine Pesos or As Otherwise Indicated)

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 P3,274.2 million and P75.9 million as of December 31, 2016 and 2015, respectively. Interest rates on these investments range from 3.5% to 8.0% in 2016, 4.6% to 6.1% in 2015, and 5.9% in 2014. The total interest income earned amounted to P23.6 million, P36.7 million and P44.3 million in 2016, 2015 and 2014, 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 in the statements of profit or loss, amounted to P29.1 million loss, P0.2 million loss and P17.1 million gain in 2016, 2015 and 2014, respectively. Net realized trading gains amounting to P53.9 million, P15.9 million and P2.7 million in 2016, 2015 and 2014, respectively, for held-for-trading government securities; and P0.005 million, P0.3 million and P3.6 million in 2016, 2015 and 2014, respectively, for spot transactions, are presented as part of Trading Gains in the statements of profit or loss.

12. AVAILABLE-FOR-SALE SECURITIES

This account is composed of the following:

	2016	2015
Corporate bonds	P 2,341,379,320	P 1,931,193,769
Government debt securities	1,468,647,204	1,161,644,542
Equity securities	1,700,000	1,700,000
	P 3,811,726,524	P 3,094,538,311

As to currency, this account consists of the following:

	2016	2015
Foreign currencies	P 2,796,476,612	P 2,990,980,345
Philippine pesos	1,015,249,912	103,557,966
	P 3,811,726,524	P 3,094,538,311

Changes in the AFS securities are summarized below.

	Notes	2016	2015
Balance at beginning of year		P 3,094,538,311	P 1,715,736,721
Additions		1,844,594,612	2,274,907,422
Acquisition from Rural Bank of Kawit (RBK)	17.1	6,602,227	
Disposals		(8,974,015,716)	(913,710,806)
Reclassification from HTM investments	13	6,085,652,650	
Reclassification from Loans and Other Receivables	14	698,161,010	
Fair value gains (losses)		772,317,899	(53,101,385)
Foreign currency revaluation		157,739,246	(153,223,195)
Amortization of discount		126,136,285	223,929,554
Balance at end of year		P 3,811,726,524	P 3,094,538,311

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

	2016	2015	2014
Balance at beginning of year	**(P 577,298,405)**	(P 519,742,021)	(P 1,043,281,000)
Changes on unrealized fair value gains (losses) during the year:			
Fair value gains (losses) during the year	**(78,227,452)**	(53,101,385)	124,563,684
Realized fair value losses on AFS securities disposed during the year - net	**74,648,222**	6,615,377	393,988,832
Fair value loss on AFS securities reclassified to HTM investments in 2014	**-**	-	511,641,246
	(3,579,230)	(46,486,008)	1,030,193,762
Changes on unrealized fair value gains (losses) on reclassified securities during the year:			
Amortization of fair value gains (losses) on reclassified securities in 2014	**(6,457,719)**	(11,070,376)	4,986,463
Fair value gain on HTM investments reclassified to AFS securities in 2016	**850,545,351**	-	-
Realized fair value gains on HTM investments reclassified to AFS securities in 2016	**(345,229,674)**	-	-
Fair value losses on AFS securities reclassified to HTM investments in 2014	**-**	-	(511,641,246)
	498,857,958	(11,070,376)	(506,654,783)
	495,278,728	(57,556,384)	523,538,979
Balance at end of year	**(P 82,019,677)**	(P 577,298,405)	(P 519,742,021)

AFS securities earn annual interest ranging from 3.5% to 8.1%, 3.5% to 9.1% and 3.5% to 9.2% in 2016, 2015 and 2014, respectively. The total interest income earned amounted to P144.8 million, P96.5 million and P215.0 million in 2016, 2015 and 2014, 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 and losses recycled to profit or loss from equity resulting from the sale of AFS securities amounted to P270.6 million gain, P6.6 million loss and P394.0 million loss in 2016, 2015 and 2014, respectively. These are included as part of Trading Gains in the statements of profit or loss. Net realized trading gains presented as part of Trading Gains in the 2016, 2015 and 2014 statements of profit or loss, amounted to P323.6 million, P58.2 million and P16.4 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 P55.0 million and P70.8 million as of December 31, 2016 and 2015, respectively, are deposited with the BSP (see Note 28).

(Amounts in Philippine Pesos or As Otherwise Indicated)

13. HELD-TO-MATURITY INVESTMENTS

In 2016, in anticipation of its planned disposal, the Bank reclassified its entire HTM investments, which consist of local and foreign government securities, to AFS securities with a carrying value of P6,085.7 million (see Note 12). In accordance with PAS 39, the whole HTM category was tainted (see Notes 2.5 and 3.1). The entire reclassified HTM investments were subsequently disposed of within the same year.

The changes in the HTM investments are summarized below.

	2016	2015
Balance at beginning of year	**P 5,948,727,495**	P 5,962,970,252
Amortization of discount (premium)	**134,573,681**	(14,516,797)
Foreign currency revaluation	**2,351,474**	274,040
Reclassification (see Note 12)	**(6,085,652,650)**	-
Balance at end of year	**P -**	P 5,948,727,495

As of December 31, 2015, HTM investments, as to currency, consisted of the following:

Philippine peso	P 5,487,613,698
Foreign currencies	461,113,797
	P 5,948,727,495

The effective interest rates on these investments ranges from 5.3% to 8.1% per annum in 2016, 2015 and 2014. The total interest income earned from these investments amounted to P179.1 million, P291.6 million and P172.5 million in 2016, 2015 and 2014, 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 2016 and 2015. The amortization of fair value loss amounted to P6.5 million, P11.1 million and P5.0 million in 2016, 2015 and 2014, respectively, and is presented as part of Trading Gains 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 (see Note 12).

14. LOANS AND OTHER RECEIVABLES

This account consists of the following:

	2016	2015
Receivables from customers:		
Loans and discounts	P 47,420,972,014	P 36,954,001,403
Bills purchased	795,456,486	1,259,177,626
Customers' liabilities on acceptances, letters of credit and trust receipts	3,753,026,077	3,066,453,404
	51,969,454,577	41,279,632,433
Unearned discount	(113,369,104)	(96,231,198)
	51,856,085,473	41,183,401,235
Other receivables:		
SPURRA	345,154,260	-
Accrued interest receivable	190,096,143	178,793,670
Accounts receivable	109,184,904	87,727,360
Sales contracts receivable	95,987,214	91,856,163
Deficiency claims receivable	56,313,445	56,571,522
Unquoted debt securities	17,958,315	1,216,105,404
	814,694,281	1,631,054,119
	52,670,779,754	42,814,455,354
Allowance for impairment	(1,233,668,289)	(1,076,625,132)
	P 51,437,111,465	P 41,737,830,222

In 2016, the Bank reclassified to AFS securities certain corporate debt securities previously included as part of Unquoted debt securities above amounting to P698,161,010 (see Note 12).

SPURRA are collateralized by certain treasury bills of the BSP.

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, 2016 and 2015, the Accounts receivable includes P36.7 million set up by the Bank for the final tax withheld by the BTr upon maturity of the bonds subject to the resolution of a case filed with the Supreme Court on the matter. On January 13, 2015, the Supreme Court nullified the 2011 Bureau of Internal Revenue (BIR) Rulings classifying all bonds as deposit substitutes and ordered the Bureau of Treasury to return to the petitioning banks the 20% final withholding taxes it withheld on the PEACe Bonds on October 18, 2011. On August 16, 2016, the Supreme Court ordered the BTr to immediately release and pay the bondholders the amount representing the 20% final withholding tax on the PEACe bonds, with legal interest of 6% per annum from October 19, 2011 until full payment. As of December 31, 2016, the Bank is making an arrangement for the ultimate release of the 20% final withholding tax, plus the legal interest of 6% per annum.

As of December 31, 2016 and 2015, non-performing loans of the Bank amount to P1,322.3 million and P1,191.6 million, respectively, while restructured loans amount to P41.6 million and P81.0 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, gross of allowance (amounts in thousands):

	2016	2015
Within one year	P 32,346,925	P 29,422,912
Beyond one year	19,622,530	11,856,720
	P 51,969,455	P 41,279,632

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

	2016	2015
Wholesale and retail trade	P 19,506,311	P 17,390,757
Construction	9,782,858	8,744,390
Manufacturing	7,483,404	5,011,775
Administrative and support services	5,857,043	4,984,934
Transportation and storage	3,714,512	3,218,626
Electricity, gas, steam and air-conditioning supply	3,649,578	675,625
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use	1,371,540	681,598
Agriculture, fishery and forestry	429,132	461,296
Mining and quarrying	175,077	110,631
	P 51,969,455	P 41,279,632

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

	2016	2015
Secured:		
Real estate mortgage	P 20,230,413	P 14,247,890
Chattel mortgage	4,429,479	2,335,847
Deposit hold-out	3,303,931	2,693,318
Others	208	1,259,177
Unsecured	24,005,424	20,743,400
	P 51,969,455	P 41,279,632

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

	2016	2015
Balance at beginning of year	P 1,076,625,132	P 906,219,774
Impairment losses for the year	157,043,157	170,405,358
Balance at end of year	P 1,233,668,289	P 1,076,625,132

Of the total loans and discounts of the Bank as of December 31, 2016 and 2015, 75.38% and 99.8%, respectively, are subject to periodic interest repricing.

The annual effective interest rates of loans and discounts range from 1.3% to 30.0% in 2016, 1.7% to 26.0% in 2015 and 1.3% to 22.0% in 2014, while the annual effective interest rates of interest-bearing other receivables range from 3% to 4% in 2016, 4.0% to 16% in 2015, and 4.0% to 10.4% in 2014. The total interest income earned from loans and discounts amounted to P2,570.2 million, P2,457.3 million and P2,165.4 million in 2016, 2015 and 2014, respectively, while total interest income earned from interest-bearing other receivables amounted to P182.8 million, P188.8 million and P201.5 million in 2016, 2015 and 2014, respectively. These are presented as Interest Income on Loans and Other Receivables in the statements of profit or loss.

Loans receivables pledged as collaterals to secure borrowings under rediscounting privileges amounted to P1.0 million as of December 31, 2015 (nil as of December 31, 2016) (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 2016 and 2015 are shown below.

	Land	Building	Furniture, Fixtures and Equipment	Transportation Equipment	Leasehold Improvements	Total
December 31, 2016						
Cost	P 89,848,156	P118,429,528	P412,938,957	P148,470,474	P528,612,606	P1,298,299,721
Accumulated depreciation and amortization	-	(48,493,151)	(266,048,782)	(83,554,014)	(364,208,136)	(762,304,083)
Net carrying amount	**P 89,848,156**	**P 69,936,377**	**P 146,890,175**	**P 64,916,460**	**P164,404,470**	**P535,995,638**
December 31, 2015						
Cost	P 84,327,556	P109,343,864	P370,921,928	P130,418,587	P486,983,266	P1,181,995,201
Accumulated depreciation and amortization	-	(36,053,768)	(218,191,093)	(71,265,077)	(293,850,541)	(619,360,479)
Net carrying amount	P 84,327,556	P 73,290,096	P 152,730,835	P 59,153,510	P193,132,725	P562,634,722
January 1, 2015						
Cost	P 84,327,556	P110,257,855	P299,261,604	P120,355,469	P409,639,438	P1,023,841,922
Accumulated depreciation and amortization	-	(32,760,656)	(179,720,221)	(59,527,339)	(236,067,230)	(508,075,446)
Net carrying amount	P 84,327,556	P 77,497,199	P 119,541,383	P 60,828,130	P 173,572,208	P515,766,476

(Amounts in Philippine Pesos or As Otherwise Indicated)

A reconciliation of the carrying amounts at the beginning and end of 2016 and 2015 is shown below.

	Land	Building	Furniture, Fixtures and Equipment	Transportation Equipment	Leasehold Improvements	Total
Balance at January 1, 2016, net of accumulated depreciation and amortization	P 84,327,556	P 73,290,096	P152,730,835	P 59,153,510	P193,132,725	P562,634,722
Additions	-	-	53,900,234	39,052,916	50,030,152	142,983,302
Acquisition from RBK (see Note 17.1)	5,520,600	1	95,611	2	1	5,616,215
Disposals	-	-	(13,761,821)	(8,181,975)	(11,728,207)	(33,672,003)
Depreciation and amortization charges for the year	-	(3,353,720)	(46,074,684)	(25,107,993)	(67,030,201)	(141,566,598)
Balance at December 31, 2016, net of accumulated depreciation and amortization	**P 89,848,156**	**P 69,936,377**	**P 146,890,175**	**P 64,916,460**	**P164,404,470**	**P535,995,638**
Balance at January 1, 2015, net of accumulated depreciation and amortization	P 84,327,556	P 77,497,199	P119,541,383	P 60,828,130	P 173,572,208	P515,766,476
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	P 84,327,556	P 73,290,096	P152,730,835	P 59,153,510	P193,132,725	P562,634,722

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, 2016 and 2015, the Bank has satisfactorily complied with this requirement.

As of December 31, 2016 and 2015, the Bank's fully depreciated bank premises, furniture, fixtures and equipment still in use in operations amounted to P94.0 million and P130.9 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 2016 and 2015 are shown below.

	Land	Buildings and Improvements	Total
December 31, 2016			
Cost	P 390,539,220	P 153,159,794	P 543,699,014
Accumulated depreciation	-	(66,564,578)	(66,564,578)
Allowance for impairment	(26,551,861)	(2,192,994)	(28,744,855)
Net carrying amount	**P 363,987,359**	**P 84,402,222**	**P 448,389,581**
December 31, 2015			
Cost	P 620,444,728	P 138,104,027	P 758,548,755
Accumulated depreciation	-	(54,033,276)	(54,033,276)
Allowance for impairment	(26,551,861)	(2,192,994)	(28,744,855)
Net carrying amount	**P 593,892,867**	**P 81,877,757**	**P 675,770,624**
January 1, 2015			
Cost	P 651,957,954	P 127,493,252	P 779,451,206
Accumulated depreciation	-	(44,970,629)	(44,970,629)
Allowance for impairment	(26,551,861)	(2,192,994)	(28,744,855)
Net carrying amount	**P 625,406,093**	**P 80,329,629**	**P 705,735,722**

A reconciliation of the carrying amounts of investment properties at the beginning and end of 2016 and 2015 is shown below and in the succeeding page.

	Land	Buildings and Improvements	Total
Balance at January 1, 2016, net of accumulated depreciation and impairment	P 593,892,867	P 81,877,757	P 675,770,624
Additions	150,318,826	25,368,089	175,686,915
Acquisition of RBK – net (see Note 17.1)	10,183,407	5,656,990	15,840,397
Disposals	(390,407,741)	(16,994,890)	(407,402,631)
Depreciation for the year	-	(11,505,724)	(11,505,724)
Balance at December 31, 2016, net of accumulated depreciation and impairment	**P 363,987,359**	**P 84,402,222**	**P 448,389,581**
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	-	(12,545,126)	(12,545,126)
Balance at December 31, 2015, net of accumulated depreciation and impairment	P 593,892,867	P 81,877,757	P 675,770,624

(Amounts in Philippine Pesos or As Otherwise Indicated)

The total estimated fair values of the Bank's investment properties amounted to P617.3 million and P803.3 million as of December 31, 2016 and 2015, respectively (see Note 7.4).

In 2016, 2015 and 2014, gains on sale of investment properties amounted to P14.9 million, P15.0 million and P27.8 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).

17. OTHER RESOURCES

This account consists of the following as of December 31:

	Notes	**2016**	2015
Other investments	17.1	P **669,579,319**	P 602,077,114
Deferred tax assets – net	25	**413,836,354**	343,049,563
Branch licenses	17.2	**249,987,660**	248,575,050
Goodwill	17.3	**109,392,041**	49,878,393
Due from head office or branches		**74,862,587**	95,550,242
Foreign currency notes and coins on hand	9	**59,387,782**	63,871,020
Computer software – net		**51,792,167**	56,151,749
Prepaid expenses		**35,237,702**	53,540,346
Security deposits		**29,660,825**	28,018,409
Sundry debits		**23,250,933**	91,598,123
Deferred charges	17.4	**13,383,687**	13,383,687
Stationery and supplies		**13,063,971**	12,837,539
Retirement benefit asset	23.2	**8,550,906**	
Miscellaneous	17.4	**63,599,920**	65,302,793
		1,815,585,854	1,723,834,028
Allowance for impairment		(**15,038,424**)	(15,038,424)
		P 1,800,547,430	P 1,708,795,604

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

	2016	2015
Balance at beginning of year	**P 15,038,424**	P 13,393,424
Impairment loss for the year	**-**	1,645,000
Balance at end of year	**P 15,038,424**	P 15,038,424

17.1 Other Investments

(a) Acquisition of Shares of Insular Savers Bank, Inc.

In July 2015, the Bank's BOD approved the acquisition of all outstanding shares of Insular Savers Bank, Inc. (ISBI) with an agreed initial purchase price of P518.2 million. Of this purchase price, the Bank directly paid P101.2 million to the shareholders of ISBI and deposited P417.0 million with the escrow agent. In 2016, the agreed purchase price was increased by P82.5 million, which remained unpaid and recognized as part of Account payable under Accrued Expenses and Other Liabilities in the 2016 statement of financial position (see Note 20). As of December 31, 2016 and 2015, the Bank has already released from the escrow fund the amount of P252.9 million and P105.1 million, respectively, as payment to the ISBI shares. As of December 31, 2016, the acquisition is still subject to BSP approval. Pending such approval, the total purchase price of P600.7 million is initially presented as part of Other investments under Other Resources.

(b) *Purchase of Assets and Assumption of Liabilities of Bataan Savings and Loan Bank, Inc.*

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 in 2015. As of December 31, 2016, the transaction is still subject to BSP approval. Pending such approval, the total purchase price of P68.8 million is initially presented as part of Other investments under Other Resources.

(c) *Purchase of Assets and Assumption of Liabilities of Rural Bank of Kawit*

In September 2014, as part of its expansion strategy, the Bank's BOD approved the acquisition of all properties and assets of RBK and assumption of all its obligation with a purchase price of P15.0 million. As of December 31, 2015, the approval of the BSP has not yet been obtained; hence, the acquisition price is still booked as part of Other investments under Other Resources. Thereafter, on February 1, 2016, the BSP approved such acquisition. Accordingly, the Bank recognized the following assets and liabilities of RBK at their fair values (amounts in millions), resulting to goodwill of P59.5 million.

Cash and cash equivalents	P	29,323
Trading and investment securities		6,602
Loans and other receivables		94,332
Bank premises, furniture, fixtures and equipment		5,616
Investment properties		15,840
Other resources		3,025
Total assets	P	154,738
Deposit liabilities		155,913
Other liabilities		43,339
Total liabilities		199,252
Net liability position		44,514
Cash consideration		15,000
Goodwill (see Note 17.3)	P	59,514

17.2 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.

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. Goodwill recognized from this transaction amounted to P49.9 million.

Following BSP's approval of the Bank's acquisition of RBK, the Bank has recognized a goodwill amounting to P59.5 million (see Note 17.1).

17.4 Others

Deferred charges amounting to P13.4 million as of December 31, 2016 and 2015 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) amounted to P6.8 million and P4.8 million as of December 31, 2016 and 2015, respectively. Additions to other properties held for sale in 2016 and 2015, as a result of foreclosure, amounted to P16.2 million and P0.5 million, respectively. In 2016 and 2015, certain properties were sold with book value of P14.7 million and P0.5 million, respectively. Gain or loss on sale from the disposal amounted to P1.7 million and P0.2 million in 2016 and 2015, respectively, and is presented as part of Gain on sale of properties 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:

	2016	2015
Within one year	**P 57,569,682,714**	P 54,225,906,880
Beyond one year	**1,338,078,026**	790,312,630
	P 58,907,760,740	P 55,016,219,510

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

	2016	2015
Philippine peso	**P 54,102,014,779**	P 48,557,474,402
Foreign currencies	**4,805,745,961**	6,458,745,108
	P 58,907,760,740	P 55,016,219,510

Annual interest rates on deposit liabilities range from 0.3% to 2.9% in 2016, 0.3% to 2.8% in 2015 and 0.3% to 2.6% in 2014.

As mentioned in Note 24, the Bank has deposit liabilities from DOSRI as of December 31, 2016 and 2015.

Under existing BSP regulations, non-FCDU deposit liabilities are subject to required reserves for deposits of 8.0%. 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, 2016 and 2015 amount to P4,265.7 million and P3,802.6 million, respectively (see Note 9).

19. BILLS PAYABLE

As of December 31, 2015, the Bank's outstanding bills payable include liabilities to other banks amounting to P1.0 million, which were fully paid in 2016. The Bank has no outstanding bills payable as of December 31, 2016.

Bills payable are denominated in Philippine pesos with annual interest rates ranging from 4.0% to 5.4% and 2.3% to 5.4% in 2015 and 2014, respectively. The total interest expense incurred amounted to P0.01 million, P3.3 million and P2.2 million in 2016, 2015 and 2014, respectively, and these are presented as Interest Expense on Bills Payable in the statements of profit or loss. As of December 31, 2015, 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:

	Notes	2016	2015
Bills purchased		P 784,889,441	P 1,248,610,581
Accounts payable	17.1(a)	384,660,807	334,167,460
Accrued expenses	31.1(a)	162,144,193	142,337,555
Manager's checks		138,410,956	113,701,850
Income tax payable		126,568,663	66,868,068
Dividends payable	21.2	79,200,000	-
Outstanding acceptances		41,652,264	41,982,694
Withholding taxes payable		32,984,845	32,617,776
Post-employment benefit obligation	23.2	-	23,388,433
Derivative liabilities	7.2	-	1,886,043
Others		37,240,170	89,872,899
		P 1,787,751,339	P 2,095,433,359

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

Accounts payable includes the increase in the purchase price in relation to the acquisition of ISBI amounting to P82.5 million (see Note 17.1). Also included in this account are 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.

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

21. EQUITY

21.1 Capital Stock

Capital stock as of December 31 consists of:

	Number of Shares		Amount	
	2016	2015	2016	2015
Preferred shares – P10 par value				
Authorized – 130,000,000 shares				
Issued, fully paid and outstanding	62,000,000	62,000,000	P620,000,000	P 620,000,000
Common shares – P10 par value				
Authorized – 870,000,000 shares				
Issued, fully paid and outstanding				
Balance at beginning of year	536,458,437	429,166,750	P 5,364,584,370	P 4,291,667,500
Stock dividends(see Note 21.2)	-	107,291,687	-	1,072,916,870
Balance at end of year	536,458,437	536,458,437	P 5,364,584,370	P 5,364,584,370

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 17, 2016, the Bank's BOD approved the redemption of all the issued and outstanding 62,000,000 preferred shares (with P10 par value) for a total amount of P620.0 million through staggered redemption. However, no preferred shares have been redeemed by the Bank as of December 31, 2016.

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, 2016 and 2015, the Bank has 65 and 64 holders, respectively, of its equity securities listed in the PSE and its share price closed at P14.36 and P16.98, respectively. The Bank has 536,458,423 million common shares traded in the PSE both as of December 31, 2016 and 2015.

21.2 Dividends

On December 29, 2016, the Bank's BOD approved the declaration of cash dividends on preferred shares amounting to P79.2 million. As of December 31, 2016, the cash dividends remain unpaid and presented as Dividends payable under Accrued Expenses and Other Liabilities account in the 2016 statement of financial position (see Note 20).

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 2016, 2015 and 2014, additional appropriations of surplus amounting to P1.2 million, P1.4 million and P1.6 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, 2016 and 2015, the sinking fund for the redemption of redeemable preferred shares is yet to be established.

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. The 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.

21.5 Revaluation Reserves

Revaluation reserves pertain 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:

	Notes	2016	2015	2014
Gain on sale of properties – net	16, 17.4	**P 14,957,797**	P15,028,632	P27,801,013
Trust fees	28	**11,901,649**	13,874,866	16,476,979
Gain (loss) on foreclosure - net		**-**	(2,480,845)	87,676,870
Others		**57,874,929**	47,008,310	12,198,935
		P 84,734,375	P 73,430,963	P144,153,797

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

22.2 Miscellaneous Expense

This account is composed of the following:

	2016	2015	2014
Transportation and travel	**P 96,504,349**	P 90,613,557	P 83,152,129
Fines, penalties and other charges	**39,600,153**	2,407,469	-
Communication	**36,024,924**	28,225,214	24,038,942
Banking fees	**22,528,788**	26,472,435	18,625,488
Amortization of software licences	**19,386,217**	18,184,042	13,847,731
Office supplies	**13,374,619**	13,647,334	14,021,252
Litigation on asset acquired	**12,053,842**	35,032,847	24,195,212
Information technology	**10,752,537**	9,373,418	2,052,533
Advertising and publicity	**7,494,481**	9,824,351	9,727,883
Freight	**3,226,217**	3,697,495	2,277,301
Membership dues	**2,740,285**	2,273,029	1,719,026
Donations and contributions	**2,050,658**	161,806	6,307,236
Others	**30,236,384**	26,603,506	24,848,299
	P 295,973,454	P 266,516,503	P 224,813,032

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

23. EMPLOYEE BENEFITS

23.1 Salaries and Other Employee Benefits Expense

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

	Notes	2016	2015	2014
Salaries and wages		**P 383,868,028**	P 324,688,012	P 278,087,924
Post-employment defined benefit plan	23.2	**27,422,063**	23,344,826	22,450,730
Bonuses		**23,545,447**	98,262,420	96,991,056
Social security costs		**22,051,522**	18,922,253	17,816,211
Short-term medical benefits		**518,914**	223,416	60,670
Other short-term benefits		**178,117,917**	78,005,801	64,145,746
		P 635,523,891	P 543,446,728	P 479,552,337

(Amounts in Philippine Pesos or As Otherwise Indicated)

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 2016 and 2015.

The amounts of post-employment defined benefit obligation asset (obligation) (see Notes 17 and 20) recognized in the statements of financial position are determined as follows:

	2016	2015
Present value of the DBO	(P 172,249,214)	(P 172,423,348)
Fair value of plan assets	181,260,159	149,034,915
Effect of the asset ceiling	(460,039)	-
	P 8,550,906	(P 23,388,433)

The movements in the present value of the post-employment DBO are as follows:

	2016	2015
Balance at beginning of year	P 172,423,348	P 144,748,892
Current service cost	27,422,063	23,344,826
Interest expense	8,431,502	6,499,225
Remeasurements:		
Actuarial losses (gains) arising from changes in:		
demographic assumptions	(43,677,175)	-
financial assumptions	10,267,235	5,201,633
experience adjustments	3,502,031	(1,639,231)
Benefits paid	(6,119,790)	(5,731,997)
Balance at end of year	P 172,249,214	P 172,423,348

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

	2016	2015
Balance at beginning of year	P 149,034,915	P 104,938,653
Contributions to the plan	37,133,819	37,133,819
Interest income	8,046,100	5,416,716
Return on plan assets (excluding amounts included in net interest)	(6,834,885)	7,277,724
Benefits paid	(6,119,790)	(5,731,997)
Balance at end of year	P 181,260,159	P 149,034,915

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

	2016	2015
Cash and cash equivalents	**P 57,196,247**	P 120,244,871
Government bonds	**100,147,102**	17,767,686
Corporate bonds	**15,692,733**	9,970,695
Equity instruments	**7,840,560**	-
Accrued interest	**383,517**	1,051,663
	P 181,260,159	P 149,034,915

The fair values of the above equity instruments, government and other bonds are determined based on quoted market prices in active markets.

The plan assets earned actual return of P1.2 million and P12.7 million in 2016 and 2015, respectively.

Plan assets comprise certain financial instruments of the Bank (see Note 24.3).

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:

	2016	2015	2014
Reported in profit or loss:			
Current service cost	**P 27,422,063**	P 23,344,826	P 22,450,730
Net interest expense	**385,402**	1,082,509	1,508,448
	P 27,807,465	P 24,427,335	P 23,959,178
Reported in other comprehensive income:			
Actuarial gains (losses) arising from changes in:			
demographic assumptions	**P 43,677,175**	P -	P -
financial assumptions	**(10,267,235)**	(5,201,633)	(4,814,608)
experience adjustments	**(3,502,031)**	1,639,231	4,547,415
Return on plan assets (excluding amounts included in net interest expense)	**(6,834,885)**	7,277,724	(1,920,720)
Effect of the asset ceiling	**(460,039)**	-	-
	P 22,612,985	P 3,715,322	(P 2,187,913)

Current service cost is presented as part Salaries and Other Employee Benefits (see Note 23.1) 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:

	2016	2015	2014
Discount rates	**5.38%**	4.9%	4.5%
Expected rate of salary increases	**8.0%**	6.0%	5.0%
Employee turnover	**9.7% - 20.9%**	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.

(Amounts in Philippine Pesos or As Otherwise Indicated)

(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 pages.

(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, 2016 and 2015:

	Impact on Post-employment Benefit Obligation		
	Change in Assumption	**Increase in Assumption**	**Decrease in Assumption**
December 31, 2016			
Discount rate	**+5.7%/-5.1%**	**(P 9,737,183)**	**P 8,715,688**
Salary rate	**+4.7%/-4.3%**	**8,040,911**	**(7,375,233)**
Turnover rate	**+52.0%**	**(89,549,497)**	**-**
December 31, 2015			
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)	-

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.

As of December 31, 2016 and 2015, the plan has investment in cash and cash equivalents and debt securities. The Bank believes that cash and cash equivalents and 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 currently is in excess of fund amounting by P8.6 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 Bank expects to pay P37.1 million as contribution to retirement benefit plan in 2017.

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

	2016	2015
Within one year	**P 39,507,044**	P 20,948,575
More than one year to five years	**47,579,612**	36,919,502
More than five years to ten years	**84,392,549**	60,175,169
	P 171,479,205	P 118,043,246

The weighted average duration of the defined benefit obligation at the end of the reporting period is 5.4 years.

24. RELATED PARTY TRANSACTIONS

The Bank's related parties include its DOSRI, retirement fund and others as described below and in the succeeding pages.

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

		2016		2015	
Related Party Category	Notes	**Amount of Transaction**	**Outstanding Balance**	Amount of Transaction	Outstanding Balance
DOSRI					
Deposit liabilities	24.1	**P6,891,205,514**	**P 6,471,966,695**	P6,783,959,179	P 6,579,213,030
Loans	24.2	**1,217,879,975**	**1,212,117,019**	1,278,906,663	1,257,883,137
Interest income on loans	24.2	**44,013,008**	**2,832,634**	48,498,573	3,406,592
Key management compensation	24.4	**101,934,057**	**-**	83,029,008	-
Retirement Fund					
Contribution	24.3	**37,133,819**	**-**	37,133,819	-
Plan assets	24.3	**83,356**	**42,457,190**	37,164	1,997,083

(Amounts in Philippine Pesos or As Otherwise Indicated)

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, 2016 and 2015.

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. However, non-risk loans are excluded in both individual and aggregate ceiling computation. As of December 31, 2016 and 2015, the Bank has satisfactorily complied with the BSP requirement on DOSRI limits.

The following table shows the other information relating to the loans, other credit accommodations and guarantees granted to DOSRI as of December 31 in accordance with BSP reporting guidelines:

		2016		2015
Total outstanding DOSRI loans	**P**	**1,212,117,019**	P	1,257,883,137
Unsecured DOSRI loans		**9,856,451**		11,312,547
Past due DOSRI loans		-		3,819,459
% to total loan portfolio		**2.3%**		3.0%
% of unsecured DOSRI loans to total DOSRI loans		**0.8%**		0.9%
% of past due DOSRI loans to total DOSRI loans		**0.0%**		0.3%

Secured DOSRI loans are collateralized by hold-out on deposits and are payable within three months to five years.

As of December 31, 2016 and 2015, the Bank has an approved line of credit to certain related parties totaling P23.0 million and P24.3 million, respectively, and all were 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 transactions with its retirement fund as of December 31, 2016 and 2015 relate to the contributions and benefits paid out of the plan to the Bank's employees as disclosed in Note 23.2.

The following retirement plan assets are also placed in the Bank comprising of cash in bank, short-term placements, and equity shares of the Bank:

		2016		2015
Cash and cash equivalents	**P**	**34,606,247**	P	1,994,871
Equity instruments		**7,840,560**		-
Accrued interest		**10,383**		2,212
	P	**42,457,190**	P	1,997,083

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.

		2016		2015		2014
Salaries and wages	**P**	**72,088,807**	P	58,902,581	P	55,286,737
Bonuses		**17,987,189**		14,890,912		13,771,434
Post-employment defined benefit		**9,024,121**		7,004,439		8,701,539
Social security costs		**1,508,717**		1,178,696		1,168,208
Other short-term benefits		**1,325,223**		1,052,380		683,000
	P	**101,934,057**	P	83,029,008	P	79,610,918

25. TAXES

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

		2016		2015		2014
Reported in profit or loss						
Current tax expense:						
Regular corporate income tax (RCIT) at 30%						
Regular Banking Unit (RBU)	**P**	**183,050,792**	P	165,170,994	P	176,802,660
FCDU		**669,447**		2,323,577		410,982
Final tax at 20%, 10% and 7.5%		**99,688,898**		93,574,103		100,999,011
		283,409,137		261,068,674		278,212,653
Deferred tax income relating to origination and reversal of temporary differences	(	**77,570,687)**	(	57,771,400)	(	35,773,420)
	P	**205,838,450**	P	203,297,274	P	242,439,233
Reported in other comprehensive income						
Deferred tax expense (income) relating to origination and reversal of temporary differences	**P**	**6,783,896**	P	1,114,597	(P	656,374)

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:

		2016		2015		2014
Tax on pretax profit at 30%	**P**	**262,338,797**	P	211,631,783	P	233,593,301
Adjustment for income subjected to lower tax rates	(	**39,204,162)**	(	93,128,766)	(	78,188,870)
Tax effects of:						
Non-deductible expenses		**158,214,458**		89,587,230		90,655,288
Non-taxable income	(	**175,510,643)**	(	4,792,973)	(	3,620,486)
Tax expense	**P**	**205,838,450**	P	203,297,274	P	242,439,233

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.

(Amounts in Philippine Pesos or As Otherwise Indicated)

The net deferred tax assets as of December 31, 2016 and 2015 (included as part of Other Resources account – see Note 17) relate to the following:

	2016	2015
Deferred tax assets:		
Allowance for impairment	**P 368,707,306**	P 324,923,516
Accumulated depreciation of investment properties	**21,051,739**	17,842,060
Accrued bonus and leave conversion	**18,771,937**	9,697,390
Unamortized past service cost	**11,124,277**	9,990,473
Deferred tax liabilities:		
Gain on initial exchange of investment properties	**(3,253,633)**	(26,420,406)
Post-employment benefit obligation	**(2,565,272)**	7,016,530
Net Deferred Tax Assets	**P 413,836,354**	P 343,049,563

Movements in net deferred tax assets for the years ended December 31 follow:

	Statements of Profit or Loss			**Statements of Comprehensive Income**		
	2016	2015	2014	**2016**	2015	2014
Allowance for impairment	**(P 43,783,790)**	(P 51,615,107)	(P 52,940,136)	**P -**	P -	P -
Gain on initial exchange of investment properties	**(23,166,773)**	(6,006,466)	17,477,929	**-**	-	-
Accrued bonus and leave conversion	**(9,074,547)**	1,236,601	(721,539)	**-**	-	-
Accumulated depreciation of investment properties	**(3,209,679)**	(2,550,046)	(211,840)	**-**	-	-
Post-employment benefit obligation	**2,797,906**	3,811,945	2,089,701	**6,783,896**	1,114,597	(656,374)
Unamortized past service cost	**(1,133,804)**	(2,648,327)	(1,467,535)	**-**	-	-
Deferred Tax Expense (Income)	**(P 77,570,687)**	(P 57,771,400)	(P 35,773,420)	**P 6,783,896**	P 1,114,597	(P 656,374)

As of December 31, 2016 and 2015, the Bank has unrecognized deferred tax assets amounting to P10.5 million which pertain to certain allowance for impairment absorbed from KRBI upon merger in 2010.

For the years ended December 31, 2016 and 2015, the Bank opted to claim itemized deductions.

26. EVENT AFTER THE END OF REPORTING PERIOD

On March 15, 2017, the Board of Directors approved the declaration of 20% stock dividends amounting to P1,072.9 million to all issued and outstanding common stockholders.

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. The rent expense amounting to P130.8 million, P115.1 million and P95.5 million in 2016, 2015 and 2014, respectively, are included as part of Occupancy under Other Expenses in the statements of profit or loss.

As of December 31, 2016, 2015 and 2014, future minimum rental payments required by the lease contracts are as follows:

	2016	2015	2014
Within one year	P 108,367,205	P 107,784,137	P 83,544,132
After one year but not more than five years	210,308,732	244,536,398	219,653,731
More than five years	7,452,777	10,418,892	22,230,832
	P 326,128,714	P 362,739,427	P 325,428,695

(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:

	2016	2015
Investment management accounts	P 1,938,042,428	P 4,059,027,956
Outstanding letters of credit	807,107,561	1,193,799,732
Trust and other fiduciary accounts	796,018,046	506,103,798
Outward bills for collection	53,479,103	8,423,324
Unit investment trust fund	34,259,888	31,812,677
Late payment/deposits received	7,615,931	9,736,574
Items held for safekeeping	66,919	68,979
Items held as collateral	8,720	9,416
Other contingent accounts	543,038,687	529,127,518

As of December 31, 2016 and 2015, 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:

	2016	2015
Loans and other receivables	P 167,713,458	P 2,390,413,668
Due from banks	1,073,711,290	982,964,468
Investment securities	1,444,251,174	981,566,295
Due from BSP	81,000,000	242,000,000
	P 2,766,675,922	P 4,596,944,431

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 P55.0 million and P70.75 million as of December 31, 2016 and 2015, 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 P1.2 million, P1.4 million and P1.6 million in 2016, 2015 and 2014, 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 P11.9 million, P13.9 million and P16.5 million for the years ended December 31, 2016, 2015 and 2014, respectively, in the statements of profit or loss (see Note 22.1).

(Amounts in Philippine Pesos or As Otherwise Indicated)

29. SELECTED FINANCIAL PERFORMANCE INDICATORS

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

	2016	2015	2014
Return on average capital			
Net profit / Average total capital accounts	**7.4%**	6.1%	7.1%
Return on average resources			
Net profit / Average total resources	**1.0%**	0.8%	1.0%
Net interest margin			
Net interest income / Average interest earning resources	**3.9%**	4.1%	4.5%
Capital to risk assets ratio			
Total capital / Risk resources	**16.7%**	19.1%	20.8%
Liquidity ratio			
Current assets / Current liabilities	**1.5**	1.0	1.3
Debt-to-equity ratio			
Liabilities / Equity	**6.3**	6.7	6.2
Asset-to-equity ratio			
Asset / Equity	**7.3**	7.7	7.2
Interest rate coverage ratio			
Earnings before interests and taxes / Interest expense	**2.2**	1.9	2.3

b. Secured Liabilities and Resources Pledged as Security

As of December 31, 2016, all of the Bank's liabilities are unsecured, while as of December 31, 2015, bills payable are the only secured liabilities (see Note 19).

30. EARNINGS PER SHARE

Basic and diluted earnings per share are computed as follows:

		2016		2015		2014
Net profit	P	**668,624,205**	P	502,142,004	P	536,205,104
Dividends on preferred shares	(	**79,200,000)**		-	(	62,325,000)
Net profit attributable to common shareholders		**589,424,205**		502,142,004		473,880,104
Divided by the weighted average number of outstanding common shares		**536,458,437**		536,458,437		536,458,437
Basic earnings per share	**P**	**1.10**	P	0.94	P	0.88

The 2014 earnings per share of the Bank was 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 at the beginning of the earliest period presented for earnings per share computation.

As of December 31, 2016, 2015 and 2014, the Bank has no outstanding potentially dilutive securities; hence, basic earnings per share is 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 2016, the Bank reported total GRT amounting to P182,608,311 shown under Taxes and Licenses account in the 2016 statement of profit or loss [see Note 31.1(c)]. GRT paid during the year amounted to P167,875,691, exclusive of December 2015 GRT paid during 2016. The total GRT payable as of December 31, 2016 amounted to P14,732,620, included as part of Accrued expenses under Accrued Expenses and Other Liabilities account in the 2016 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 5% or 1% of the related income.

(b) Documentary Stamp Tax

The Bank is enrolled under the Electronic Documentary Stamp Tax (e-DST) System starting July 2010. In 2016, DST remittance thru e-DST amounted to P423,114,453, while DST on deposits for remittance amounts to P200,652,942. 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 2016 amounting to P222,461,511 were charged to borrowers and these were properly remitted by the Bank.

DST accruing to the Bank amounted to P150,979,020 and is presented as part of the Taxes and Licenses account in the 2016 statement of profit or loss [see Note 31.1(c)].

(Amounts in Philippine Pesos or As Otherwise Indicated)

(c) Taxes and Licenses

The details of Taxes and Licenses account for the year ended December 31, 2016 follow:

	Note		
Gross receipts tax	31.1(a)	P	182,608,311
DST	31.1(b)		150,979,020
Business tax			14,532,248
Real property tax			1,041,756
Miscellaneous			4,943,373
		P	354,104,708

Taxes and licenses allocated to tax exempt income and FCDU totaling P29,163,558 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, 2016 are shown below.

Final	P	126,740,947
Compensation and benefits		74,414,957
Expanded		17,808,696
	P	218,964,600

(e) Deficiency Tax Assessments and Tax Cases

In 2016, the Bank paid final deficiency taxes on DST, withholding taxes and gross receipts tax for taxable years 2013 and 2014 totalling P39,034,054.

Other than the foregoing, as of December 31, 2016, the Bank does not have any outstanding final deficiency tax assessments from the BIR nor does it have tax cases under preliminary investigation, litigation and/or prosecution in courts or bodies outside the BIR in any open taxable years other than the final deficiency taxes paid.

(f) Other Required Tax Information

The Bank did not have any transactions in 2016, 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 2016 statement of profit or loss, which are based on PFRS.

(a) Taxable Revenues

The Bank's taxable revenues for the year ended December 31, 2016 at the regular tax rate pertain to interest income amounting to P2,638,171,685.

(b) *Deductible Costs of Services*

Deductible costs of services for the year ended December 31, 2016 at the regular tax rate comprise the following:

Salaries and wages	P	560,869,608
Interest expense		519,417,517
Insurance		99,511,234
Supervision/examination fees		17,637,315
	P	**1,197,435,674**

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

The details of taxable non-operating and other income in 2016 which are subject to regular tax rate are shown below.

Bank commissions and service charges	P	149,054,487
Gain on sale of properties		92,180,278
Others		65,624,661
	P	**306,859,426**

(d) *Itemized Deductions*

The amounts of itemized deductions for the year ended December 31, 2016 subject to regular tax rate follow:

Taxes and licenses	P	324,941,150
Depreciation		141,566,598
Rental		129,018,196
Management and other professional fees		115,048,373
Janitorial and messengerial		93,757,092
Communication, light and water		62,186,857
Transportation and travel		50,924,943
Fuel and oil		37,631,446
Representation		29,311,957
Insurance		28,128,149
Amortization of computer software		17,789,596
Realized net trading loss		13,835,440
Office supplies		12,273,104
Litigation		12,053,842
Information technology		9,866,974
Repairs and maintenance		8,997,853
Advertising and promotion		6,877,246
Charitable contribution		1,881,769
Others		41,335,546
	P	**1,137,426,131**

Corporate Governance

The Board of Directors, Management and Staff, and Shareholders of Philippine Business Bank, Inc. (PBB)believe that corporate governance is an indispensable component of what constitutes sound strategic business management and will therefore undertake every effort necessary to create and sustain awareness within the organization. Hence, the Board of Directors, Management, and Staff of the Bank commit to the principles and best practices set forth in the Board approved Corporate Governance Manual, and acknowledge that the same shall guide the Bank in the attainment of its corporate goals.

A copy of the Manual was provided to the Bangko Sentral Ng Pilipinas (BSP) and the Securities and Exchange Commission (SEC).

As a banking institution publicly listed in the Philippines, PBB is regulated and supervised by the BSP and the SEC. The Bank's activities are subject to the provisions of the General Banking Law of 2000 (Republic Act No. 8791), Corporation Code of the Philippines, and other laws such as the Anti-Money Laundering Act of 2001 (Republic Act No.9160), as amended.

Board Structure

PBB has been approved by the SEC to have ten (10) elected directors, two (2) of which are Independent Directors, per its Amended Articles of Incorporation dated February 27, 2013.

The position of a bank director is a position of trust and confidence. A director assumes certain responsibilities to different constituencies or stakeholders (e.g. the bank itself, its stockholders, its depositors and other creditors, its management and employees, and the public at large).

The Board of Directors has adopted the following corporate governance policies with regard to shareholders' rights and protection, disclosure duties and board responsibilities:

i) The Board of Directors is committed to respect and uphold the rights and powers of all shareholders, regardless of the number of their shareholdings, such as: (a) voting right, (b) power to inspect corporate books and records, (c) right to information, (d) right to dividends, and (e) right to appraisal.

Specifically, under the voting right of a stockholder, a director may not be removed without just cause if it will deny minority shareholders representation in the Board. Likewise, under the right to information, a minority shareholder is granted the right to propose the holding of a meeting, and the right to propose items in the agenda; provided the items are for legitimate business purposes.

ii) The Board of Directors provides periodic reports to the shareholders on personal and professional information about the directors and officers and on other matters, such as their dealings with, and shareholdings in, the Bank, relationship among directors and key officers and the aggregate compensation of directors and officers.

iii) The Board of Directors has general responsibilities of: (1) approving and overseeing the implementation of the Bank's strategic objectives, risk strategy corporate governance and corporate values; (2) monitoring and overseeing the performance of senior management as the latter manages the day-to-day affairs of the institution.

To aid the Bank in complying with the principles of good governance, the Board constitutes the following Committees:

1. *Corporate Governance / Nomination Committee*
The Corporate Governance Committee *is tasked to assist the Board in the performance of its corporate governance responsibilities* by reviewing and evaluating the qualifications of all persons nominated to the Board as well as those nominated to other positions requiring appointment by the Board of Directors. *It also ensures compliance with and proper observance of corporate governance principles and practices.*

   It also enhances the corporate governance standards of the Bank by identifying, addressing and working towards its ASEAN Corporate Governance scorecard (ACGS).

2. *Manpower, Compensation and Remuneration Committee*
This Committee is responsible for the establishment of a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration packages of corporate officers and directors. They also provide oversight over remuneration of senior

management and other key personnel ensuring that compensation is consistent with the bank's culture, strategy and control environment.

3. *Executive Committee*
This Committee has been delegated by the Board of Directors with some of its powers and responsibilities as provided for in the by-laws, including but not limited to the supervision of other board committees and subject to the limitations and restrictions as may be imposed by the Board of Directors.

4. *Risk Oversight Committee*
The Risk Oversight Committee (ROC) is responsible for the development and oversight of the *Bank's Enterprise Risk Management system to ensure its functionality and effectiveness.* The Committee is composed of at least three (3) members of the BOD including at least one (1) independent director, and a chairperson who is non-executive member. The members of the Risk Oversight Committee shall possess a range of expertise as well as adequate knowledge of the institution's risk exposures to be able to develop appropriate strategies for preventing losses and minimizing the impact of losses when they occur. It oversees the system of limits to discretionary authority that the board delegates to management, ensure that the system remains effective, that the limits are observed and that immediate corrective actions are taken whenever limits are breached.

5. *Audit Committee*
The audit committee provides oversight over the *bank's* financial reporting policies, *internal control system, internal and external audit processes, and compliance with applicable laws and regulations*. It is responsible for the setting-up of the internal audit department and the appointment of the internal auditor as well as the independent external auditor who shall both report directly to the audit committee. It monitors and evaluates the adequacy and effectiveness of the internal control system of the Bank.

The committee is composed of at least three (3) appropriately qualified non-executive directors, the majority of whom, including the Chairman, should be independent. All of the members of the committee must have relevant background, knowledge, skills, and/or experience in the areas of accounting, auditing and finance.

6. *Trust Committee*
The Committee is a policy-making body responsible in overseeing the Trust and Investment Center of the Bank. It formulates and endorses policies for approval of the Board, including guidelines on administration, processes, and investments held in its capacity as trustee related to its fiduciary accounts.

The Trust Committee shall be composed of at least five (5) members including the (1) president OR ANY SENIOR OFFICER OF THE BANK AND (2) the trust officer.

7. *Related Party Transactions (RPT) Committee*
The Related Party Transaction (RPT) Committee is tasked with reviewing all material related party transactions of the bank. It is composed of at least three (3) non-executive directors, two (2) of whom are independent, including the Chairman.

The committee evaluates on an ongoing basis existing relations between and among businesses and counterparties to ensure that all related parties are continuously identified, RPTs are monitored, and subsequent changes in relationships with counterparties (from non-related to related and vice versa) are captured. Related parties, RPTs and changes in relationships should be reflected in the relevant reports to the Board and regulators/supervisors. It also oversees the implementation of the system for identifying, monitoring, measuring, controlling, and reporting RPTs including a periodic review of RPT policies and procedures.

Monitoring Compliance to Corporate Governance Principles and Standards

To ensure that there is consistent application of the principles of good corporate governance as detailed in the Manual of Corporate Governance approved by the Board of Directors, PBB adopted a self-evaluation methodology to evaluate and measure the performance of its Board of Directors as a body, its board committees, the individual directors and senior management. The self-evaluation is conducted every year, the result of which is submitted to the Compliance Office for consolidation and reporting to the Corporate Governance Committee, at least thirty (30) days prior to the yearly Stockholders' Meeting.

PBB has adopted a "COMPLIANCE MONITORING AND ASSESSMENT" policy to ensure full institutional compliance with the adopted leading practices on good corporate governance. This includes, among others, the regular reporting of the Board Committees to the Board of Directors; evaluation system established by the Compliance Office to measure compliance with the Manual of Corporate Governance and implement sanctions in case of breach; annual review of the Manual; inclusion of monitoring compliance with applicable laws, rules and regulations and corporate policies, procedures and standards of conduct to prevent possible deviations that might result in compliance concerns; and the regular compliance testing on all units performed by the Compliance Office and its Compliance Coordinators.

Related Party Transactions

Related party transactions (RPTs) shall be allowed provided that these comply with applicable regulatory/internal limits/requirements and dealings are conducted at arm's length basis. Said transactions shall only be made and entered into substantially on terms and conditions not less favorable than those with other customers of comparable risks.

Off-market rates applies to DOSRI provided these are supported by valid justifications or reasons (such as high volatility in the market, meaning quoted rates might have changed greatly within the day) and senior management is made fully aware of such reasons/justifications and subject to the off-market rate tolerance level. Off-market rates are foreign currency rates, fixed income yields or prices, and money market rates that are higher than the highest prevailing market rates and lower than the lowest prevailing market rates.

RPTs shall not require the approval of the Board of Directors, except the following:

i. Transactions with DOSRI which presently require prior approval from the BOD under existing policy of the Bank and in accordance with Sections X148, X334 and X335 of the MORB; and

ii. RPTs that exceed the material threshold amounts, as approved by the Board.

Approval of related party transactions with non-DOSRI and those that do not exceed the material threshold amounts shall be in accordance with the revised policy on levels of signing authority, as approved by the Board.

All RPTs that cross the threshold amounts shall be considered as material RPTs and shall be subject to pre-board approval evaluation by the RPT Committee before the same are endorsed to the Board for approval. Board approval is manifested in a resolution passed by the BOD, a copy of which is submitted to the BSP within the prescribed period. Loans and other credit accommodations granted to DOSRI are likewise reported to the BSP every 15th banking day from end of reference quarter.

Directors and Personnel Compensation

The Manpower, Remuneration and Compensation Committee (MRCC) sets the compensation package of the Executive Directors and other officers of the Bank.

A Non-Executive Director (NED) receives per diem allowance of P20,000.00 for his attendance to each meeting of the Board and P5,000.00 allowance for attendance in a committee meeting. An NED is also entitled to a P5,000.00 monthly gasoline allowance. The Executive Board Members as well as the employees of the Bank, receive fixed salaries and performance bonus, if and when income warrants.

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