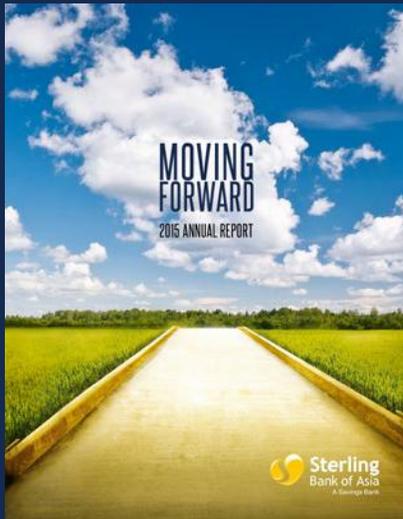


MOVING FORWARD

2015 ANNUAL REPORT



Sterling
Bank of Asia
A Savings Bank



ABOUT THE COVER

In 2015, Sterling Bank of Asia embarked on a journey of evolution. Although there were many challenges along the way, the Bank surged onward, clearing every hurdle on the path and maintaining focus on reaching its goals. This year's Annual Report cover depicts a long stretch of open road extending out onto the horizon, representing both the remarkable advancement the Bank has made and the progress it still aims to attain. While the Bank has clearly cemented its place as a steadily emerging player in the industry, it remains unswervingly committed to a single direction: forward. In the coming year, the Bank aims to channel its momentum towards achieving many more milestones in banking excellence. Sterling Bank of Asia will drive further on into the distance, moving forward amidst a rapidly changing and competitive banking landscape.

INSIDE THE CD

2015 Annual Report
and Audited Financial Statements

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OUR VISION

Sterling Bank of Asia, the Bank with a Heart, is the new standard for future generations of bankers, driven by integrity and a deliberate will for excellence - a legacy!

OUR MISSION

We are committed to exceed customer service expectations. We will actively identify and innovatively respond to their evolving needs.

We are propelled by competent and team-oriented professionals in a respectful, caring, and nurturing environment where everyone can maximize his potential.

We will be responsible stewards of the resources entrusted to us, and we will share the resulting benefits with society.

CORE VALUES

We will manifest the Sterling Bank of Asia philosophy through consistently exhibiting the following core values:

• SERVICE EXCELLENCE

The commitment to continuously challenge ourselves to exceed customer expectations by having genuine concern and interest in their needs and circumstances, and serving them with a deep sense of responsibility.

• PROFESSIONALISM

The dedication to treat all people with respect, fairness, and compassion, while continually pursuing the highest levels of knowledge, skills, and expertise.

• SOCIAL CONSCIOUSNESS

The resolve to ensure optimum value on the resources entrusted to us and to share this value with those we serve.





In the face of both challenges and triumphs experienced in 2015, Sterling Bank of Asia remained steadfast in its commitment to constantly advance and evolve in the service of its clients and communities.

RUBEN C. TIU
CHAIRMAN OF THE BOARD



REDEFINING SUCCESS

In the face of both challenges and triumphs experienced in 2015, Sterling Bank of Asia remained steadfast in its commitment to constantly advance and evolve in the service of its clients and communities.

As the Philippine economy experienced the effects of the global slowdown in 2015, the country still managed to maintain its investment grade rating from three main rating agencies: Standard & Poor's, Moody's Investors Service, and Fitch Ratings.

Our Gross Domestic Product (GDP) was lower in 2015 at 5.8% compared to 6.1% last 2014. However, the unemployment rate was at a record low of 5.7%, the lowest in 10 years. OFW remittances, which sustain the growth of the country's economy, was posted at USD25.67 billion. Our BPO Industry is also expected to reflect, if not exceed, the financial inflow of remittances for the coming years, with a revenue close to USD22 billion in 2015.

Similarly, the banking industry is anything but stagnant. All its players must constantly adapt to meet the demands of the ever-changing economic and socio-political landscape. Failing to do so means not only falling behind competitors, but also letting down those who have placed their trust in the banking institutions.

This principle is precisely what drives us at Sterling Bank of Asia. The Bank places customer service—providing banking products and services with a heart—as its paramount priority. Whether in periods of economic strides or in times of downturns, the Bank remains resolute in taking the next step in products and services development. Our motivation lies not solely in increasing our resources but, more importantly, in further deepening our relationship with you, our valued clients and stakeholders.

Through the years, Sterling Bank of Asia has shown its capacity to evolve and innovate in response to the changing needs of its clientele. What the Bank offers goes beyond withdrawal and deposit transactions alone. Instead, it aims to cultivate a rapport that allows clear communication of the clients' ideal banking experience.

2015 witnessed Sterling Bank of Asia achieve just that, as it reached one milestone in banking excellence after another. The Bank became the first savings bank to issue EMV chip-enabled cards, thus placing itself on the forefront of banking innovation. For the third consecutive year, the Bank was also honored by the Bangko Sentral ng Pilipinas (BSP) with the Outstanding PhilPaSS Participant Servicing Customer ePayments award under the Thrift Bank Category, in recognition of the volume, frequency, and value in remittances and ePayments transactions accumulated by the Bank and sent to PhilPaSS for processing and settlement. Meanwhile, Visa awarded the Bank as the "Top Visa Consumer Prepaid Issuer," giving Sterling Bank of Asia the distinction of topping all other Visa prepaid issuing banks in the Philippines for the year.

But success is not merely defined by what we attain within our walls, but by how the fruits of our triumphs are shared with those who need it most. This year, Sterling Bank of Asia continued to exhibit the true meaning of being a bank with a heart by reaching out to two notable causes: the Overseas Workers Welfare Association's (OWWA) Tuloy Aral Project, which sponsors the education of over 300 children of distressed OFWs, and St. Martin de Porres Charity Hospital, which provides free medical services to the poor.

At the close of the year, the Bank has managed to thrive in the face of challenges posed by a difficult economic and regulatory backdrop. The Bank effectively overcame operating pressures, seized opportunities to distinguish itself in the industry, and reached out to the community that it serves. All this was achieved while the Bank remained faithful to its identity and principles. After a remarkable 2015, we at Sterling Bank of Asia, under the sound leadership of our new President and CEO, Cecilio D. San Pedro, are focused on making 2016 an even more rewarding year for our employees, clients, and stakeholders.

We at Sterling Bank of Asia remain committed to journeying forward. We truly believe that our best days are ahead of us, and we look forward to sharing them with all of you.

REPORT TO STOCKHOLDERS & STAKEHOLDERS

TO OUR STOCKHOLDERS AND STAKEHOLDERS:

We, at Sterling Bank of Asia, thank you for another year of banking with us. Your trust is the driving force that gives us a strong sense of purpose and identity.

2015 was a volatile period in the banking industry, marked by numerous challenges as well as opportunities for growth. Sterling Bank of Asia's management team and staff continued to respond to the banking landscape's ever-changing needs, while upholding the mission to serve with a heart.

Sterling Bank of Asia faced 2015 fully dedicated to continue innovations and enhancements to its roster of products and services as a means of further strengthening relationships with clients and delivering long-term value to shareholders.

STANDING STRONG

Sterling Bank of Asia posted a net income of Php31.128 million in 2015, a decrease from the Php110.413 million posted in 2014, as a result of a 42.64% decrease in volume of investment securities portfolio. This can also be attributed to a decrease of 27.11% or Php1.948 billion in cash and due from banks caused by the lower special deposit account with Bangko Sentral ng Pilipinas.

Net revenue from funds went up by Php130 million or 12.18% to Php1.194 billion from Php1.064 billion in 2014, driven by higher interest income on loans.

The Bank's total resources slightly decreased by Php3.321 billion or 9.71% from Php34.222 billion in 2014 to Php30.901 billion due to a lower volume in our investment securities portfolio. Meanwhile, total loans and receivables net of impairment and credit losses increased by Php1.783 billion or 10.58% to Php18.635 billion from Php16.852 billion in the previous year, mainly because of the branches' efforts in cross-selling consumer loans and investment products.

Total liabilities experienced a decrease of 10.50%, dropping to Php28.392 billion from Php31.722 billion in 2014, which can be attributed to a deliberate reduction in volume of high-cost deposits. However, current and savings account (CASA) deposits grew from Php7.722 billion to Php8.522 billion in 2015. This was part of the Bank's initiative to develop a better deposit mix and to effectively manage weighted cost of funds.

Stockholders' equity rose to Php2.509 billion this year from 2014's Php2.501 billion, an increase of Php8.162 million. This is a result of the capital infusion of Php175 million in common stock from shareholders and a net income of Php31.128 million. The total increase of Php206.128 million in equity was offset by the Php197.965 million unfavorable market value of available for sale securities.

The Bank's Basel 1 Capital Adequacy Ratio (CAR) is at 13.26% compared to 12.07% in 2014, significantly higher than the regulatory limit of 10% set by Bangko Sentral ng Pilipinas.



“WE DISTINGUISH OURSELVES FROM OUR GROWING NUMBER OF COMPETITORS THROUGH THE OUTSTANDING AND HEARTFELT SERVICE WE PROVIDE OUR CLIENTELE. WE BELIEVE THIS WILL PROPEL US FROM THE FAST- EMERGING PLAYER WE ARE TODAY TO A STRONGER, MORE REMARKABLE SAVINGS BANK IN THE BANKING ARENA.”



Sterling Bank of Asia
A Savings Bank



Sterling Bank of Asia
A Savings Bank



Our unwavering commitment to innovate the Bank's products and services so as to improve our clientele's banking experience has placed us at the forefront of the movement toward EMV chip-enabled debit and prepaid cards. Sterling Bank of Asia's ShopNPay US Dollar Debit and Prepaid Cards are the first and only local savings bank-issued US Dollar Visa debit and prepaid cards embedded with an EMV chip, the global standard for chip-based credit and debit card transactions.

Sterling Bank of Asia's notable performance this year was once more honored by Visa. Having topped all other Visa prepaid issuing banks in the Philippines, the Bank was awarded as the "Top Visa Consumer Prepaid Issuer". This comes in the heels of two other distinctions given to the Bank in the previous year: the "Best Performer in Visa Prepaid Payment Volume in the Philippines" and the "Highest Payment Volume Prepaid User" awards.

For the third consecutive year, Sterling Bank of Asia was recognized by the Bangko Sentral ng Pilipinas with the Outstanding PhilPaSS Participant Servicing Customer ePayments award in the Thrift Bank category. This is in appreciation of the remarkable remittance volume coursed through the Bank to BSP's Philippine Payments and Settlement System or PhilPaSS, the settlement arm for OFW remittances which acts to ensure safe and immediate transfer and settlement of remittance funds.

2016 ON THE HORIZON

2015 was a remarkable year for Sterling Bank of Asia. Though it certainly presented its share of challenges and setbacks, the year also witnessed many milestones and achievements for the Bank. As we welcome 2016, we prepare ourselves to surge forward with a positive outlook focused on customer-driven growth and progress.

As always, Sterling Bank of Asia remains true to its principle of being a bank with a heart, ensuring that our banking products and services always include a human element. Each transaction is an opportunity to strengthen and deepen relationships with our customers, which in turn will

provide us with better means to respond to their evolving banking needs.

It is with this very same strategy that Sterling Bank of Asia aims to improve its standing in the banking industry. We distinguish ourselves from our growing number of competitors through the outstanding and heartfelt service we provide our clientele. We believe this will propel us from the fast-emerging player we are today to a stronger, more remarkable savings bank in the banking arena.

As the Bank prepares to assume a larger, more prominent role in the industry, we must also take strides in enriching our most important asset of all: our valued clients and stakeholders. Sterling Bank of Asia aims not only to forge stronger ties with its existing clientele, but also to open its doors to new clients and stakeholders. A larger customer base will also allow the Bank to achieve a better cost-to-income ratio and increase its resources.

Yet another notable asset is our human resource. Among Sterling Bank of Asia's management, executives, officers, and staff are some of the best the financial field has to offer, all of whom have embraced and embodied the Bank's mission to exceed customer expectations and to constantly understand and respond to their evolving needs. In 2016, we look forward to another year of working together towards a common goal in service of the Bank and its customers while upholding our vision to set the new standard for future generations of bankers that is driven by integrity and the will for excellence.

Without a doubt, Sterling Bank of Asia has come a long way. Truly, the progress we have made, we made together. The Bank's utmost appreciation and thanks go to the regulators, clients, stockholders, Board of Directors, management, and staff.

This 2016, as we move to our 10th year, we look forward in continuing our journey towards a successful path in banking excellence together with you. As one, let us drive Sterling Bank of Asia and its principle of banking with a heart into a brighter era in banking.



RUBEN C. TIU
CHAIRMAN OF THE BOARD



CECILIO D. SAN PEDRO
PRESIDENT & CEO

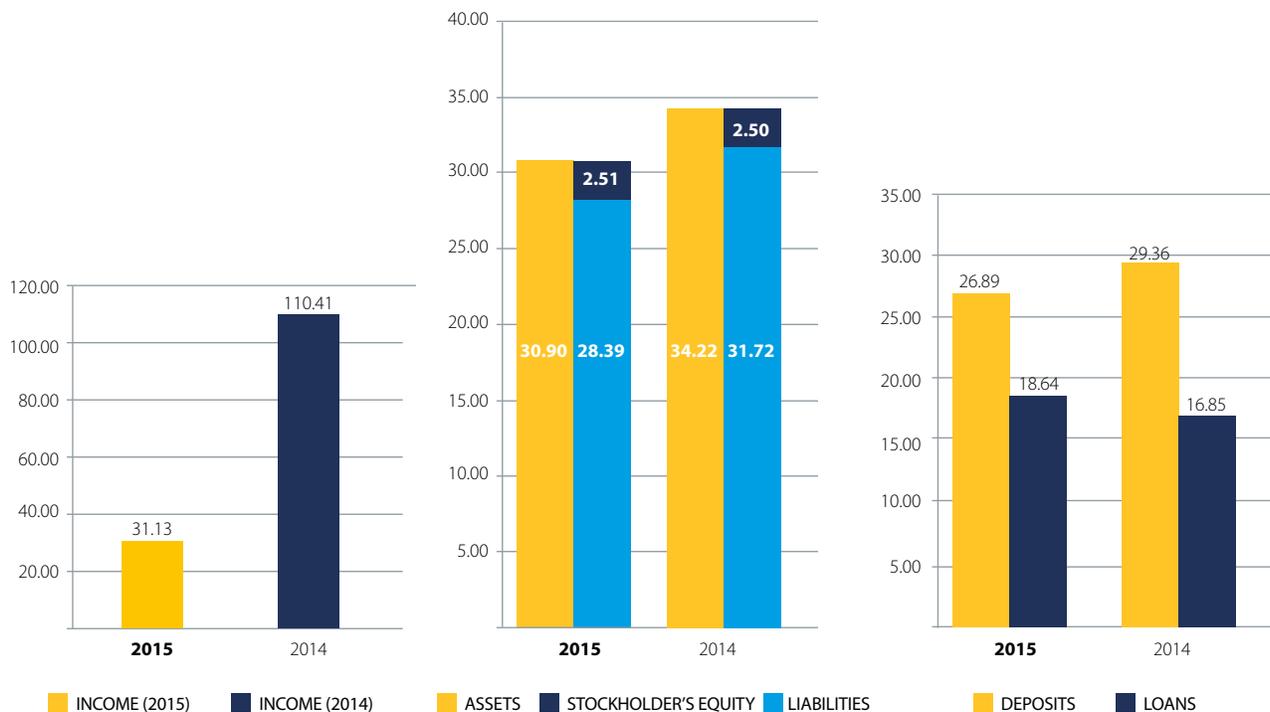
2015 FINANCIAL HIGHLIGHTS



In 2015, Sterling Bank of Asia posted a net income of Php31.128 million. Net revenue from funds increased by Php130 million or 12.18% to Php1.194 billion due to higher interest income on loans. Fee-based income was Php131 million.

2015 VS. 2014

Sterling Bank of Asia's total resources in 2015 stood at Php30.901 billion, a decrease of 9.71% or Php3.321 billion compared to the previous year. Said decrease was brought about by a 42.64% decrease in the volume of investment securities portfolio, going down to Php4.907 billion. Cash and due from Banks also went down by 27.11% or Php1.948 billion, largely due to lower special deposit account with Bangko Sentral ng Pilipinas (BSP).



NET INCOME (in Million Php)

BALANCE SHEET MAIN ITEMS (in Billion Php)

TOTAL DEPOSIT & LOANS (in Billion Php)

Loans and receivables, net of impairment and credit losses, recorded an increase of Php1.783 billion or 10.58% to Php18.635 billion in 2015 from Php16.852 billion in 2014. The increase of gross loans was mainly driven by the strong demand in consumer loans as branches also served as distribution channels for loans and investment products.

Total liabilities went down by Php3.330 billion or 10.50% from the Php31.722 billion posted in 2014 to Php28.392 billion in 2015. The decrease is accounted for by high cost deposits where the volume was lower by Php3.275 billion from Php21.643 billion in 2014 to Php18.367 billion in 2015. On the current and savings deposits, there was a growth of Php800 million from the Php7.722 billion in 2014 to Php8.522 billion in 2015. The decrease in high cost was a result of the Bank's initiative for a better deposit mix and managed weighted cost.

Stockholders' equity increased by Php8.162 million or 0.33% to Php2.509 billion. In 2015, there was a capital infusion of Php175 million in common stock from the shareholders and a net income of Php31.128 million. The total increase of Php206.128 million in equity was offset by the Php197.965 million unfavorable market value of available for sale securities.

The Bank's Basel 1 Capital Adequacy Ratio stood at 13.26%. This is above the 10% level required by the Bangko Sentral ng Pilipinas, and higher than the 12.07% attained in 2014.

In 2015, Sterling Bank of Asia posted a net income of Php31.128 million. Net revenue from funds increased by Php130 million or 12.18% to Php1.194 billion due to higher interest income on loans.

Interest expense on deposit liabilities decreased by Php61 million, or 10.44%, due to lower volume of time deposits.

Operating expenses in 2015 decreased by Php71 million or 5.79% due to advertising, stationery & supplies and provision for impairment loss on assets held for sale. The cash conversion of the excess sick leaves paid in 2014 also contributed to the decrease.

FORWARD MARCH

Sterling Bank of Asia's various departments each have their respective responsibilities, yet march in step toward a common goal: to propel the Bank onto the forefront of the industry. The progress they have made together in 2015 herald even greater strides for the year ahead.

RETAIL BANKING

In 2015, the Retail Banking Group continued to expand its reach in the retail segment through its traditional deposit offerings. The Group's current account and savings account (CASA) deposits and foreign currency deposit units each grew by 12% in 2015. The Group's fee-based income increased by 28.76% in 2015 compared to last year.

The Group continued its focus on CASA, and intensified efforts to cross-sell consumer loans and trust products. Trust products booked from branches grew by 614% or Php5.9 billion from Php826 million in 2014. The Optima Business Solutions product significantly increased its year-to-date average daily balance by 8.3% in 2015.

Meanwhile, as part of the Bank's advocacy to promote savings among OFWs, Bayani OFW Savings became one of the Bank's most promising products. The product increased its year-to-date average daily balance by 875% versus last year.

In 2016, Retail Banking Group will continue to be a complementary distribution channel to cross-sell other bank products and will target to improve profitability on a per branch basis.

COMMERCIAL LENDING

Through the years, the Commercial Lending Group has yielded consistent and steady growth. But 2015 proved to be a banner year as the Group surpassed the Php10 billion mark in loan portfolio — the highest figure in the Bank's history. This milestone was attained through a careful mix of elements: aggressive strategizing in the face of growing competition, support from management, constant referrals from the Bank's growing number of branches, and a commitment to serving existing clients as well as soliciting new ones.

The Commercial Lending Group forecasts a more tempered growth on the horizon for 2016. The key to achieving this lies in maintaining and strengthening relationships with the Bank's existing clients. This will be achieved by offering adjusted pricing, granting higher credit facilities, and upholding a high caliber of service to ensure client satisfaction. With these measures in place, the Group is poised to retain its role as a major contributor to the Bank's bottom line.





CONSUMER LENDING

Consumer Lending Group marked a milestone in 2015 as it posted a gross income of Php91.20 million, a 15.57% growth from 2014. This substantial increase can be attributed to growth in Consumer Loan portfolio, as both Secured Loans, which include Auto and Real Estate Loans, and Unsecured Loans performed robustly.

Total loan portfolio grew by 28% to Php7.37 billion. This was mainly due to the 59% and 9% growth in Auto Loans and Real Estate Loans respectively. On the other hand, the Unsecured Loans portfolio, which include Personal and Salary Loans, refocused its strategies towards enhanced credit standards and loan quality.

Pampanga and Cebu Lending Centers and Lending Desks in Calamba, Iloilo, Cagayan de Oro, and Davao became fully operational in 2015. Hence, Consumer Lending Group was able to spur consumer business alongside branches across the regions.

In 2016, the team will expand even further to cover San Pablo, Laguna, and Batangas in Southern Luzon; Bulacan, Dagupan, and La Union in Northern Luzon; and Bacolod and General Santos in the VisMin region. With the aim of gaining a bigger share of the market, Consumer Lending Group is poised to make 2016 a banner year, both in terms of business generation and profitability.



TREASURY

The change in direction of interest rates and the decline of financial asset prices made it a challenging year for Treasury and Capital Markets. Despite this, the Treasury Group was able to post Php 416 million in both interest and realized trading income due to the timely shift of the Group's business strategy.

Lack of price liquidity defined the latter part of the year. However, the Treasury Group showed prudence by managing bond positions in response to the poor market conditions. As part of their commitment to the growth of the Bank, the Treasury Group continued to provide remarkable service and prices in the money, bond, and foreign exchange markets.

With US interest rate hikes on the horizon and the rest of the world facing a possible recession, significant challenges lie ahead for the Group. Bearing this in mind, the Group will focus on US Treasuries and ROPs to take advantage of the better price liquidity. Likewise, the Group shall be particular on entry and exit levels in local bonds in response to the higher inflation and interest rate projections in the next few years. The Group will also continue to be an active player in the forex and bond markets, as it aims to increase income by 30% in 2016.

TRUST

A growing reputation among investors has helped grow Assets Under Management (AUM) by the Trust Group. In 2015, the unit continued to focus on retail clients and capitalized on the synergy between the Group and its distribution channels. As a result, Trust grew 112% and AUM increased from Php2.239 billion in 2014 to Php4.747 billion in 2015.

Through its efforts in soliciting more contributions from existing clients, and by acquiring new business from referrals, the Group surpassed the Php4 billion mark, with a growth in customer base of 38%.

The year did not come without its set of challenges, such as the operation of the Sterling Dollar Money Market Fund. With the change in the strategic direction of the Group, the product was terminated in the 4th quarter of 2015. However, the Group continued to contribute to the Bank's profitability, as revenue was 69% higher in 2015 compared to 2014, and 50% higher compared to projections. With this, the Trust Group aims to further improve the Bank's bottom line in 2016, projecting a 23% increase in income.



HUMAN RESOURCES

In 2015, the Human Resources Group continued to be a strategic partner for the various business units of the Bank. Its focus remained on efficiently delivering HR services in the areas of talent acquisition, benefits management, and employee development to the whole organization.

Cognizant of market environment, the Compensation and Benefits Team continuously researched and partnered with external consulting firms to ensure that the Bank's compensation and benefits packages were at par with industry standards. Participating in the Towers Watson Compensation Survey Program served to further validate the existing salary structure and implementation policy. The Recruitment Team, meanwhile, worked closely with hiring managers to successfully identify the right candidates for vacant positions in the company.

The Group emphasized to all employees the importance of good health and well-being by organizing wellness talks and weekly fitness sessions. Medical professionals from renowned local hospitals and pharmaceutical firms were invited to conduct on-site lectures and talks. Annual medical check-ups were also made available for all employees and their covered dependents.

The Human Resources Group's Center for Learning (CFL) continuously provided strong support services to all units of the Bank. Specifically, CFL was able to institutionalize the Sales Program for non-sales personnel. On March 28, 2015, CFL spearheaded a nationwide Sales Rally campaign dubbed "I am a HERO" Program. The program was envisioned to promote a sales-oriented work force where employees who normally perform support and backroom operations were trained to be sales ambassadors of the Bank. These employees were trained on basic sales processes such as prospecting and pre-qualifying clients, as well as handling client objections. As a result, non-sales employees contributed a net income of Php2.5 million through the sales of various bank products. With the success of the pilot program, CFL will continue this strategy in 2016 with more challenging sales hurdles.

Aside from the HERO Sales Program, CFL also continues to ensure that the Bank's organizational capacity is in place through various employee development modules. The Retail Banking Group, being the biggest group of the Bank in terms of manpower, is supported by CFL with these first-level officer programs such as Branch Heads Development, Service Heads Development, and Sales Development Programs.

In 2016, the Officership Program will be given a wider scope through the Management Training Program (MTP). This will address the Bank's need for future leaders who can be assigned to the different units of the organization. CFL will intensify programs in the areas of customer service and leadership among others.





INFORMATION TECHNOLOGY

In 2015, the Information Technology Group focused on twin thrusts: delivery of application systems and further strengthening of the IT security infrastructure.

Through the Information Technology Group's support, Sterling Bank of Asia was among the first banks to implement both the Deposit Account View (DAV) System required by PDIC and the major changes to AMLA reporting. The Group also enabled the delivery of the ShopNPay USD Debit Card, paperless Statements of Account, and Employee Self Service facility for HR, among others.

The Group is currently working to place Sterling Bank of Asia at the forefront of the EMV chip implementation mandated by the Bangko Sentral ng Pilipinas (BSP) for all ATM cards issued in the Philippines. Having already enabled the Bank to become the first in the country to issue VISA EMV chip cards, the Group is confident that it shall also assist the Bank not only in meeting the BSP deadline, but also in becoming among the first to fully implement EMV.

The Group helped place Sterling Bank of Asia among the first banks now testing the Check Image Clearing System (CICS) facility that is mandated by the Philippine Clearing House. The Group is also taking major strides to further improve IT security by undergoing Payment Card Industry – Data Security Standards (PCI-DSS) certification for the Bank.

The Information Technology Group will move forward with major improvements to the Bank's application systems, while also addressing the requirements of the BSP circular on IT Risk Management Framework. Through these developments, the Group aims to ensure that technology remains a pillar of the Bank's sustained business growth.

BUSINESS SUPPORT SERVICES

The Business Support Services Group (BSSG) continued to heighten operational efficiency in response to the significant growth posted by the lending groups, as well as the increasing transactions of the Trade and Remittance Department. The Group re-aligned various departments under a single cohesive Operations Group to improve delivery of service, increase productivity, and sustain cost-efficient operations. These initiatives allowed the Group to effectively provide excellent customer service across the organization.

In anticipation of continued growth, the Group is further exploring process and system enhancements to improve turn-around time and to address the various risk and control requirements imposed by both regulators and the Bank's own internal control. Employees under BSSG are also empowered through continued education and training in order to equip them with the necessary skills to be the future leaders at the forefront of the Bank's growth trajectory.

As a result of the Group's significant contribution, for the third consecutive year, Bangko Sentral ng Pilipinas (BSP) honored Sterling Bank of Asia with the "Outstanding PhilpaSS Participant Servicing Customer ePayments" award in the Thrift Bank category. This is in recognition of the Bank's performance in terms of volume, frequency, and value of remittances and Customer ePayments transactions sent to PhilpaSS for processing and settlement.

STERLING BANK OF ASIA RECEIVES BSP PHILPASS AWARD 3 YEARS IN A ROW

For the third consecutive year, Sterling Bank of Asia received the “Outstanding PhilPASS Participant Servicing Customer ePayments” award (Thrift Bank Category) from Banko Sentral ng Pilipinas (BSP).

This award is an affirmation of Sterling Bank of Asia’s remarkable performance “in terms of volume, frequency and value of remittances and customer electronic payment transactions sent to Philippine Payments and Settlements System (PhilPaSS) for processing and settlement.”

Sterling Bank of Asia’s President and CEO Cecilio D. San Pedro and First Vice President and Business Support Services Head Luisito S. Mayor received the prestigious award on behalf of the organization.

The award was given at BSP’s 12th Awards Ceremony held last July 14 at the BSP Complex. The awards ceremony, which also commemorated BSP’s 22nd anniversary, carried the theme “12 Years and Beyond: Celebrating Strong Partnerships and Successful Collaborations.” The Chairman of the Monetary Board and Governor of BSP Amando M. Tetangco, Jr. and Monetary Board Member and Chairman of the Board of Judges Atty. Juan D. Zuñiga, Jr., together with the members of the Monetary Board and other key officials of the BSP, were present at the event.



In photo (L-R): Monetary Board Member and Chairman of the Board of Judges of the 2015 BSP Stakeholders Awards Atty. Juan D. De Zuniga, Jr., Sterling Bank of Asia First Vice President and Head of Business Support Services Group Luisito S. Mayor, Sterling Bank of Asia President and CEO Cecilio D. San Pedro, and BSP Governor Amando M. Tetangco, Jr.



STERLING BANK OF ASIA BAGS ANOTHER VISA AWARD

Sterling Bank of Asia was awarded as the “Top Visa Consumer Prepaid Issuer” in the 2015 Visa Card Center Manager’s Meeting held at New World Hotel. The distinction was given to the Bank for topping all other Visa prepaid issuing banks in the Philippines. Last year, the Bank was recognized as the “Best Performer Visa Prepaid Payment Volume Growth in the Philippines” and “Highest Payment Volume Prepaid User”.

Sterling Bank of Asia’s EVP and Head of Retail Banking Group Ralph B. Cadiz said, “This recognition is an affirmation of our continuing commitment to provide innovative products to our valued clients. We are honored to receive this award and will continue to enhance our performance in the banking landscape.”

Sterling Bank of Asia Visa Debit and Prepaid Cards can be used worldwide to make convenient cashless purchases in millions of Visa-affiliated merchants.

In photo (L-R): Sterling Bank of Asia ATM Operations Head Camel Chua, Visa Business Development Directors Pia Arellano and J-Ann Reyes-Lauron, Sterling Bank of Asia Marketing Group Head Georgina Hufana-Cortes, Sterling Bank of Asia Retail Banking Group Head Ralph Cadiz, Visa Country Manager for Philippines and Guam Stuart Tomlinson, Sterling Bank of Asia Retail Banking Group Support Head Joey Sulit, and Sterling Bank of Asia Product Management Head Charles Tan.

A KIND HEART THAT GIVES

Sterling Bank of Asia shares Christmas joy with St. Martin de Porres Charity Hospital.



Last Christmas, Sterling Bank of Asia, the Bank with a Heart, expressed its generosity with St. Martin de Porres Charity Hospital (SMPCH). Select Sterling Bank employees, led by President and CEO Cecilio D. San Pedro, turned over medical tools, equipment, and other much-needed auxiliary items to the charity hospital's management in a simple ceremony held December 3 at the SMPCH function hall.

With the aim of making Christmas more meaningful this year, Sterling Bank of Asia opted to donate to a charitable organization within the community of San Juan in lieu of corporate holiday gifts.

"Our bank is known as a bank with a heart. We wanted to live up to that name. Everyone says that charity begins at home, and that is true. We thought, why not start within our own community? That is why we chose St. Martin de Porres Charity Hospital," said San Pedro.

Referring to the positive response of Sterling Bank of Asia officers and staff who contributed their own personal money to add to the Bank's donation, San Pedro said, "We wanted everyone to get involved, and they did. We can all do charity in our own little way. Once people realize this, it just grows naturally."

"It's from the heart. If you give and it's not from the heart, it does not mean a thing. The way people reacted to this initiative is a good push. And we will continue to have a drive for charity, that's for sure."



"It's from the heart. If you give and it's not from the heart, it does not mean a thing. The way people reacted to this initiative is a good push. And we will continue to have a drive for charity, that's for sure," he added.

The donation included an ECG machine, a phototherapy light for the NICU, laryngoscope sets, a heavy-duty suction machine, a heavy-duty weighing scale, an otoscope, a nebulizer, and various surgical and ER instruments and tools.

"These equipment were all on the hospital's wish list. They are things we needed badly. We believe in divine providence and depend on it for our existence," said Lourdes F. Cordero O.P., the hospital administrator.

Cordero recalled how, in the past, when they urgently needed something for the hospital, a donor will appear right on time to help them and likened Sterling Bank of Asia's donation to such an instance. "This is divine providence. We did not look for (Sterling Bank of Asia). They came looking for us. That is an intervention from above," she said.

St. Martin de Porres Charity Hospital started in 1959 in a one-room clinic at the old convent of Sanctuario Del Santo Cristo Church (just in front of where the hospital is now located). SMPCH was then known as Blessed Martin de Porres Free Clinic, and was set up to tend to and treat the many poor who were asking for help. It was presided by Dra. Aleli Quirino, the wife of Antonio Quirino, younger brother of the late President Elpidio Quirino.

From there, the clinic grew bigger until it became a 121-bed capacity, full-fledged tertiary hospital accredited by the Department of Health (DOH). The hospital is staffed by volunteers, which at present total about 200 volunteer staff and 100 volunteer doctors.

SMPCH provides four major services: obstetrics and gynecology, internal medicine, pediatrics, and surgery. Only 30% of the hospital's services are allotted for paying private patients. 70% is reserved for charity cases, wherein patients receive free consultation and accommodation and need only to pay a minimal fee for certain procedures.

STERLING BANK OF ASIA SUPPORTS OWWA'S TULOY ARAL PROJECT FOR CHILDREN OF OFWS

The turnover ceremony for the beneficiaries of this year's Overseas Workers Welfare Association (OWWA) Tuloy Aral Project, which provides financial aid to the children of distressed Overseas Filipino Workers (OFWs), was held at the head office of Sterling Bank of Asia in San Juan last October 2015. Distressed OFWs are overseas workers who have experienced employment violations, were discontinued from their contracts, or were not able to finish their contracts due to war, sickness, or other reasons.

Officials of the Bank, who have been patrons of the program for the last three years, were joined by members of the Board of Trustees of KAMPI (Kabalikat ng Migranteng Pilipino) and Kabalikat ng OFW Inc. Representatives of i-Remit, Philhealth, Pioneer Insurance, COL Financial, OWWA, Department of Labor and Employment (DOLE), Philippine Overseas Employment Administration (POEA), and Department of Social Welfare and Development (DSWD) were also present at the ceremony.

"We, at Sterling Bank of Asia, know well the importance of education for our children's future. We value the sacrifices and hard work OFW parents go through to provide for their kids. Through Tuloy Aral, we are able to extend a helping hand to the children of our countrymen who did not fare well abroad," said Sterling Bank of Asia President and CEO Cecilio D. San Pedro.

Aside from sponsoring the children of OFW beneficiaries, the Bank has also been actively participating in pre-departure



From left to right: Sterling Bank of Asia EVP and Retail Banking Head Ralph B. Cadiz; iRemit Inc. Human Capital Management Division VP Regina Shimamoto; iRemit Inc. AVP for Marketing Marie Cristina S. Castillejo; Pag-IBIG Fund Department Manager Il Juanito Jareno; WED & POEA Director Teresa Delos Santos; Pioneer Life Foundation's Ira Libao; student beneficiaries Cristine Jane Tomagan, Lorie Jaye Andrade, Shawee Mikee Guese, Sophia Dorothy Jereos, and James Emanuel Alcantara; iRemit Inc. Chairman & CEO Bansan C. Choa; Sterling Bank of Asia President & CEO Cecilio D. San Pedro; Former Secretary of Labor & Employment (DOLE) Mariano D. Roque; KAMPI and Kabalikat ng OFW President Luther Z. Calderon, iRemit Inc. President & COO and Sterling Bank of Asia Director Harris Edsel D. Jacildo; National Reintegration Center for OFW-DOLE Executive Director Chona Mantilla; PhilHealth OFW Management Department Senior Manager Chona S. Yap; DSWD-NCR Social Welfare Specialist Meriame Navarro.

orientation seminars (PDOS) in identified centers and international roadshows organized by KAMPI and Kabalikat ng OFW, which aim to provide an informative program and a tangible support system for the OFW community.

The Bank further supports the OFW community by developing products that can assist OFWs with their financial needs, such as the Bayani OFW Savings (BOS) Account, which aims to help develop the habit of saving and improve financial literacy among OFWs and their families.

STERLING BANK OF ASIA OPENS LA UNION BRANCH



Sterling Bank of Asia, one of the leading savings banks in the country, opened its newest branch in San Fernando, La Union last October 29, 2015. Conveniently located at Quezon Avenue, San Fernando City, La Union, the branch is situated near commercial establishments and residential communities. Key executives and officers of Sterling Bank of Asia were present during the branch opening, including (L-R) Vice President & Area Head Grego S. Cervantes, Jr., Branch Sales Associate Joy Rosario A. Cruz, Quality Assurance Officer Elsa F. Gutierrez, Branch Head Romeo L. Fernandez, Branch Sales Associate Marissa A. Sanchez, Sterling Bank of Asia client Tomas "Butch" Dumpit, Jr., President & CEO Cecilio D. San Pedro, and Executive Vice President for Retail Banking Group Ralph B. Cadiz. With the opening of its La Union branch, Sterling Bank of Asia now has 42 branches operating nationwide.

STERLING BANK OF ASIA PARTNERS WITH VISA TO ISSUE THE FIRST AND ONLY US DOLLAR VISA DEBIT AND PREPAID CARDS WITH EMV CHIP

Sterling Bank of Asia provides its customers with a product that will change the way they transact and pay. The ShopNPay US Dollar Visa Debit and Prepaid Cards are the first and only locally-issued US dollar debit cards embedded with an EMV chip, the global standard for chip-based credit and debit card transactions.

The ShopNPay US Dollar Visa Debit Card comes with every Solo\$Dollar Savings Account opened with the Bank. Linked with the interest-earning passbook deposit account, the card's balance and value is in USD currency making it ideal for patrons who travel often, whether for business or leisure.

The ShopNPay US Dollar Visa Prepaid Card, on the other hand, is the ideal travel card for travelers on a budget. By transferring the amount needed for a trip from the Solo\$Dollar Savings Account into the card, travelers can enjoy complete control over travel expenses.

"We continuously look for ways to enhance the value of the products we offer. For us, this means a legacy of integrity and excellence-values that we pursue by constantly innovating and providing the very best products and services to our valued customers," said Cecilio D. San Pedro, President and CEO of Sterling Bank of Asia.

"Once again, we are giving our clients the cashless convenience they desire. We're keen to change the habit among cardholders so they can exercise more control over their funds. The ShopNPay US Dollar Visa Debit and Prepaid Cards can be used locally and internationally," said Ralph B. Cadiz, Executive Vice President and Retail Banking Group Head of Sterling Bank of Asia.

Made for travelers.

Travel light with ShopNPay US Dollar Visa Travel Cards, the country's first U.S. Dollar Visa Prepaid and Debit Cards embedded with EMV chip that offer cashless convenient and secure payment for travelers around the globe.

Your perfect travel companion.

DEBIT PREPAID

Pay for goods and services
 Withdraw cash anywhere
 Enjoy discounts and freebies
 Pay your bills online

Banking to a different beat.

"Sterling Bank of Asia is the only savings bank that issues US dollar-denominated Visa debit and prepaid cards with EMV chip card technology. These cards are very much in line with our commitment to provide customized solutions for our customers and respond to their evolving needs," added Cadiz.

Whether one is a businessperson, frequent traveler, an expat, or an

employee with a salary in USD currency, almost anyone can benefit from the advantages of having ShopNPay US Dollar Visa Debit and Prepaid Cards on hand. Cardholders can easily access their dollar funds at any of the 36 million Visa-accredited merchants and terminals or at any Visa/Plus affiliate ATMs in over 170 countries. Cardholders may also avail of exclusive Visa promos, as well as perform online transactions.

CORPORATE GOVERNANCE

Sterling Bank of Asia believes upholding corporate governance is key in creating a strong and sound corporate culture that creates awareness within the organization. It provides corporate direction, control mechanisms, and evaluation of the performance of the institution.

The corporate governance structure is in place to sustain the Bank's core values. The Bank endeavors to strike a balance between economic and social goals with its commitment to deliver professional banking services that meet clients' needs and achieve optimal use of bank resources.

The Board of Directors (BOD) and Senior Management Committee (SMC) drive the Bank's corporate governance and ensure that instituted long-term strategic goals and plans have the appropriate management and organizational structure to accomplish those objectives. The Bank adheres to the basic principles of transparency, accountability, and fairness given its duty to safeguard the interest of the shareholders, as well as the responsibility to protect the benefits of its employees, clients, community, and other stakeholders.

The responsibility for corporate governance lies primarily with the Board of Directors which is composed of thirteen (13) members. These directors who were elected (1) and re-elected (12) during the Annual Stockholders Meeting are qualified business professionals with integrity, competence, relevant education, diligence, expertise, and experience in directing the Bank's activities and policy directions. Compliant with the requirements of the BSP, three (3) of the thirteen (13) members of the Board, are Independent Directors who are capable of taking an individual stand to protect the interest of shareholders and stakeholders.

POWERS OF THE BOARD OF DIRECTORS

The corporate power of a bank shall be exercised, its business conducted and all its property controlled and held, by its Board of Directors. The powers of the Board of Directors as conferred by law are original and cannot be revoked by the stockholders. The Directors hold their office charged with the duty to exercise sound and objective judgment for the best interest of the Bank. (Subsection X141.3 a. of the MORB)

GENERAL RESPONSIBILITY OF THE BOARD OF DIRECTORS

The position of a Bank Director is a position of trust. A Director assumes certain responsibilities to different constituencies or stakeholders, i. e., the Bank itself, its stockholders, its depositors and other creditors, its management and employees, the regulators, deposit insurer, and the public at large. These constituencies or stakeholders have the right to expect that the institution is being run in a prudent and sound manner. The Board of Directors is primarily responsible for approving and overseeing the implementation of the Bank's strategic objectives, risk strategy, corporate governance, and corporate values.

Further, the Board of Directors is also responsible for monitoring and overseeing the performance of Senior Management as the latter manages the day-to-day affairs of the institution. (Subsection X141.3 b. of the MORB)

INDEPENDENT CHECK AND BALANCE

The Bank's corporate governance system provides the mechanism to ensure that management runs the firm in a manner beneficial to its stakeholders. It provides the structure to mitigate and prevent conflicts of interest. These governance processes are established to facilitate the Bank's achievement of its strategic goals and ensures that the Board of Directors' accountability in pursuit of these corporate objectives is bounded by the rule of law and in conformity with regulations.

In this regard, the Board of Directors created the Corporate Governance, Audit, and Risk Management committees to ensure independence and fairness in the Bank's decision-making processes and operations. These committees are composed of members of the Board of Directors, each with at least two (2) Independent Directors. These committees have their respective Board-approved charters that describe their specific mandates and the duties and responsibilities of members.

• Corporate Governance Committee

The Corporate Governance Committee is composed of six (6) members of the Board of Directors, three (3) of whom are Independent Directors including the Chairperson. The members have sufficient experience in corporate governance, business management, personnel management and organizational behavior.

• Audit Committee

The Audit Committee is composed of four (4) members of the Board of Directors, two (2) of whom are Independent Directors including the Chairperson. The members, who have profound understanding of the financial and operational structures, oversee the Bank's financial reporting and internal controls.

• Risk Management Committee

The Risk Management Committee is composed of seven (7) members of the Board of Directors, three (3) of whom are Independent Directors including the Chairperson. The members possess a range of expertise, as well as adequate knowledge of the institution's risk exposures, and can develop appropriate strategies for preventing losses and minimizing their impact when they occur.

The above committees serve as oversight on management and on the Bank's overall operations with direct reporting line to the Board of Directors.

Other committees created by the Board of Directors are as follows:

- Executive Committee
- Trust Committee
- Loan Committee
- IT Committee
- Bids and Awards Committee
- Compensation Committee

Note: For definition of committee functions and list of members, please cross reference to Risk Management section, page 28.

Committee memberships are assigned based on expertise and in compliance with the requirements stipulated by each committee. Directors are required to attend regular committee meetings. Prior to Board meetings, all Directors are provided with documents on Bank activities, developments, financial performance, and other relevant information requiring their feedback and approval. The Board ensures that returns to the shareholders on their investments are maximized without making compromises on the provisions of law and the rightful interests of all the stakeholders. To guarantee fair and transparent banking operations, related-party transactions, internal dealings and external transactions are conducted on arm's length basis.

The Board adheres to the principles of corporate governance initially set forth by the SEC and BSP. Its dealings with the customers are conducted with high standards of integrity driven by a deliberate will for excellence, true to its mission as a socially responsible banking institution. With the Bank's reputation as its most valuable asset, the Board takes the lead in establishing the "tone at the top," and providing accountability and control systems to ensure that risks taken by the institution are within acceptable boundaries. The Board approves corporate values for itself, Senior Management, and other employees. Directors are expected to carry out their duties in a lawful manner and to ensure that the institution conducts its business in accordance with the law and its charter.

The Bank, as an institution with fiduciary responsibility, is likewise subject to third-party external audits that provide for assurance mechanisms on the proper conduct of its banking operations. It is audited annually by its external auditor, Reyes Tacandong & Co. (RT&Co.), aside from the annual examination done by the Bangko Sentral ng Pilipinas (BSP).

SENIOR MANAGEMENT

Senior Management is conferred with executive powers by the Board of Directors and thus have the responsibility for managing the day-to-day affairs of the Bank. Sterling Bank of Asia is managed by seasoned professional bankers, whose core competencies in banking operations were gained mostly from universal and commercial banks. At the helm of the Bank's Senior Management is its President and Chief Executive Officer, Atty. Lamberto R. Villena, who served until June 30, 2015 and was succeeded by Cecilio D. San Pedro on July 1, 2015. These two individuals have been key in driving sustainable growth and development for the organization. Assisting them in creating value in the organization are the Group Heads namely: Executive Vice President and Treasurer, Clayton T. Lee; Executive Vice Presidents Ralph B. Cadiz and Benson J. Hari-Ong; Senior Vice Presidents, Dalisay N. Rubio, Alfredo S. Vitangcol, Jr., and Alex Luis M. Pesigan; and First Vice President, Isabel Y. San Pablo. Together, they serve as banking professionals in the Senior Management team leading the areas of Treasury, Branch Banking, Commercial Lending, Controllership, Information Technology, Operations and Consumer Lending.

Upholding the Bank's ethical standards is driven by the Senior Management Committee. Each and every employee of the Bank is expected to adhere to the Bank's code of conduct with the Human Resources Group and the Discipline, Ethics and Values Committee (DEVCOM) providing the necessary oversight in its implementation.

REMUNERATION

Remuneration is part and parcel of good corporate governance, thus Sterling Bank of Asia offers an industry-based salary structure. Its employees, committed to deliver excellent customer experience, are measured and assessed based on their Key Result Areas, individual performance and overall contribution to the achievement of the Bank's performance targets. Remuneration policies, meanwhile, are reviewed by the Bank's Compensation Committee, a Board committee tasked to uphold the Bank's objective of spending its remuneration resource wisely and effectively to continuously attract and retain talented employees. The Bank aims to engage its employees with long-term opportunities and train them to deliver service excellence.

The Bank has an institutionalized annual Employee Engagement Survey and Leadership Survey that provide for feedback mechanism for the entire organization. Results of the Leadership Survey are incorporated in the employees' performance ratings while results of the Employee Engagement Survey provide input to the Bank's strategic planning process in as far as organizational goals are concerned.

RELATED-PARTY TRANSACTION

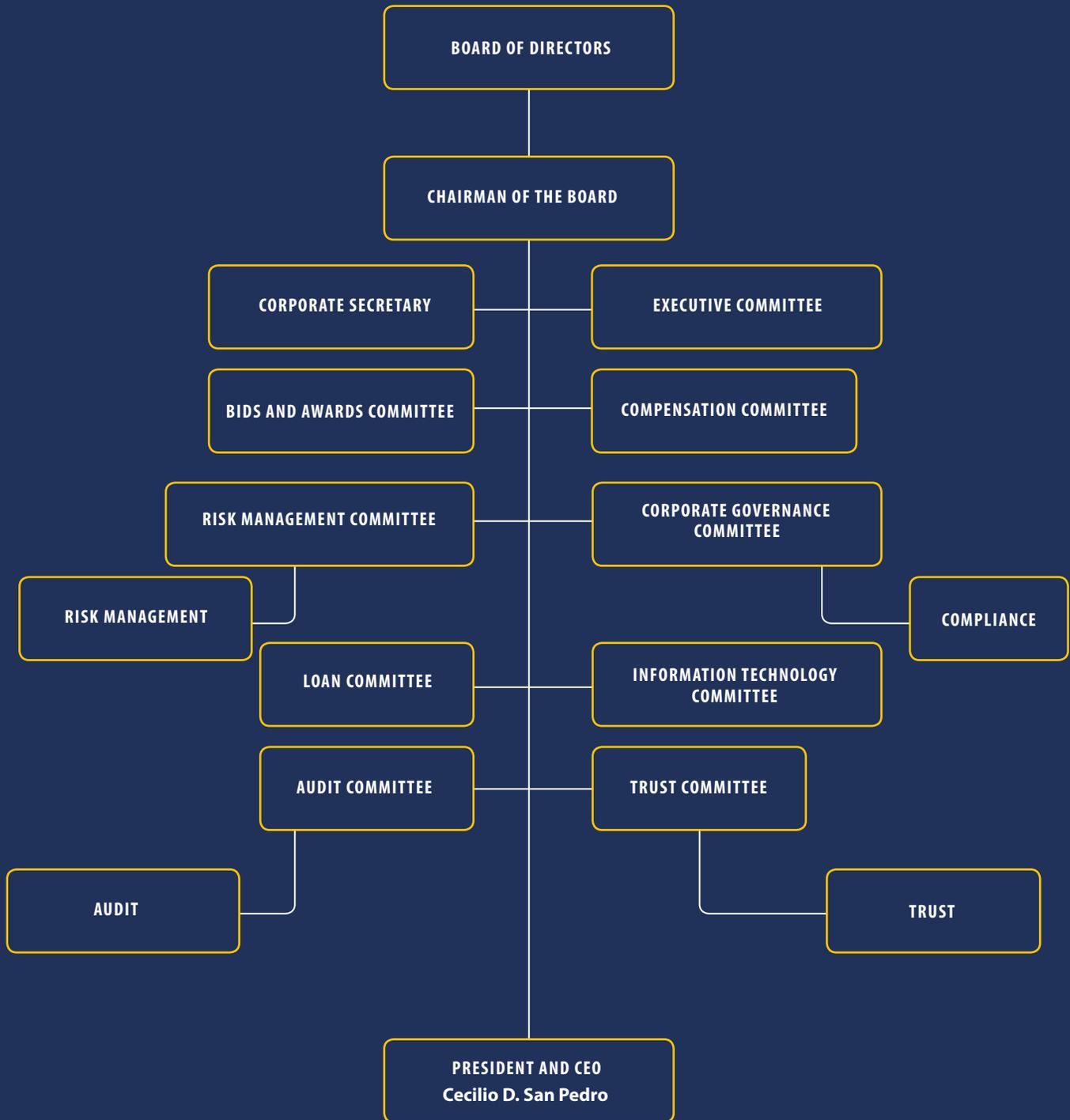
Related-Party transactions, internal dealings, and external transactions are conducted on an arm's length basis in accordance with regulation, and with proper approval and disclosure to regulatory entities. These transactions are then elevated to the Board for independent review and approval. To avoid conflict of interest, involved parties do not participate in deliberations.

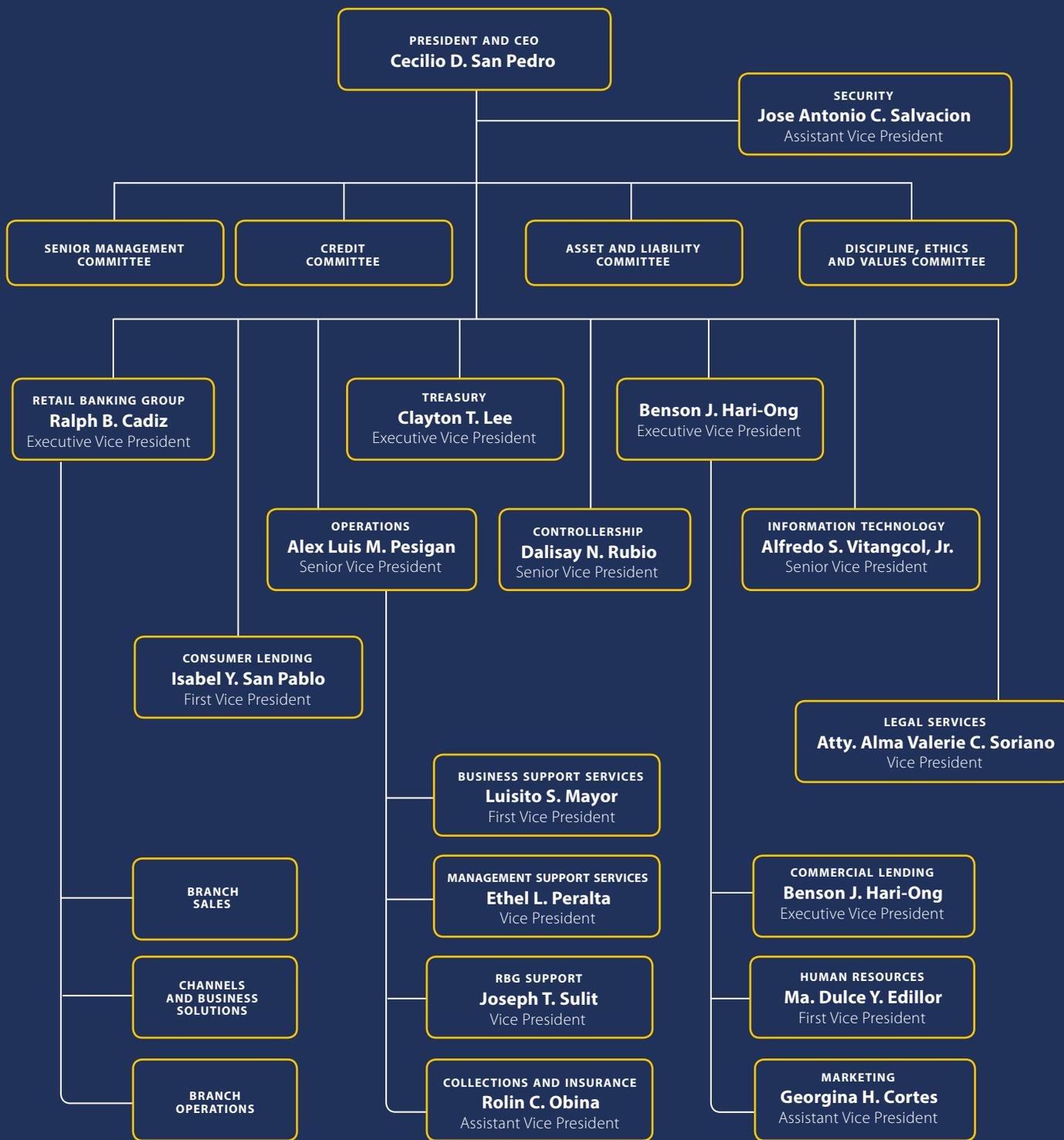
Note: Refer to 2015 Audited Financial Statements for Related-Party Transaction details.

CONSUMER PROTECTION

Sterling Bank of Asia recognizes consumer protection laws and is committed to help build consumer confidence among its clientele, mindful that its customers are one of its key stakeholders. This reinforces the Bank's commitment of continually enhancing its relationship with clients via value-creating banking activities. To further improve Sterling Bank of Asia's services and enhance its reputation among external stakeholders, the Bank created Customer Service Management to provide a mechanism to handle client concerns and customer complaints. This ensures that guidelines and procedures are in place to address complaints and that inquiries and concerns raised by customers are properly attended to. The Bank's policies and procedures are designed to ensure the protection of the rights of bank clients to fair banking practices. These include matching bank services to clients' needs and proper disclosure of the features and mechanics of bank products and services to enable them to make right choices in availing of financial services. The Bank likewise ensures that the implementation of its electronic banking activities are in compliance with requirements to safeguard customer information, prevent money laundering, reduce fraud and theft of customer information, and promote legal enforceability of the Bank's agreements and transactions.

ORGANIZATIONAL STRUCTURE





RISK MANAGEMENT



Risk Management is an integral component of all banking operations, and is embedded in various business processes across the organization. Business activities to drive attainment of strategic objectives are guided by the Board-set risk appetite and tolerance levels. The Bank is involved in a broad range of activities, divided into five main business segments – Retail Banking, Commercial Lending, Consumer Lending, Treasury, and Trust Groups. All these activities entail various risks which are part of doing business. Risks are identified by each Group at the business process level, and business units determine the manner and extent by which these risks are controlled and mitigated. Risk mitigation usually takes the form of control mechanisms embedded in business procedures, namely monitoring key risk indicators and preparing contingency plans.

Cognizant of the evolving risk and regulatory environment, the Bank's risk management systems are subjected to continuous iterative process improvements aimed at strengthening the Bank's ability to better manage its risk exposures under an Enterprise Risk Management Framework. For 2015, the Bank redesigned its Risk and Control Self-Assessment Framework as part of the strengthening of its operational risk management systems ahead of the issuance of BSP Circular 900. Meanwhile, on the credit risk front, the Bank has developed its Loan Loss Methodology as part of its commitment under BSP Circular 855 to enhance existing Credit Risk Management Systems.

RISK MANAGEMENT FRAMEWORK

Four key pillars support Sterling Bank of Asia's Risk Management Framework namely, Strategy, Organization and Governance, Models and Measures, and Infrastructure.

STRATEGY

The Bank recognizes the significance of integrating risk into strategy setting. Better understanding of risks and uncertainties provides a strong foundation in building key assumptions for strategic planning. The analysis of threats and vulnerabilities, covering a spectrum of economic, political, social, technological, legal, and environmental dimensions, complemented by an assessment of the Bank's core competencies, strengths, and business opportunities provide sound basis for the development of Sterling Bank of Asia's strategic and business plans.

RISK ORGANIZATION AND GOVERNANCE

Sterling Bank of Asia espouses shared accountability for risk across the organization, managing enterprise risk by following the four lines of defense structure. These four lines of defense segregate duties among:

1. Front office units which enter into business transactions and thus take on risk exposures for the Bank
2. Back office units that implement transactions with embedded controls
3. Middle office function performed mainly by Risk Management Group that provides risk oversight and control
4. The Internal Audit and Compliance functions that provide the assurance and validation mechanisms to assess the effectiveness of instituted risk management systems.



The Bank's Board of Directors has the overall accountability for risk and sets the tone at the top. It is responsible for providing the Bank's strategic directions and reviewing group business plans and strategies to ensure that activities are within acceptable risk boundaries. It oversees the implementation of the Bank's Enterprise Risk Management System, which provides a comprehensive framework for the identification, measurement, monitoring, and control of the Bank's risk exposures. The Board is supported by various board and management level committees in its risk oversight functions. These various committees are responsible for developing, managing, and monitoring specific risks at various levels in the organization.



BOARD-LEVEL COMMITTEES

AUDIT COMMITTEE (AC)

The Audit Committee is responsible for overseeing and reviewing the effectiveness of the Bank's system of controls, including financial and operational controls, as well as compliance and risk management.

William L. Chua - Chairman

Members:

Bansan C. Choa
Juliet C. Go
Atty. Lamberto R. Villena*

Alternate members:

Bernadette Cindy C. Tiu
Ignatius F. Yenke
Gregorio T. Yu

CORPORATE GOVERNANCE COMMITTEE (CORGOV)

The Corporate Governance Committee assists the Board in fulfilling its corporate governance responsibilities and oversees periodic assessment of Board performance, as well as the various Board Committees and Executive Management.

Nilo L. Pacheco, Jr. - Chairman

Members:

Bansan C. Choa
William L. Chua
Juliet C. Go
Ruben C. Tiu
Atty. Lamberto R. Villena*

RISK MANAGEMENT COMMITTEE (RMC)

The Risk Management Committee is responsible for developing and overseeing the Risk Management Program of the Bank as well as the Trust Unit. The Committee approves risk strategy and the supporting risk management policies and procedures, ensuring the soundness of risk management practices, while fully considering the Bank's risk exposures.

Nilo L. Pacheco, Jr. - Chairman

Members:

William L. Chua
Juliet C. Go
Harris Edsel D. Jacildo
Atty. A. Bayani K. Tan
Atty. Lamberto R. Villena
Cecilio D. San Pedro*

Alternate Member:

Gregorio T. Yu

EXECUTIVE COMMITTEE (EXCOM)

The Executive Committee assists the Board in the general supervision, administration, and management of the Bank's affairs, and is thus actively engaged in overseeing the development and execution of the Bank's business strategies.

Gregorio T. Yu - Chairman

Members:

Ruben C. Tiu
Bansan C. Choa
John Y. Tiu, Jr.
Ignatius F. Yenke
Atty. Lamberto R. Villena
Cecilio D. San Pedro*

Alternate members:

Harris Edsel D. Jacildo
Atty. A. Bayani K. Tan
Bernadette Cindy C. Tiu

TRUST COMMITTEE (TRUSTCOM)

The Trust Committee is responsible for overseeing the investment activities of the Bank's Trust unit.

Nilo L. Pacheco, Jr. - Chairman

Members:

Ruben C. Tiu
Harris Edsel D. Jacildo
Cecilio D. San Pedro*
Barbara L. Garcia*

LOAN COMMITTEE (LOANCOM)

The Loan Committee manages credit risk within the lending portfolio and monitors Lending Units' activities to ensure that they are carried out in a manner consistent with Board-approved strategic plans and objectives. The Committee reviews the effectiveness of credit management systems, policies, and processes for measuring, monitoring, and controlling risk exposures.

Bansan C. Choa - Chairman

Members:

John Y. Tiu, Jr.
Gregorio T. Yu
Ignatius F. Yenke
Atty. Lamberto R. Villena
Cecilio D. San Pedro*

Alternate Members:

Bernadette Cindy C. Tiu
Harris Edsel D. Jacildo

IT COMMITTEE (ITCOM)

The IT Committee oversees the development of the Bank's Information Technology Systems and Infrastructure. It ensures that systems are embedded with multi-layered controls in order to protect bank information and technical infrastructure.

William L. Chua - Chairman

Members:

Bernadette Cindy C. Tiu
Harris Edsel D. Jacildo
Nilo L. Pacheco, Jr.
Atty. Lamberto R. Villena
Cecilio D. San Pedro*

BIDS AND AWARDS COMMITTEE (BAC)

The Bids and Awards Committee oversees the Bank's procurement processes and the implementation of procurement contracts as part of the Bank's operational risk management, while also ensuring transparency and good governance in the process.

John Y. Tiu, Jr. - Chairman

Members:

Bansan C. Choa
Nilo L. Pacheco, Jr.
Atty. Lamberto R. Villena
Cecilio D. San Pedro*

COMPENSATION COMMITTEE

The Compensation Committee is responsible for reviewing, screening, and approving management recommendations on compensation and other Human Resource-related matters.

Ruben C. Tiu - Chairman

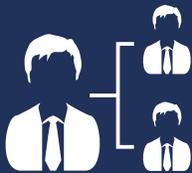
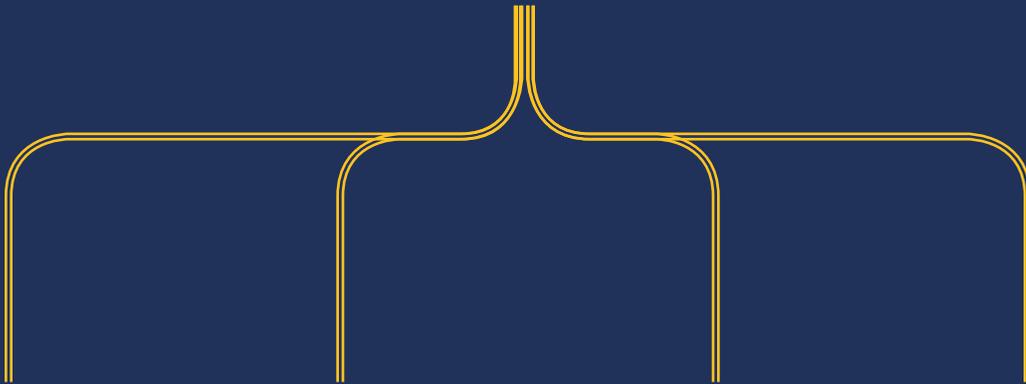
Members:

Bansan C. Choa
John Y. Tiu, Jr.
Ignatius F. Yenke
Dulce Y. Edillor

* EFFECTIVE JULY 1, 2015



PRESIDENT AND CEO



SENIOR MANAGEMENT COMMITTEE (SMC)

The Senior Management Committee exercises general supervision, administration, and management of the Bank's operations, and as such oversees operational and strategic risk management.



CREDIT COMMITTEE (CRECOM)

The Credit Committee is a management-level committee that evaluates and screens all credit proposals requiring the approval of the President, Loancom, or Board, and likewise monitors credit underwriting activities done at management level. The Committee ensures that credit risk is within the Board-set risk tolerance levels and that proposals comply with the credit underwriting standards as set in the Bank's policies and procedures.



ASSET AND LIABILITY COMMITTEE (ALCO)

The Asset-Liability Committee is responsible for ensuring that the Bank and all its legal vehicles maintain adequate liquidity, sufficient capital, and the appropriate funding to meet all business and regulatory requirements. The Committee is responsible for building a stable funding structure by managing the long-term profiles of the Bank's asset and liability maturities. The Committee also manages the statement of financial position and ensures that strategies are in accordance with adequate liquidity, capital, and diversified funding, and establishes asset-liability pricing policies consistent with the Bank's strategies.



DISCIPLINE, ETHICS AND VALUES COMMITTEE (DEVCOM)

The Discipline, Ethics and Values Committee ensures that the Bank adheres to its standards and code of conduct. The Committee also exercises disciplinary powers in cases of rule-infringement relating to banking activities. As part of the Bank's operational and reputational risk management, the Committee mandates all personnel to adhere to the code of conduct and perform their fiduciary responsibility according to the Bank's vision, mission and core values.

RISK MODELS AND MEASUREMENTS

Risk measurements and monitoring activities provide the necessary information on the Bank's risk exposures. This helps Sterling Bank of Asia in charting its direction going forward. It serves as the light that guides decision-making and provides the trigger mechanisms for strategic inflection points, fully taking into consideration the changing risk and regulatory environment which may affect key strategic assumptions business plans are anchored to. Results of risk monitoring are reported on a periodic basis to the Bank's Senior Management and the Risk Management Committee (RMC).

Sterling Bank of Asia employs various risk management methodologies, based on a combination of industry-accepted quantitative and qualitative techniques, to measure and monitor the Bank's risk exposures. This includes loan loss estimation methodologies, default probability and loss rates for credit risk, internal credit rating systems, value-at-risk and earnings-at-risk measures, gap analysis, and tracking of various key risk indicators and metrics within an established risk dashboard. Risk models used are subjected to periodic back-testing and review in order to determine its effectiveness in measuring levels of risk.

	RISK MANAGEMENT MECHANISMS	RISK CONTROL AND MONITORING TOOLS	RISK REPORTING AND BUSINESS MANAGEMENT
CREDIT	<ul style="list-style-type: none"> a. 10-tiered Credit Risk Rating System b. Classification of Credits c. Concentration by industry with risk classification, large exposures, loan tenor, collateral cover, and investment counterparty exposures d. Stress Testing 	<ul style="list-style-type: none"> a. Central Liability System b. Limits: <ul style="list-style-type: none"> • Single Borrowers' Limit • Group Exposures • Industry Exposures • Counterparty Limits • Country Limits c. Loan Provisioning d. Herfindahl Hirschman Index e. PD & ITL impact on CAR 	<ul style="list-style-type: none"> a. Annual updates on account risk rating b. Monthly credit risk profiling / management reporting to the RMC c. PD & ITL status reporting
MARKET & INTEREST RATE	<ul style="list-style-type: none"> a. Concentration by type of investment, tenor, and currency denomination b. Stress Testing c. Sensitivity Analysis d. Gap Analysis e. Review of new and existing investments and products 	<ul style="list-style-type: none"> a. Limits: <ul style="list-style-type: none"> • Position Limit • Value at Risk (VaR) Limit • Alert levels (1 & 2) • Stop Loss Limit • Traders Limit • Earning at Risk (EAR) Limit b. Value at Risk (VaR) estimates c. Marked to market valuations d. Interest rate gap e. Monitoring of Off-Market transactions f. Back testing to manage model risk 	<ul style="list-style-type: none"> a. Automated daily risk management, reporting of limits, and P&L to the President and other concerned parties b. Monthly Market Risk management reporting to risk-taking units, the President, ALCO and RMC
LIQUIDITY	<ul style="list-style-type: none"> a. Concentration by type of investment, tenor, and currency denomination b. Stress Testing c. Sensitivity Analysis d. Gap Analysis e. Contingency Funding Plan 	<ul style="list-style-type: none"> a. Maximum Cumulative Outflow (MCO) b. Determining funding requirements c. Monitoring of financial liquidity ratios 	<ul style="list-style-type: none"> a. Weekly reporting of balance sheet profile to ALCO b. Monthly Liquidity Risk Management Reporting to RMC

	RISK MANAGEMENT MECHANISMS	RISK CONTROL AND MONITORING TOOLS	RISK REPORTING AND BUSINESS MANAGEMENT
OPERATIONAL	<ul style="list-style-type: none"> a. Four lines of defense b. Operational Loss Database maintenance c. Risk and Control Self-Assessment with concentration on established high-risk functions / units d. Product risk assessments 	<ul style="list-style-type: none"> a. Regular Risk and Control Self-Assessment b. Loss Event Reporting c. Key Risk Indicators d. Risk Mapping e. Business Continuity Planning 	<ul style="list-style-type: none"> a. Incident Reporting b. Corrective Action Tracking c. Monthly Operational Risk Management reporting to the RMC d. Coordination with Internal Audit, IT, and Compliance
COMPLIANCE	<ul style="list-style-type: none"> a. Compliance Program b. Review of Bank contracts and transactions 	<ul style="list-style-type: none"> a. Compliance testing b. Information Dissemination e.g. BSP Circulars, manual of Regulations for Banks, BIR and AMLC regulations to concerned units c. Training and seminars d. Regular assessment of Compliance Program e. Monitoring of Fines and Penalties (Actual and Probable) 	<ul style="list-style-type: none"> a. Regular reporting and updating of regulatory concerns to SMC and Board / ExCom / CorGov
STRATEGIC	<ul style="list-style-type: none"> a. Internal and External environment scanning b. Strategic and capital Planning c. Performance Management d. Commitment to good corporate governance as an integral part of strategic thrusts 	<ul style="list-style-type: none"> a. Impact assessment based on internal and external environmental scanning b. Performance Management System – Business Segment Management Performance Review 	<ul style="list-style-type: none"> a. Regular reporting and updating of performance vs. objectives to SMC and Board / ExCom; Risk Management reporting to Board / RMC
REPUTATIONAL	<ul style="list-style-type: none"> a. Code of Conduct b. Know Your Customer (KYC) Program c. Media Relations d. Customer Feedback and Complaints Management e. Strengthened operational controls 	<ul style="list-style-type: none"> a. Media Scanning b. Proactive solicitation of customer feedback c. Customer Service Management for complaints and client concerns resolution d. Service Level Agreements (SLA) e. Client Survey Forms 	<ul style="list-style-type: none"> a. SLA Reporting b. Management Reporting of significant issues c. Internal and external communication

Stress testing and scenario analysis are also key components of the Bank's risk management system. They provide a mechanism to measure the impact of varying degrees of stress scenarios on the Bank's income, cost, and capital structure. The Bank's stress testing program employs a combination of regulatory-driven and internally-developed scenarios that measure their effect on material risk exposures at the portfolio and sub-portfolio levels. These multiple views of what the future might bring, spanning a wide range of possibilities, help Sterling Bank of Asia to better manage uncertainties. It allows the Bank to determine when contingency plans and exit strategies are necessary.



INFRASTRUCTURE

Sterling Bank of Asia's risk infrastructure has three critical components namely, people, processes and technology. These three provide the backbone of the Bank's Enterprise Risk Management (ERM) System. While the responsibility for business-related risks lies with the respective business units, with risk management controls embedded in their respective processes, these aim to address specific risks within a particular organizational area. ERM, meanwhile, provides for an integrated framework overarching the entire organization and shifts perspective from a silo paradigm to a holistic viewpoint. It establishes the critical linkages between the various business activities across the enterprise and the associated risk metrics. This integrated view allows for the identification of interdependencies of risks and helps the Bank's Senior Management and the Board to drive a consistent treatment of risk across the enterprise.

Business processes in the Bank are established via a multiple stakeholder approach aimed at improving efficiencies, eliminating redundancies and reducing duplication of effort. Such approach provides a platform for shared understanding of risk across the process value chain. These are supported by the Bank's policies and procedures that set out the framework for the management of the Bank's key risks namely credit, market, liquidity and operational risks. Policies provide business units with guidance on their various risk-taking activities to ensure its alignment with Board-set

risk appetite and tolerance levels. It is subjected to periodic review and updating to ensure its responsiveness to changing risk and business environment.

Accountability for risk is shared by all across the enterprise, with all Sterling Bank of Asia employees made to understand their participation in the risk management process as they carry out their respective tasks. This is emphasized in the onboarding process when they are introduced to the Bank's Enterprise Risk Management framework as part of the institutionalized New Hires Orientation (NHO) Program. This is reinforced as the employees take on their respective job functions with role-based risk management education spearheaded by the Bank's Center for Learning (CFL) that establishes learning and development programs which identify risk management training needs for people outside the formal risk management function.

In today's world, Information Technology is a crucial component of a financial institution's risk management system. In Sterling Bank of Asia, the IT Group provides the necessary infrastructure to automate critical business activities with embedded control structures to support a common risk architecture across the organization. IT also provides the data management facility to enable risk reporting and MIS for performance monitoring and decision-making.

TYPES OF RISKS

CREDIT RISK

Credit risk is the risk of financial loss to the Bank if a customer or counterparty fails to meet its contractual obligations. The Bank's credit risk exposure arises largely from its lending, trade finance, and investment activities.

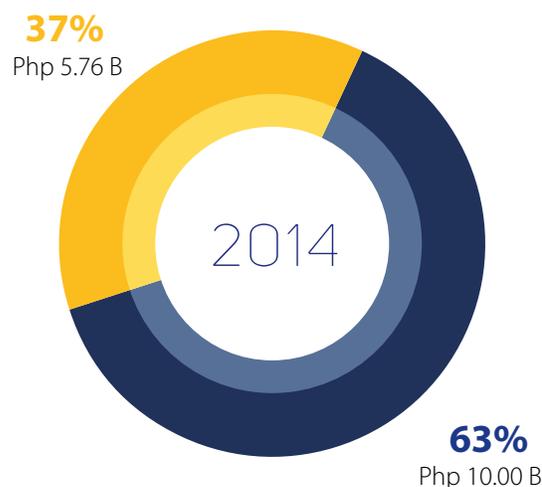
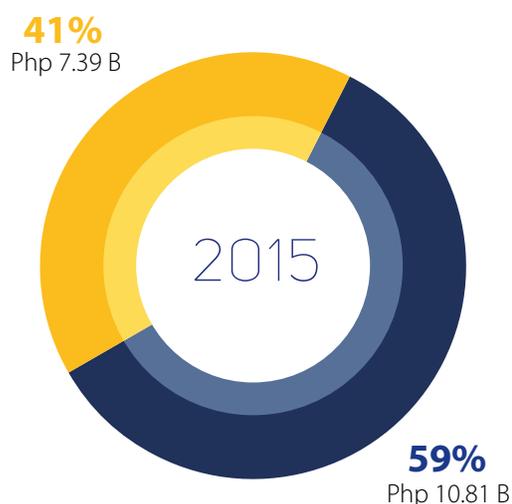
Credit risk is by far the Bank's biggest risk exposure accounting for approximately 84.23% of Sterling Bank of Asia's risk weighted assets for 2015. Capital for credit risk is determined using the standardized approach.

The Bank's credit risk exposures is attributed largely to lending activities of the Commercial and Consumer Lending Groups. Combined Loan Portfolio of the two groups stood at Php18.2 billion up by 15.5% from the Php15.76 billion posted the year before. Growth is driven largely by the Consumer Lending Group whose portfolio grew by 28% in 2015 due to the expansion of the auto loan segment. With this, portfolio mix is shifting with Consumer Lending gradually taking up a bigger share. For 2015, portfolio mix is 59% Commercial and 41% Consumer Loans from 63% and 37%, respectively, the previous year.

IN BILLIONS (Php)	2015	2014
COMMERCIAL LOANS	10.81	10.00
CONSUMER LOANS	7.39	5.76
TOTAL	18.20	15.76

COMBINED COMMERCIAL AND CONSUMER LENDING PORTFOLIO

■ Corporate loans
■ Consumer loans



CREDIT RISK-WEIGHTED ASSETS

	2015 (in Million Php)		2014 (in Million Php)	
0% Risk Weight				
Cash On Hand	689		893	
Due From BSP	3,108		3,965	
Available For Sale Financial Assets	1,291		2,814	
Unquoted Debt Securities	660		714	
Loans To The Extent Covered By Hold-Out	234		489	
Loans To The Extent Covered By Marginal Deposits	2		3	
Loans To The Extent Guaranteed By HGC	1,535		996	
Total Subject To 0% Risk Weight	7,518	0	9,874	0
20% Risk Weight				
Checks And Other Cash Items	0		11	
Claims Guaranteed By Foreign Incorporated Banks	992		281	
Interbank Call Loans	100		344	
Claims On Philippine Incorporated Private Enterprise	301		329	
Claims Guaranteed By Foreign Incorporated Private Enterprise	211		219	
Total Subject To 20% Risk Weight	1,604	321	1,184	237
50% Risk Weight				
Loans To Individual For Housing Purposes	602		800	
Foreign Currency Denominated Claims On Or Portions Of Claims Guaranteed By Or Collateralized By Foreign Currency Denominated Securities Issued By The Philippine National Government & the BSP	517		338	
Total Subject To 50% Risk Weight	1,119	559	1,138	569
75% Risk Weight				
Qualified MSME Loans	2,569		2,703	
Total Subject To 75% Risk Weight	2,569	1,927	2,703	2,027
100% Risk Weight				
NPL To Individuals For Housing Purposes	157		67	
Other Assets	14,956		14,001	
Total Subject To 100% Risk Weight	15,113	15,113	14,068	14,068
150% Risk Weight				
All NPL Except NPL Individual For Housing Purposes	888		847	
Real And Other Properties Acquired	88		98	
Total Subject To 150% Risk Weight	976	1,463	945	1,418
Risk-Weighted On Balance Sheet		19,384		18,319
Risk-Weighted Off Balance Sheet		10		30
Counterparty (Trading/Banking)		2		8
Total Credit Risk		19,396		18,357

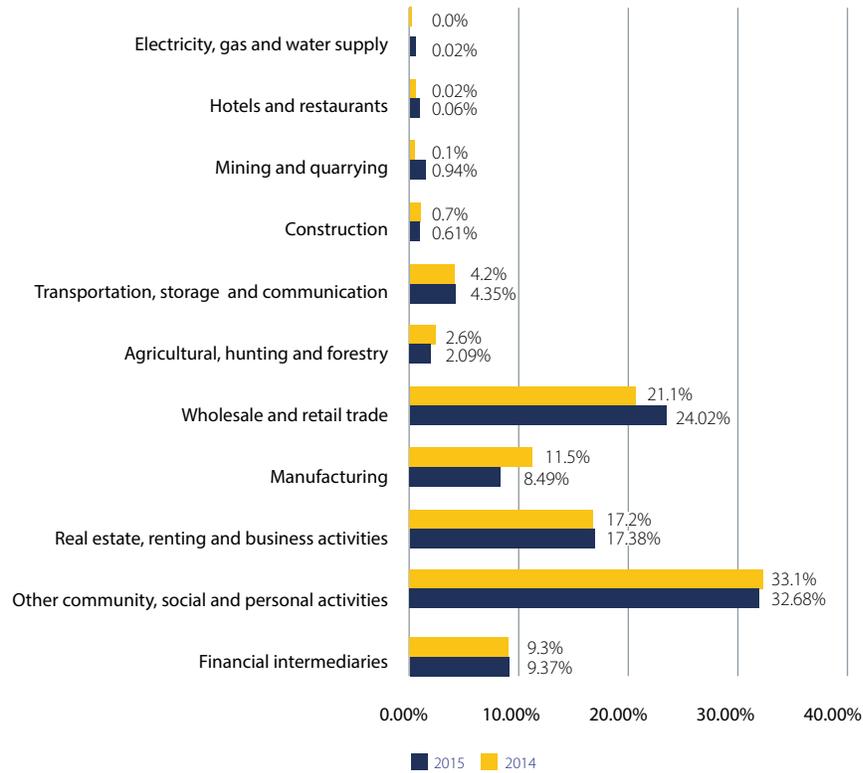
The Bank's Commercial Lending Portfolio, which stood at Php10.8 billion in 2015, is comprised chiefly of short-term working capital loans for business enterprises. These loans are mostly granted on clean basis, given the shift from collateral-based lending to a risk-based orientation, which factors in cash flow considerations in the credit structure. Commercial loans are subjected to the Bank's Internal Credit Risk Rating System (ICRRS), which serves to classify credit across a 10-scale rating system to differentiate the portfolio composition between High Grade, Standard Grade, and Impaired categories. The rating system has two parts, namely the borrower's risk rating (BRR) and the facility risk rating (FRR). The BRR is derived from a variety of financial risk indicators, combined with an assessment of management-, market-, and industry-specific information to provide the main inputs for the measurement of credit risk. Credit risk evaluation combines both quantitative and qualitative assessments in order to derive a better picture of borrower risk profile. Meanwhile, the FRR factors in credit structure and risk mitigation mechanisms, including collaterals provided for credit enhancement. Credit ratings are assigned at the time of loan approval for big ticket items, and post-approval for management-level approvals, subject to updating and re-evaluation annually or as necessary, given economic, industry, or borrower-specific changes.

RISK RATING	CLASSIFICATION	CREDIT QUALITY
1	Excellent	High Grade
2	Strong	High Grade
3	Good	High Grade
4	Satisfactory	Standard Grade
5	Acceptable	Standard Grade
6	Weak	Standard Grade
7	Poor	Impaired
8	Substandard	Impaired
9	Doubtful	Impaired
10	Loss	Impaired

Retail loans, meanwhile, are driven by consumer income and demographics. The country's continued economic growth, spurred by increased OFW remittances, improved performance of the service sector, and a growing BPO industry, provide households—especially those from the growing middle class—increased consumer spending power. With the banking sector likewise promoting increased access to finance home and vehicle acquisitions, Consumer Lending has seen double-digit growth in 2015. For Sterling Bank of Asia, a remarkable 28% growth was recorded by the Consumer Lending Group as portfolio grew to Php7.4 billion from Php5.76 billion a year ago. Consumer loans are underwritten based on the Bank's credit risk acceptance criteria built on a set of borrower attributes. This is subjected to periodic review and enhancements to ensure responsiveness to changing socio-economic conditions driving the consumer lending business. The Bank employs a combination of product-based and customer-centric approach in its retail lending operations.

The Consumer Lending Portfolio is comprised mainly of secured and unsecured product lines. Auto and real estate loans make up the secured retail products, while unsecured loans are largely personal, salary, and employee loans used to finance personal needs, as well as fund small business enterprises. These loans cover significant everyday expenses as an alternative to obtaining credit card obligations. Auto loans comprise bulk of the Consumer Lending Portfolio at 52%, followed by real estate loans at 34%.

INDUSTRY SECTOR DISTRIBUTION Loans and Receivables



Concentration risk is managed by the Bank as it endeavors to spread risk across various industry sectors. However, given the strategic focus on growing the Consumer Lending segment, the Other Community, Social and Personal Activities sector as well as the Real Estate sector emerge as having the bigger share of the portfolio at 32.68% and 17.38%, respectively. Meanwhile, given the Commercial Lending's focus on funding small and medium enterprises, a significant portion of the portfolio is into the wholesale and retail trade sector where most SME clients are engaged. Breakdown of the credit concentration by industry is shown above.

A substantial portion of the loan portfolio remains to be unsecured at 56.3% albeit lower compared to last year's 60% figure. This is reflective of the implementation of risk-based lending standards that put de-emphasis on collateral-based lending. While acceptance of collateral continue to be an accepted risk mitigation technique, credit structures are largely focused on cash flow assessments to establish repayment capacity. The noted increase in the portfolio secured by chattel mortgage is a result of the growth of the auto loan segment which is backed by chattel mortgage on the financed vehicle.

Loans underwritten by the Bank go through the Bank's standard evaluation process where a comprehensive assessment of creditworthiness of borrowers is made. Evaluation is made to establish the client's repayment capacity primarily based on the assessment of its cash flow. For borrowers engaged in business, evaluation is supported

by a more comprehensive financial and business analysis that takes into account socio-economic, political, environmental, legal and technological factors that may impact the client's business performance and eventually the repayment of the loan. The evaluation process adheres to the "Four Eyes Principle" followed by a system of delegated authorities in terms of the approval process.

The Loan Committee (LoanCom) serves as the governance body overseeing the Bank's credit risk management system. It reviews and approves the credit risk strategies employed by the business units which define their respective target markets and product offerings. Approval of credit policies which provide parameters for lending and credit risk-taking and the corresponding risk control framework is also done at the LoanCom level and subsequently confirmed by the Board. Sterling Bank of Asia's credit policies set the guidelines on exposure management including a system of risk limits reflective of the Bank's risk tolerance and capacity and provides for a mechanism to avoid excessive credit concentration. These include limits for single and group of related borrowers, industry sector exposures and country and cross-border risks and are subject to annual reviews.

At the management level, the Credit Committee (CreCom) takes charge of overseeing the implementation of the instituted credit risk management systems. It ensures alignment of the Bank's credit risk-taking activities with the Board-approved strategies and makes certain that credit underwriting are within set limits and thresholds.

Credit risk exposures are monitored on a regular basis and reported to the Credit, Loan, and Risk Management Committees. The Credit Risk and Control Department under the Risk Management Group serves as the support structure of the Risk Management Committee in the development of credit risk management mechanisms to properly identify, measure, and control risk exposures and credit concentration. It is responsible for credit risk policy formulation and for the implementation of credit risk measurements and monitoring mechanisms.

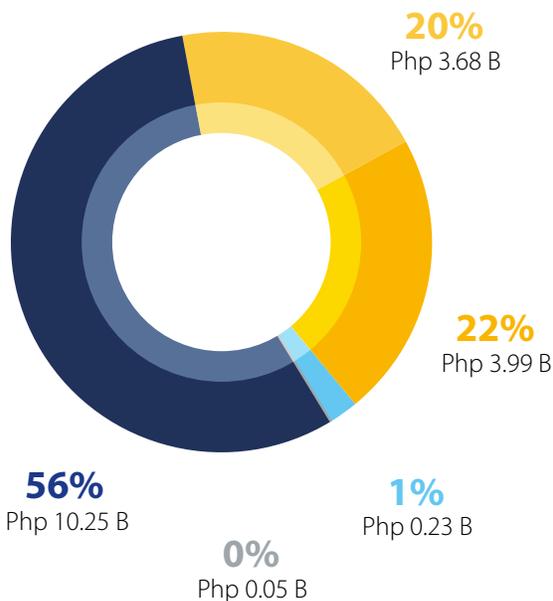
2015 marks a milestone in the Bank's continuous efforts to enhance its credit risk management system with its development and adoption of its Loan Loss Methodology (LLM). The Bank's LLM calculates expected losses based on statistical considerations derived from the Bank's internal default and loss history. The Risk Management Group conducts a detailed analysis of its loan portfolio on a quarterly basis following the LLM. Results of the expected loss calculations are factored in determining the allowance for credit losses for the Bank.

Credit exposures also reside in the Bank's Treasury Trading and Investment Portfolios. Credit risk in the Treasury Portfolio is managed by monitoring the prices of securities which provide indications of credit risk premium priced by the market. Credit limit structures such as position limits, counterparty limits, and country limits are likewise in place to ensure that investment activities are carried out within Board-set boundaries. Counterparty risk is generally reduced by netting agreements which provide for single net settlement for all exposures covered by the agreement.

COMMERCIAL AND CONSUMER LENDING PORTFOLIO MIX

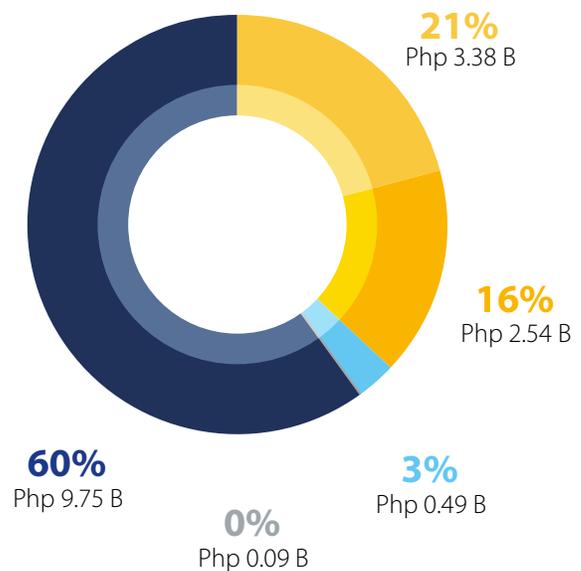
2015 LOAN PORTFOLIO PROFILE BY SECURITY

- Real Estate Mortgage
- Chattel Mortgage
- Deposits
- Other security support
- Unsecured



2014 LOAN PORTFOLIO PROFILE BY SECURITY

- Real Estate Mortgage
- Chattel Mortgage
- Deposits
- Other security support
- Unsecured



MARKET AND INTEREST RATE RISK

Uncertainty surrounding changes in market prices and rates coupled with the associated volatility levels give rise to market risk. Both trading and non-trading portfolios are subject to market and interest rate risk.

RMC-approved limit framework guides Treasury investment activities which aim to address liquidity and statutory reserve requirements, as well as pursue trading opportunities for profit-taking. These key limits set to capture particular risk factors provide the parameters by which the bank conducts its asset and liability management. These limits are reviewed and recalibrated on an annual basis and approved by the RMC.

The Risk Management Committee serves as the overall governing body for market and interest rate risks. It is supported by the Bank's Asset and Liability Committee (ALCO) comprised of the group heads of the Bank's key business units tasked to evaluate, monitor, and implement strategic balance sheet allocations. It is the ALCO that likewise ensures implementation of a risk-based interest rate policy.

Market risk is managed via a combination of risk sensitivities, value-at-risk (VaR) and earnings-at-risk (EaR) measures, and stress testing. Sensitivity analysis is used to determine impact on the portfolio and subsequently on the interest margins of movements in the foreign exchange and interest rates. Meanwhile, historical value-at-risk, which is calculated on a daily basis, provides the estimates for potential losses under normal market conditions. However, this does not measure potential losses under extreme events. This is addressed by stress testing activities with scenarios generally derived from historically-observed severe shocks. Earnings-

at-risk, meanwhile, captures impact on income of interest rate movements on the non-trading portfolio. These risk measurements, monitoring, and analytics are performed by the Market and Liquidity Risk Management Department under the Risk Management Group.

Capital requirements for market risk exposures is determined by using the standardized approach. For 2015, market risk-weighted assets stood at Php1.6B, representing 6.97% of total risk-weighted assets.

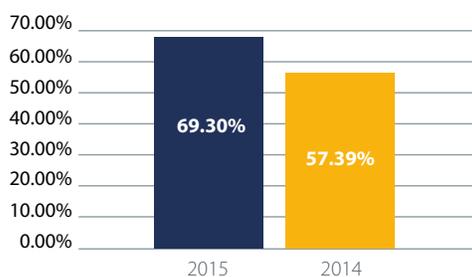
LIQUIDITY RISK

Liquidity risk is the risk arising from the potential inability to meet all financial obligations when they become due at reasonable costs. Financial obligations include liabilities to depositors, payments due under financial contracts, settlement of securities borrowing and repurchase transactions, and lending and investment commitments.

As a financial institution whose business is anchored on trust and confidence, liquidity risk management is essential to sustaining operations. The Bank is expected to have the ability to fund both expected and unexpected cash flows without incurring excessive costs and impacting on daily operations and the Bank's financial condition.

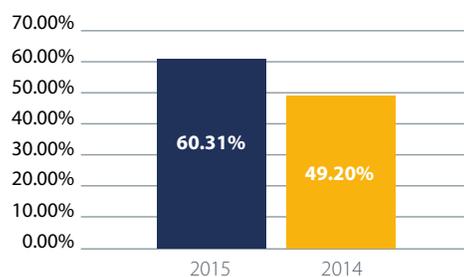
From a governance standpoint, the Risk Management Committee defines the Bank's liquidity risk strategy as recommended by the Asset and Liability Committee (ALCO) and oversees the liquidity risk management system. The ALCO, meanwhile, takes charge of the Bank's asset and liability management at the operational level aimed toward striking an optimal balance sheet structure that will maximize profitability and address liquidity risk concerns.

LOANS TO DEPOSIT RATIO

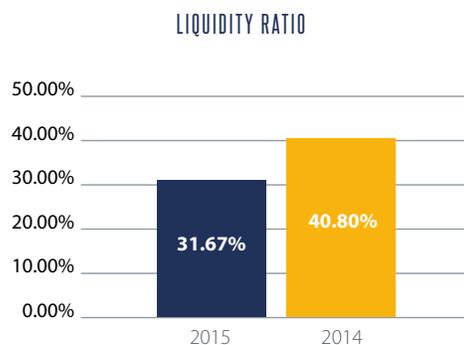
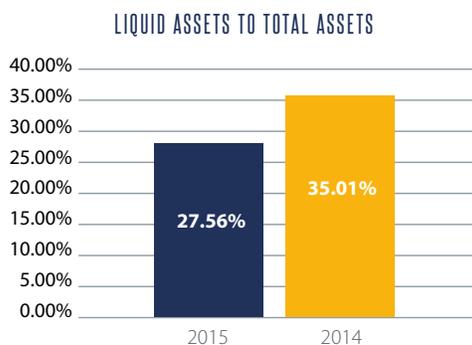


	2015	2014
LOANS AND RECEIVABLES (NET)	18,635,289,930	16,852,583,926
TOTAL DEPOSITS	26,888,986,133	29,364,871,176

LOANS TO ASSET RATIO



	2015	2014
LOANS AND RECEIVABLES (NET)	18,635,289,930	16,852,583,926
TOTAL ASSETS	30,900,899,549	34,222,353,727



	2015	2014
LIQUID ASSETS*	8,516,175,606	11,981,144,391
TOTAL ASSETS	30,900,899,549	34,222,353,727

	2015	2014
LIQUID ASSETS*	8,516,175,606	11,981,144,391
TOTAL DEPOSITS	26,888,986,133	29,364,871,176

*Sum of Cash, COCI, DF BSP, DF Other Banks, Interbank Loans and Financial Assets at FVPL

These committees are supported by the Risk Management Group (RMG) which is responsible for monitoring such risks through regular analyses of usual funding requirements and the diversification of existing funding sources. The Treasury Group, on the other hand, is in charge of tactical liquidity management with the intraday level forecasting of cash flows taking into account the Bank's access to secured and unsecured funding sources and the actual fund deployment.

The Bank taps into diverse funding sources, mainly short-term deposits generated through the Bank's network of domestic branches. The Bank's liquidity risk management framework ensures that a minimum level of core liquidity is preserved at all times with sufficient cushion in the form of highly liquid assets that can sustain liquidity pressures under stressed market conditions.

Treasury's intraday cash flow forecasting and the weekly funding assessment in the ALCO is supplemented by monitoring of liquidity risk metrics such as the Maximum Cumulative Outflow (MCO) and various liquidity ratios. The cash-flow-based reporting system is complemented by quarterly stress testing exercises that determine impact of various stress scenarios on the Bank's liquidity position.

OPERATIONAL RISK

Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes or from external events. Operational risk covers losses due to internal and external fraud events, business disruptions and systems failure, damage to physical assets, execution, delivery and process management failures, weaknesses in products and business practices, as well as employment practices and workplace safety.

The Bank's operational risk management framework is anchored on the four lines of defense principle. Day-to-day management of operational risks lies on the business units, where risk ownership reside and risk controls are embedded in processes. The back office function, meanwhile, serves as the second line of defense, where additional controls and quality checks occur in the transaction flow. The third line of defense is the Risk Management Group performing middle office functions. It is here that operational risk monitoring transpire in order to ensure consistent application of the Bank's operational risk management framework. The fourth line of defense is the Internal Audit and Compliance functions that provide for the independent review of the effectiveness of risk management systems and controls.

Evaluation of the Bank's operational risk profile is performed alongside the risk tolerance and threshold levels set by the RMC. The Risk and Control Self-Assessment (RCSA) is a key tool used in this exercise in order to identify risk concentrations and operational concerns, and define risk treatment action plans. In 2015, the Bank redesigned its RCSA framework toward a metric-driven, process-focused approach as part of the continuous initiative to strengthen the operational risk management system. The RCSA maps out risks embedded in business processes and evaluates effectiveness of risk controls. Key Risk Indicators (KRIs) were introduced as a measure of operational risk trends. Aside from the RCSA, another key tool is the centralized operational loss database, which captures information from the Bank's historical operational loss experience. Analysis of risk trends and operational exposures gathered from data collected from the loss tracking system is reported to the Bank's Risk Management Committee.

As part of the Bank's commitment to ensure delivery of banking services to clients, Sterling Bank of Asia has an institutionalized Business Continuity Management Program aimed at building organizational resilience in the face of crises and business interruptions. Business Continuity Plans (BCPs) are in place in order to respond to and recover from significant business disruptions and are subjected to an iterative cycle of improvement.

The Bank makes use of the Basic Indicator Approach (BIA) in determining the capital charge for operational risk. For 2015, Operational Risk Weighted Assets (ORWA) stood at Php2.02 billion, accounting for 8.79% of risk weighted assets. The ORWA is conservative against actual loss experience which, for 2015, stood at Php981 thousand, comprising largely of Type VII Basel loss events (Execution, Delivery and Process Management).

COMPLIANCE RISK

Compliance Risk is the risk of loss arising from non-compliance to rules, regulations, and laws. The Bank's Compliance Program is the backbone of the compliance risk management system. It provides the mechanism that identifies relevant laws and regulations, monitors regulatory changes, and assesses its operational and balance sheet implications, continuous education, training and information dissemination throughout the organization, and compliance risk testing of business units.

Legal risk is centrally managed by the Legal Department. Proactive legal risk management is implemented through control structures such as Legal Office sign-off procedures, issuance of legal opinions, and continuous training and awareness campaigns.

Capital charge for compliance risk form part of operational risk capital charge.

STRATEGIC RISK

Strategic Risk is the potential risk to earnings and capital of inappropriate business decisions and implementation and/ or inability to adequately respond to changing business environment.

The strategic thrusts and directions of the Bank is driven by the Board of Directors together with the Senior Management. It is from this that business plans of the respective units are anchored following the institutionalized strategic planning process. Business plans charting the Bank's growth targets factor in assessments of the risk and competitive landscape which allow the Bank to integrate risk management strategies and capital plans into the business group's strategic plans.

The Bank manages strategic risk at all relevant levels in the organization with periodic review of actual performance versus set objectives being done by the Senior Management Committee and the Board/ ExCom.

REPUTATIONAL RISK

Reputational risk is the risk of loss due to negative public perception of the Bank. Negative publicity on the Bank's conduct, business practices and/or associations, whether true or not, may adversely impact revenues, erode customer base, affect operations and result to legal suits and costly remediation measures.

In the banking sector where business relationships are based on trust and confidence, the management of reputational risk is a strategic imperative. Reputational risk management extends beyond the company's borders and recognizes potential risk issues across the value chain, taking into account the interconnection between the Bank and its strategic business partners.

Given that reputational risk issues generally are an offshoot of operational lapses and concerns, reputational risk management is largely centered on strengthening banking service delivery. Retail Banking Group with its branch network serving as the main delivery channel for banking services has established Quality Assurance mechanisms to ensure that service delivery standards are upheld. Proactive solicitation of customer feedback is also being undertaken, results of which are incorporated in the semestral evaluation of Service Level Agreements. The Bank also has a Customer Management hotline to address client concerns and customer complaints.

CAPITAL MANAGEMENT

For 2015, capital adequacy ratio stood at 13.26%, well above the 10% regulatory threshold.

Capital Management is another key activity in the Bank to support strategic activities. The Bank's Capital Management framework aims to increase shareholder value and ensure capital sufficiency to support asset growth and expansion, determining the appropriate level of capital, given the Bank's risk-taking activities.

The Bank ensures that capital ratios are maintained at levels above the minimum regulatory capital with sufficient buffer to absorb shocks in periods of stress, and that available capital can support business activities, striking a balance between risk and reward with the aim of achieving RWA optimization.

	2015	2014
TIER 1 CAPITAL	2,139,584	1,927,869
REQUIRED DEDUCTIONS	47,600	75,992
NET TIER 1 CAPITAL	2,091,984	1,851,877
TIER 2 CAPITAL	961,952	931,795
REQUIRED DEDUCTIONS	0	0
NET TIER 2 CAPITAL	961,952	931,795
TOTAL QUALIFYING CAPITAL	3,053,936	2,783,672
CREDIT RISK WEIGHTED ASSETS	19,396,394	18,356,730
MARKET RISK WEIGHTED ASSETS	1,606,421	2,822,807
OPERATIONAL RISK WEIGHTED ASSETS	2,024,693	1,893,313
TOTAL RISK WEIGHTED ASSETS	23,027,508	23,072,850
TIER 1 CAPITAL RATIO	9.08%	8.03%
TOTAL CAPITAL RATIO	13.26%	12.07%

DECEMBER 31 (IN MILLIONS)

	2015	2014
TOTAL TIER 1 CAPITAL		
PAID-UP COMMON STOCK	2,070	1,895
ADDITIONAL PAID-IN CAPITAL		
RETAINED EARNINGS	59	12
UNDIVIDED PROFITS	21	44
CUMULATIVE FOREIGN CURRENCY TRANSLATION	(10)	(23)
SUB-TOTAL	2,140	1,928
LESS DEDUCTIONS:		
UNSECURED DOSRI CREDIT ACCOMMODATIONS	0	0
DEFERRED TAX ASSETS	48	21
UNBOOKED VALUATION	0	55
TOTAL DEDUCTIONS FROM TIER 1 CAPITAL	48	76
TOTAL QUALIFYING TIER 1 CAPITAL	2,092	1,852

DECEMBER 31 (IN MILLIONS)

	2015	2014
TOTAL TIER 2 CAPITAL		
PREFERRED STOCK	300	300
GENERAL LOAN LOSS PROVISION	164	134
UNSECURED SUBORDINATED DEBT	498	498
TOTAL QUALIFYING TIER 2 CAPITAL	962	932

Risk-Weighted Assets by type of exposure is shown below. The Bank employs a standardized approach to determine credit and market risk-weighted assets, while operational risk-weighted assets is calculated using the basic indicator approach.

	CREDIT RISK		MARKET RISK		OPERATIONAL RISK	
	2015	2014	2015	2014	2015	2014
ON - BALANCE SHEET (NET OF DEDUCTIONS)	19,384	18,319				
OFF - BALANCE SHEET	10	30				
COUNTERPARTY (TRADING/BANKING)	2	8				
INTEREST RATE EXPOSURE			1,516	2,726		
FOREIGN EXCHANGE			90	97		
OPERATIONAL RISK - WEIGHTED ASSETS					2,025	1,893
TOTAL	19,396	18,357	1,606	2,823	2,025	1,893
CAPITAL REQUIREMENTS	1,940	1,836	161	282	203	189



STERLING BANK OF ASIA INC.
(A Savings Bank)

Financial Statements
December 31, 2015 and 2014

With independent auditor's report provided by



REYES TACANDONG & CO.

FIRM PRINCIPLES. WISE SOLUTIONS.

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Sterling Bank of Asia Inc. (A Savings Bank)

We have audited the accompanying financial statements of Sterling Bank of Asia Inc. (A Savings Bank), which comprise the statements of financial position as at December 31, 2015 and 2014, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

REYES TACANDONG & CO.

HAYDEE M. REYES

Partner

CPA Certificate No. 83522

Tax Identification No. 102-095-265-000

BOA Accreditation No. 4782; Valid until December 31, 2018

SEC Accreditation No. 0663-AR-2 Group A

Valid until April 14, 2017

BIR Accreditation No. 08-005144-6-2013

Valid until November 26, 2016

PTR No. 5321843

Issued January 5, 2016, Makati City

March 22, 2016

Makati City, Metro Manila

STERLING BANK OF ASIA INC. (A Savings Bank)

STATEMENTS OF FINANCIAL POSITION

		December 31	
	Note	2015	2014
ASSETS			
Cash and Other Cash Items		₱688,754,312	₱903,508,869
Due from Bangko Sentral ng Pilipinas		3,107,652,243	3,964,969,282
Due from Other Banks		1,441,016,646	2,317,217,108
Interbank Loans Receivable	8	1,148,219,571	625,686,821
Financial Assets at Fair Value through Profit or Loss	9	2,130,532,834	4,169,762,311
Available-for-Sale Financial Assets	10	2,436,144,847	4,055,409,510
Held-to-Maturity Investments	11	340,029,282	329,794,376
Loans and Receivables	12	18,635,289,930	16,852,583,926
Property and Equipment	13	494,757,543	527,274,829
Assets Held for Sale	14	117,201,260	126,274,908
Branch Licenses	15	225,390,000	225,390,000
Net Deferred Tax Assets	26	44,207,985	17,479,611
Other Assets	16	91,703,096	107,002,176
TOTAL ASSETS		₱30,900,899,549	₱34,222,353,727
LIABILITIES AND EQUITY			
Liabilities			
Deposit Liabilities	17	₱26,888,986,133	₱29,364,871,176
Manager's Checks		136,967,809	151,068,397
Bills Payable	18	36,781,584	366,183,853
Accrued Interest, Taxes and Other Expenses	19	120,585,865	167,840,942
Unsecured Subordinated Debt	20	500,000,000	500,000,000
Net Retirement Liability	24	62,594,572	64,691,511
Income Tax Payable		2,900,143	-
Other Liabilities	21	643,243,527	1,107,019,992
Total Liabilities		28,392,059,633	31,721,675,871
Equity			
Common Stock	27	2,070,000,000	1,895,000,000
Perpetual Preferred Stock	27	300,000,000	300,000,000
Other Equity Reserves		(197,152,456)	813,067
Retained Earnings		335,992,372	304,864,789
Total Equity		2,508,839,916	2,500,677,856
TOTAL LIABILITIES AND EQUITY		₱30,900,899,549	₱34,222,353,727

See accompanying Notes to Financial Statements.

STERLING BANK OF ASIA INC. (A Savings Bank)

STATEMENTS OF INCOME

	Note	Years Ended December 31	
		2015	2014
INTEREST INCOME ON:			
Loans and receivables	12	₱1,395,910,412	₱1,289,272,433
Investment securities	9	305,835,633	361,554,447
Due from Bangko Sentral ng Pilipinas and other banks		44,186,356	33,820,046
Interbank loans receivable	8	5,420,113	2,914,284
		1,751,352,514	1,687,561,210
INTEREST EXPENSE ON DEPOSIT LIABILITIES, BILLS PAYABLE AND OTHERS			
	17	557,683,738	623,466,925
NET INTEREST INCOME		1,193,668,776	1,064,094,285
OTHER INCOME (CHARGES)			
Service charges, fees and commissions		172,615,607	166,037,491
Net trading and securities gains (losses)	9	(119,855,061)	326,869,278
Net foreign exchange gains		70,932,973	34,918,407
Net gain (loss) from assets sold or acquired	14	(14,036,406)	14,391,449
Others - net		21,242,789	12,783,291
		130,899,902	554,999,916
OPERATING EXPENSES			
Compensation and fringe benefits		434,148,365	472,461,973
Taxes and licenses		183,421,750	201,666,228
Occupancy		108,399,288	110,703,381
Depreciation and amortization	13	84,162,180	78,674,048
Representation and entertainment		61,759,296	66,359,809
Insurance		59,281,918	57,809,384
Security, messengerial and janitorial		52,301,654	49,093,926
Others	25	179,440,234	197,679,657
		1,162,914,685	1,234,448,406
PROVISION FOR CREDIT AND IMPAIRMENT LOSSES			
	12	81,583,540	218,599,245
INCOME BEFORE INCOME TAX		80,070,453	166,046,550
INCOME TAX EXPENSE			
Current	26	76,397,997	81,064,951
Deferred		(27,455,127)	(25,431,222)
		48,942,870	55,633,729
NET INCOME		₱31,127,583	₱110,412,821

See accompanying Notes to Financial Statements.

STERLING BANK OF ASIA INC. (A Savings Bank)

STATEMENTS OF COMPREHENSIVE INCOME

	Note	Years Ended December 31	
		2015	2014
NET INCOME		₱31,127,583	₱110,412,821
OTHER COMPREHENSIVE INCOME (LOSS)			
<i>Items to be reclassified to profit or loss</i>			
Net unrealized gains (losses) on available-for-sale financial assets	10	(212,672,127)	159,050,930
Translation adjustment		13,010,846	(9,189,332)
<i>Item not to be reclassified to profit or loss</i>			
Remeasurement gains on retirement liability, net of deferred tax	24	1,695,758	-
		(197,965,523)	149,861,598
TOTAL COMPREHENSIVE INCOME (LOSS)		(₱166,837,940)	₱260,274,419

See accompanying Notes to Financial Statements.

STERLING BANK OF ASIA INC. (A Savings Bank)

STATEMENTS OF CHANGES IN EQUITY

	Note	Years Ended December 31	
		2015	2014
COMMON STOCK			
	27		
Balance at beginning of year		₱1,895,000,000	₱1,625,000,000
Issuance of shares		175,000,000	270,000,000
Balance at end of year		2,070,000,000	1,895,000,000
PERPETUAL PREFERRED STOCK			
	27		
Balance at beginning of year		300,000,000	62,500,000
Issuance of shares		–	237,500,000
Balance at end of year		300,000,000	300,000,000
OTHER EQUITY RESERVES			
Cumulative Unrealized Gains (Losses) on Available-for-Sale Financial Assets			
	10		
Balance at beginning of year		24,605,598	(134,445,332)
Net unrealized gains (losses)		(212,672,127)	159,050,930
Balance at end of year		(188,066,529)	24,605,598
Cumulative Translation Adjustment			
Balance at beginning of year		(23,293,379)	(14,104,047)
Translation adjustment		13,010,846	(9,189,332)
Balance at end of year		(10,282,533)	(23,293,379)
Cumulative Remeasurement Gains (Losses) on Retirement Liability			
Balance at beginning of year		(499,152)	(499,152)
Remeasurement gain, net of deferred tax	24	1,695,758	–
Balance at end of year		1,196,606	(499,152)
		(197,152,456)	813,067
RETAINED EARNINGS			
Balance at beginning of year		304,864,789	194,451,968
Net income		31,127,583	110,412,821
Balance at end of year		335,992,372	304,864,789
		₱2,508,839,916	₱2,500,677,856

See accompanying Notes to Financial Statements.

STERLING BANK OF ASIA INC. (A Savings Bank)

STATEMENTS OF CASH FLOWS

		Years Ended December 31	
	Note	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		₱80,070,453	₱166,046,550
Adjustments for:			
Unrealized trading losses (gains) on financial assets at fair value through profit or loss	9	180,862,254	(56,799,583)
Depreciation and amortization	13	84,162,180	78,674,048
Provision for credit and impairment losses	12	81,583,540	218,599,245
Gain on sale of available-for-sale financial assets	10	(18,435,318)	(45,677,438)
Retirement benefits	24	16,221,739	16,477,610
Net loss (gain) from assets sold or acquired	14	14,036,406	(14,391,449)
Amortization of premium on held to maturity investments	11	7,021,777	3,290,542
Provision for impairment losses on assets held for sale	25	–	5,464,517
Operating income before working capital changes		445,523,031	371,684,042
Changes in operating assets and liabilities:			
Decrease (increase) in the amounts of:			
Financial assets at fair value through profit or loss		1,858,367,223	(2,519,236,732)
Loans and receivables		(1,946,008,627)	(869,392,686)
Other assets		15,299,080	(9,061,204)
Increase (decrease) in the amounts of:			
Deposit liabilities		(2,475,885,043)	6,586,486,033
Manager's checks		(14,100,588)	33,687,460
Accrued interest, taxes and other expenses		(47,255,077)	3,595,736
Other liabilities		(463,776,465)	317,221,578
Net cash generated from (used for) operations		(2,627,836,466)	3,914,984,227
Income tax paid		(73,497,854)	(80,054,197)
Retirements benefits paid	24	(15,896,167)	–
Net cash flows provided by (used in) operating activities		(2,717,230,487)	3,834,930,030
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to:			
Available-for-sale financial assets		(1,000,330,954)	(3,100,847,163)
Property and equipment	13	(59,704,614)	(56,574,621)
Held-to-maturity investments		–	(211,881,800)
Proceeds from sale of:			
Available-for-sale financial assets		2,329,592,547	2,691,910,383
Assets held for sale		78,976,074	77,042,823
Property and equipment		5,839,971	3,494,463
Net cash flows provided by (used in) investing activities		1,354,373,024	(596,855,915)

(Forward)

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	Note	Years Ended December 31	
		2015	2014
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of bills payable		(P615,670,091)	(P1,001,731,637)
Proceeds from:			
Availments of bills payable		364,777,400	1,063,537,712
Issuance of capital stock	27	175,000,000	507,500,000
Net cash flows provided by (used in) financing activities		(75,892,691)	569,306,075
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS			
		13,010,846	(9,189,332)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
		(1,425,739,308)	3,798,190,858
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Cash and other cash items		903,508,869	607,079,022
Due from Bangko Sentral ng Pilipinas		3,964,969,282	2,737,379,105
Due from other banks		2,317,217,108	657,268,106
Interbank loans receivable	8	625,686,821	11,464,989
		7,811,382,080	4,013,191,222
CASH AND CASH EQUIVALENTS AT END OF THE YEAR			
Cash and other cash items		688,754,312	903,508,869
Due from Bangko Sentral ng Pilipinas		3,107,652,243	3,964,969,282
Due from other banks		1,441,016,646	2,317,217,108
Interbank loans receivable	8	1,148,219,571	625,686,821
		P6,385,642,772	P7,811,382,080
OPERATING CASH FLOWS FROM INTEREST			
Interest received		P1,435,555,243	P1,385,841,653
Interest paid		569,918,094	633,331,063
NONCASH OPERATING INFORMATION			
Reclassification of loans and receivables to assets held for sale	14	P81,719,083	P70,145,367

See accompanying Notes to Financial Statements.

STERLING BANK OF ASIA INC. (A Savings Bank)

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Sterling Bank of Asia Inc. (A Savings Bank) was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) and Bangko Sentral ng Pilipinas (BSP) to engage primarily in the general business of savings and mortgage banking. The Bank offers a wide range of products and services such as deposit products, loans, treasury and trust functions. The Bank was granted authority to engage in trust operations in 2008 and to issue foreign letters of credit in 2010.

As at December 31, 2015 and 2014, the Bank operates a total of 42 and 41 branches, respectively.

The Bank was formerly known as Far East Savings Bank (FESB) and originally issued with Certificate of Incorporation by the SEC on January 20, 1998.

In 2006, JTKC Equities, Inc. (JEI), Surewell Equities, Inc. (SEI) and Star Equities, Inc. acquired all the outstanding shares of stock of FESB from the Bank of the Philippine Islands. In 2007, the change in corporate name of FESB to Sterling Bank of Asia Inc. (A Savings Bank) was approved by the BSP and the SEC.

In 2009, the BSP approved the Bank's application to acquire 100% of the shares of stock of Centennial Savings Bank (CSB). In 2010, as approved by the BSP and the SEC, the Bank, as the surviving entity, merged with CSB.

As at December 31, 2015 and 2014, the ultimate parent of the Bank is JEI, through a direct interest of 40% and 44%, respectively, and indirect interest of 30% and 26%, respectively, through Star Equities, Inc., a wholly owned subsidiary of JEI.

The registered office address of the Bank is at Sterling Bank Corporate Center, Greenhills, San Juan, Metro Manila.

The financial statements of the Bank as at and for the years ended December 31, 2015 and 2014 have been approved and authorized for issue by the Bank's Board of Directors (BOD) on March 22, 2016.

2. Basis of Preparation and Statement of Compliance

The financial statements have been prepared under the historical cost basis, except for:

- financial assets at fair value through profit or loss (FVPL) and available-for-sale (AFS) financial assets, which are carried at fair value,
- assets held for sale, which are measured at the lower of cost and fair value less cost-to-sell, and
- net retirement liability, which is carried at the present value of defined benefit obligation less the fair value of plan assets.

The financial statements are presented in Philippine Peso, which is the functional and presentation currency of the Bank. All amounts are in absolute values, unless otherwise indicated.

The financial statements have been prepared in compliance with the Philippine Financial Reporting Standards (PFRS) issued by the Financial Reporting Standards Council and adopted by the SEC. This financial reporting framework includes PFRS, Philippine Accounting Standards (PAS), and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC).

The financial statements of the Bank include the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU). The functional currency of the RBU and FCDU is the Philippine Peso and United States Dollar (USD), respectively. For financial reporting purposes, the FCDU accounts and foreign currency-denominated accounts in the RBU are translated into their equivalent amounts in Philippine Peso, which is the functional and presentation currency of the Bank. The financial statements of RBU and FCDU are combined after eliminating inter-unit accounts.

3. Summary of Changes in Accounting Standards

Adoption of New and Revised PFRS

The Bank adopted the following new and revised PFRS effective January 1, 2015 as summarized below.

- Amendment to PAS 16, *Property, Plant and Equipment - Revaluation Method - Proportionate Restatement of Accumulated Depreciation*, and PAS 38, *Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Amortization* - The amendment clarifies how the gross carrying amount and the accumulated depreciation / amortization are treated when an entity uses the revaluation model.
- Amendment to PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions* - The amendments clarify the requirements on how contributions from employees or third parties that are linked to service should be attributed to periods of service. In particular, contributions that are independent of the number of years of service can be recognized as a reduction in the service cost in the period in which the related service is rendered (instead of attributing them to the periods of service).
- Amendment to PAS 24, *Related Party Disclosures - Key Management Personnel* - The amendment clarifies how payments to entities providing key management personnel services are to be disclosed.
- Amendment to PFRS 13, *Fair Value Measurement - Short-term Receivables and Payables and Portfolio Exception* - The amendment clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of the discounting is immaterial, and that the portfolio exception in PFRS 13 - allowing an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis - applies to all contracts (including non-financial) within the scope of PAS 39, *Financial Instruments: Recognition and Measurement* or PFRS 9, *Financial Instruments*.

The adoption of the foregoing new and revised PFRS did not have any material effect on the financial statements of the Bank. Additional disclosures have been included in the notes to financial statements, as applicable.

New and Revised PFRS Not Yet Adopted

Relevant new and revised PFRS, which are not yet effective for the year ended December 31, 2015 and have not been applied in preparing the financial statements, are summarized below.

Effective for annual periods beginning on or after January 1, 2016:

- Amendments to PAS 1, *Presentation of Financial Statements* - The amendments clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.
- Amendments to PAS 16, *Property, Plant and Equipment - Clarification of Acceptable Methods of Depreciation*, and PAS 38, *Intangible Assets - Clarification of Acceptable Methods of Amortization* - The amendments add guidance and clarify that (i) the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset, and (ii) revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset; however, this presumption can be rebutted in certain limited circumstances.
- Amendment to PAS 19, *Employee Benefits* - The amendment clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid.
- Amendment to PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* - The amendment adds specific guidance when an entity reclassifies an asset (or a disposal group) from held for sale to held for distribution to owners, or vice versa, and for cases where held-for-distribution accounting is discontinued.

Effective for annual periods beginning on or after January 1, 2018 -

- PFRS 9, *Financial Instruments* - This standard will replace PAS 39 (and all the previous versions of PFRS 9). It provides requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and derecognition.

PFRS 9 requires all recognized financial assets to be subsequently measured at amortized cost or fair value (through profit or loss or through other comprehensive income), depending on their classification by reference to the business model within which they are held and their contractual cash flow characteristics.

For financial liabilities, the most significant effect of PFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch.

For the impairment of financial assets, PFRS 9 introduces an “expected credit loss” model based on the concept of providing for expected losses at inception of a contract; it will be no longer necessary for objective evidence of impairment before a credit loss is recognized.

For hedge accounting, PFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and non-financial risk exposures.

The derecognition provisions are carried over almost unchanged from PAS 39.

Under prevailing circumstances, the adoption of the foregoing new and revised PFRS, except for PFRS 9, is not expected to have any material effect on the financial statements of the Bank. Additional disclosures will be included in the financial statements, as applicable.

The Bank anticipates that the application of PFRS 9 might have a significant effect on the amounts reported with respect to the financial assets and liabilities of the Bank. However, no reasonable estimate of the effect will be available until a detailed review has been completed.

4. Summary of Significant Accounting Policies

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

Financial Instruments

Date of Recognition. Financial instruments are recognized in the statement of financial position when the Bank becomes a party to the contractual provisions of the instrument. In the case of regular way purchases or sales of financial assets, recognition and derecognition, as applicable is done using settlement date accounting.

Initial Recognition. Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in the case of an asset) or received (in the case of a liability). The initial measurement of financial instruments, except for those designated at FVPL, includes transaction cost.

“Day 1” Difference. Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data observable from the market, the Bank recognizes the difference between the transaction price and fair value (a “Day 1” difference) in profit or loss unless it qualifies for recognition as some other type of asset. For each transaction, the Bank determines the appropriate method of recognizing the “Day 1” difference.

Classification. The Bank classifies its financial assets at initial recognition under the following categories: (a) financial assets at FVPL, (b) held-to-maturity (HTM) investments, (c) loans and receivables and (d) AFS financial assets. Financial liabilities, on the other hand, are classified as either financial liabilities at FVPL or other financial liabilities. The classification depends on the purpose for which the financial instruments are acquired or incurred and whether they are quoted in an active market.

Financial Assets and Liabilities at FVPL. Financial assets and liabilities at FVPL include financial assets and liabilities held for trading purposes and financial assets and liabilities designated upon initial recognition as at FVPL.

Financial assets and liabilities are classified as held for trading if these are acquired for purposes of selling and repurchasing in the near term. Derivatives, including any separated embedded derivatives, are also classified as financial assets or financial liabilities at FVPL, unless these are designated as hedging instruments in an effective hedge.

Financial assets or liabilities may be designated by the Bank upon initial recognition as at FVPL when any of the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing related gains or losses on a different basis;
- the assets and liabilities are part of a group of financial assets, liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instruments contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and liabilities at FVPL are recorded in the statements of financial position at fair value. Subsequent changes in fair value are recognized as “Net trading and securities gains” in profit or loss. Interest earned or incurred is recognized as interest income or expense, respectively, while dividend income is recognized as other income when the right to receive payment has been established.

As at December 31, 2015 and 2014, investments in government securities and private bonds are included in this category (see Note 9).

AFS Financial Assets. AFS financial assets are nonderivative financial assets that are either designated in this category or not classified in any of the other categories. These are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

After initial measurement, AFS financial assets are subsequently measured at fair value or at cost less impairment in the case of unquoted securities. The effective yield component of AFS debt securities, as well as the impact of restatement of any foreign currency-denominated AFS debt securities, is recognized in profit or loss. The unrealized gains and losses arising from the fair valuation of AFS financial assets are recognized as “Net unrealized gains (losses) on AFS financial assets” in other comprehensive income.

When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized as “Net trading and securities gains” in profit or loss. Where the Bank holds more than one investment in the same security, these are deemed to be disposed of on a first-in, first-out basis. Interest earned or paid on the investments are recognized as “Interest income” in profit or loss using the effective interest method. Dividends earned on investments are recognized in profit or loss when the right of the payment has been established. These financial assets are classified as noncurrent assets unless the intention is to dispose such assets within the 12 months from the end of reporting year.

As at December 31, 2015 and 2014, investments in government securities, private bonds and unquoted equity security are included in this category (see Note 10).

HTM Investments. HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Bank has the positive intention and ability to hold to maturity. After initial measurement, these investments are subsequently measured at amortized cost using the effective interest method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is recognized in “Interest income” in profit or loss. Gains and losses are recognized in profit or loss when the HTM investments are derecognized or impaired, as well as through amortization process. The losses arising from impairment of such investments are recognized as “Provision for credit and impairment losses” in profit or loss. The effect of the restatement of the foreign currency- denominated HTM investments are recognized in profit or loss.

When the Bank sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS financial asset. Subsequently, the Bank would be prohibited to classify any financial assets as HTM investments for the following two years.

The Bank cannot classify financial assets as HTM if the Bank, during the current financial year or during the two preceding years, sold or reclassified more than an insignificant amount of HTM investments before maturity (in relation to the total amount of HTM investments) other than sales or reclassifications that:

- are so close to maturity or the financial asset’s call date (for example, less than three months before maturity) that changes in the market rate of interest would not have a significant effect on the financial asset’s fair value;
- occur after the 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 Bank’s control, is non-recurring and could not have been reasonably anticipated by the Bank.

As at December 31, 2015 and 2014, investments in government debt securities are included in this category (see Note 11).

Loans and Receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL.

Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest method, less allowance for impairment in value. Any interest earned on loans and receivables is recognized as part of “Interest income” recognized in profit or loss on an accrual basis. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral part of the effective interest rate. The periodic amortization is also included as part of “Interest income” recognized in profit or loss. Gains or losses are recognized in profit or loss when loans and receivables are derecognized, as well as through the amortization process.

As at December 31, 2015 and 2014, cash and other cash items (COCI), due from BSP and other banks, interbank loans receivable, loans and receivables, refundable deposits and returned checks and other cash items (RCOCI) are included under this category (see Notes 8, 12 and 16).

For purposes of the statement of cash flows, cash and cash equivalents consist of COCI, due from BSP and other banks, and interbank loans receivable, with original maturities of three months or less from the date of acquisition and subject to insignificant risk in fluctuations in value.

Other Financial Liabilities. Other financial liabilities pertain to financial liabilities that are not held for trading and are not designated at FVPL at the inception of the liability.

Other financial liabilities are recognized initially at fair value less any direct transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium. Gains and losses are recognized in profit or loss when the liabilities are derecognized or through the amortization process.

As at December 31, 2015 and 2014, deposit liabilities, manager's checks, bills payable, accrued interest and other expenses, unsecured subordinated debt and other liabilities (excluding statutory obligations and taxes payable) are included under this category.

Derecognition of Financial Assets and Liabilities. A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

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

When the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to pay.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in profit or loss.

Financial Guarantees. In the ordinary course of business, the Bank provides financial guarantees. Financial guarantees are initially recognized in the statements of financial position at fair value. Subsequently, the initial fair value is amortized over the term of the financial guarantee. The guarantee liability is subsequently carried at the higher of the amortized amount and the present value of any expected payment (when a payment under the guarantee has become probable).

Reclassification of Financial Assets. A financial asset is reclassified out of the FVPL category when the following conditions are met:

- the financial asset is no longer held for the purpose of selling or repurchasing it in the near term; and
- there is a rare circumstance.

Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes the new amortized cost, as applicable.

A financial asset reclassified out of the AFS financial assets category is at its fair value on the date of reclassification. Any previous gain or loss that has been recognized in other comprehensive income is amortized to profit or loss over the remaining term of the investment using the effective interest method. If the asset is subsequently determined to be impaired, then the amount recognized in other comprehensive income is reclassified from equity to profit or loss.

Reclassification is at the election of management and is determined on an instrument-by-instrument basis. In 2008, the Bank reclassified USD-denominated investment securities from AFS financial assets to HTM investments (see Note 10).

Impairment of Financial Assets. The Bank assesses at the end of each reporting year whether there is objective evidence that a financial asset or group of financial assets may be impaired.

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

Financial Assets Carried at Amortized Cost. For financial assets carried at amortized cost, the Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the excess of financial asset’s carrying amount over its net realizable value, normally based on the present value of the estimated future cash flows from the financial asset. The present value of the estimated future cash flows is discounted at the financial asset’s original effective interest rate. Time value is generally not considered when the effect of discounting is not material.

If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. Any impairment loss is recognized in profit or loss.

The carrying amount of an impaired financial asset is reduced to its net realizable value through the use of an allowance account. For an impaired financial asset, interest income continues to be recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the industry of the borrower. Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for the assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Restructured Loans. Where 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 as past due. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The restructured loan continues to be subject to an individual (calculated using the loan's original effective interest rate) or collective impairment. The difference between the recorded value of the original loan and present value of the restructured cash flows, discounted at the original effective interest rate is recognized as "Provision for credit and impairment losses" in profit or loss.

AFS Financial Assets. The Bank assesses at each reporting date whether there is objective evidence that an investment is impaired.

In the case of AFS debt investments, the Bank assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortized cost. However, the amount recognized for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recognized as part of "Interest income" in profit or loss. If, in the subsequent year, the fair value of a debt investment increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

In the case of AFS equity investments, evidence of impairment would include a significant or prolonged decline in fair value of investments below its cost. Where there is evidence of impairment, the cumulative loss, which is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized, is removed from other comprehensive income and recognized in profit or loss. Impairment losses on

equity investments are not reversed through profit or loss. Increases in fair value after impairment are recognized directly in other comprehensive income.

Offsetting of Financial Instruments. Financial assets and liabilities are offset and the net amount reported in the statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statements of financial position.

Fair Value Measurement

The Bank uses market observable data as far as possible when measuring the fair value of an asset or a liability. Fair values are categorized into different levels in a fair value hierarchy based on inputs used in the valuation techniques as follows:

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

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Bank recognizes transfers between levels of the fair value hierarchy at the end of the reporting year during which the change has occurred.

Information about the assumptions made in measuring fair values is included in Note 7, *Fair Value Measurement*.

Property and Equipment

Land is stated at cost less any impairment in value. Depreciable property and equipment are stated at cost less accumulated depreciation, amortization and any impairment in value.

The initial cost of property and equipment consists of its purchase price, including import duties, nonrefundable taxes and any directly attributable costs in bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operations, such as repairs and maintenance, are normally charged to profit or loss in the year when the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property and equipment.

Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives of the property and equipment, based on the foregoing policies, are as follows:

<u>Asset Category</u>	<u>Number of Years</u>
Building and condominium units	20
Furniture, fixtures and equipment	3 to 5
Leasehold rights and improvements	5 or the related lease term, whichever is shorter

The estimated useful lives and depreciation and amortization method are reviewed periodically to ensure that the years and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. 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 asset) is included in profit or loss in the year the asset is derecognized.

Fully depreciated items are retained as property and equipment until these are no longer being used in the operations.

When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation, amortization and any impairment loss are removed from the accounts, any resulting gain or loss is recognized in profit or loss.

Assets Held for Sale

Foreclosed assets are presented as assets held for sale in the statements of financial position and accounted for at the lower of cost and fair value less cost to sell. The cost of foreclosed assets includes the carrying amount of the related loan, less allowance for impairment losses, at the time of foreclosure. Impairment loss is recognized in profit or loss for any subsequent write-down of the asset to fair value less cost to sell.

Branch Licenses

Branch licenses are capitalized on the basis of the costs incurred to acquire and of bringing the asset to its use in the operations. Branch licenses are not amortized and deemed to have an indefinite useful life as there is no foreseeable limit to the period over which these are expected to generate net cash inflows for the Bank.

Branch licenses are reviewed annually to determine whether events and circumstances continue to support an indefinite useful life assessment. The change in useful life assessment from indefinite to finite is accounted for prospectively.

Other Assets

Other assets include prepaid expenses, refundable deposits, documentary stamp taxes, other investments, deferred lease expenses, creditable withholding tax (CWT), RCOI and other miscellaneous items.

CWT. CWT represents the amount withheld by the Bank's customers in relation to its income. CWT are deducted against income tax payable provided that these are properly supported by certificates of creditable tax withheld at source subject to the rules on Philippine income taxation.

Prepayments. Prepayments are not yet incurred but paid in advance. Prepayments are apportioned over the period covered by the payment and charged to the appropriate account in profit or loss when incurred.

Impairment of Nonfinancial Assets

Property and Equipment. Property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. The Bank assesses at the end of the reporting year whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Bank makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. Impairment losses are recognized in profit or loss.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such reversal, the depreciation and amortization are adjusted in future years to allocate the asset's revised carrying amount on a systematic basis over its remaining useful life.

Branch Licenses. Branch licenses are assessed for impairment annually either individually or at the cash generating unit (CGU) level, as appropriate.

Equity

Common Stock. Common stock is classified as equity and is measured at par value per share issued.

Preferred Stock. Preferred stock is classified as equity if it is non-redeemable, or redeemable only at the Bank's option, and any dividends thereon are discretionary. Preferred stock is classified as a liability if this is redeemable on a specific date or at the option of the stockholders, or if dividend payments are not discretionary. Dividends thereon are recognized as interest expense in profit or loss as accrued.

Retained Earnings. Retained earnings represent the cumulative balance of net income or loss, effects of the changes in accounting policy and other capital adjustments.

Other Comprehensive Income (Loss)

Other comprehensive income (loss) comprises items of income and expenses (including items previously presented under equity) that are not recognized in profit or loss for the year in accordance with PFRS. Other comprehensive income (loss) of the Bank pertains to cumulative unrealized gains (losses) on AFS financial assets, cumulative translation adjustment and cumulative remeasurement gains (losses) on retirement liability.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts and rebates. The following specific recognition criteria must also be met before revenue is recognized:

Interest Income. Interest income is recognized in profit or loss as the interest accrues, taking into account the effective yield of the asset.

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective rate, transaction costs and all other premiums or discounts.

Once a financial asset or group of similar financial assets has been written down as a result of an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

Trading and Securities Gains (Losses). Trading and securities gains or losses represent results arising from trading activities including gains and losses from changes in fair value of financial assets at FVPL, and disposals of financial assets at FVPL and AFS financial assets and gains and losses from derivatives transactions.

Service Charges and Penalties. Service charges and penalties, which are presented under "Service charges, fees and commissions" in profit or loss, are recognized upon collection or being accrued when there is reasonable degree of certainty as to its collectability.

Fees and Commissions. Fees and commissions arising from providing transaction services are recognized upon completion of the transaction. Fees or components of the fees that are linked to a certain performance of a service or a condition are recognized after performing the service or fulfilling the condition.

Gain (Loss) from Assets Sold or Acquired. Income or loss from sale of properties acquired is recognized upon completion of the earning process and the collectibility of the sales price is reasonably assured. Gain or loss on foreclosure of properties is determined as the difference between the fair value upon foreclosure and the carrying amount of the loan. Gain or loss on foreclosure of properties is recognized when the risks and rewards of the property have been transferred to the Bank.

Costs and Expense Recognition

Costs and expenses are recognized in profit or loss when a decrease in future economic benefit related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. Costs and expenses are recognized upon receipt of goods, utilization of services or when the costs and expenses are incurred.

Interest Expense. Interest expense is recognized in profit or loss using the effective interest rate of the financial liabilities to which these relate.

Operating Expenses. Operating expenses constitute costs which arise in the normal business operations and are recognized when incurred.

Employee Benefits

Short-term Benefits. Short-term employee benefits given by the Bank to its employees include salaries and wages, social security contributions, short-term compensated absences, bonuses and non-monetary benefits. The Bank recognizes a liability, net of amounts already paid, and an expense for services rendered by employees during the year.

Short-term employee benefits are measured on an undiscounted basis and are expensed as the related service is provided.

Retirement Benefits. Retirement benefit costs are actuarially determined using the projected unit credit method, which reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries.

The Bank recognizes service costs, comprising of current service costs, past service costs, gains and losses on curtailments and non-routine settlements, and net interest expense or income in profit or loss. Net interest expense or income is calculated by applying the discount rate to the net retirement liability or asset.

Past service costs are recognized in profit or loss on the earlier of the date of the plan amendment or curtailment and the date that the Bank recognizes restructuring-related costs.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit obligation) are recognized immediately in other comprehensive income in the year in which these arise. Remeasurements are not reclassified to profit or loss in subsequent years.

The retirement liability is the aggregate of the present value of the defined benefit obligation and the fair value of plan assets out of which the obligations are to be settled directly. The present value of the retirement liability is determined by discounting the estimated future cash outflows using interest rate on government bonds that have terms to maturity approximating the terms of the related retirement liability.

Actuarial valuations are made with sufficient regularity so that the amounts recognized in the financial statements do not differ materially from the amounts that would be determined at the reporting date.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires 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. A reassessment is made after inception of the lease only if one of the following applies: (a) there is a change in contractual terms, other than a renewal or extension of the arrangement; (b) renewal option is exercised or extension granted, unless that term of the renewal or extension was

initially included in the lease term; (c) there is a change in the determination of whether the fulfillment is dependent on a specified asset; or (d) there is a substantial change to the asset.

Where reassessment is made, lease accounting commences or ceases from the date when the change in circumstances give rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

Leases where a significant portion of the risks and benefits of ownership over the properties are retained by the lessor are classified as operating leases. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the lease term.

Income Taxes

Current Tax. Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rate and the tax laws used to compute the amount are those that are enacted or substantively enacted at the end of the reporting year.

Deferred Tax. Deferred tax is provided on all temporary differences at the end of the reporting year between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, including asset revaluations. Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits and unused tax losses, to the extent that it is probable that sufficient future taxable profit will be available against which the deductible temporary differences and carryforward benefits of unused tax credits and unused tax losses can be utilized. Deferred tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at the end of each reporting year and reduced to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are re-assessed at the end of each reporting year and are recognized to the extent that it has become probable that sufficient future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rate that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rate (and tax laws) that have been enacted or substantively enacted at the end of reporting year.

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

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in relation to the underlying transaction either in other comprehensive income or directly in equity.

Fiduciary Activities

Assets and income arising from fiduciary activities together with related undertakings to return such assets to customer are excluded from the financial statements of the Bank when the Bank acts in a fiduciary capacity such as a nominee, trustee or agent.

Foreign Currency Transactions

RBU. Transactions in currencies other than Philippine Peso are recorded at the rate of exchange prevailing on the date of the transaction. At each reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the rates prevailing on the reporting date. Foreign exchange gains or losses are recognized in profit or loss in the year in which these are incurred.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the asset is acquired.

FCDU. As at the reporting date, the assets and liabilities of the FCDU are translated into the Bank's functional and presentation currency at Philippine Dealing System (PDS) closing rate, and its income and expenses are translated at PDS weighted average rate for the year. Exchange differences arising from translation to foreign currency are recognized as other comprehensive income under "Cumulative translation adjustment." Upon disposal of the FCDU or actual remittance of FCDU profits to RBU, the deferred cumulative amount recognized as "Cumulative translation adjustment" in other comprehensive income is recognized in profit or loss.

Related Party Relationship and Transactions

Related party transactions consist of transfer of resources, services or obligations between the Bank and its related parties.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. This includes: (a) individuals who, by owning directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Bank; (b) associates; and, (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 such individual.

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

Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

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 year, 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 pretax rate that reflects market assessment and the risks specific to the obligation. Provisions are reviewed at the end of each reporting year and adjusted to reflect the current best estimate.

Contingencies

Contingent liabilities are not recognized in the financial statements. These are disclosed in the notes to financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but are disclosed in the notes to financial statements when an inflow of economic benefits is probable.

Events after the Reporting Year

Subsequent events that provide additional information about the Bank's financial position at the reporting year are reflected in the financial statements when material. Subsequent events that are non-adjusting events are disclosed in the notes to financial statements when material.

5. Significant Accounting Judgments and Estimates

The preparation of the financial statements requires management to exercise judgment, make estimates, and use assumptions that affect amounts of assets, liabilities, income and expenses reported in the financial statements and related disclosures. The judgments, estimates and assumptions used in the financial statements are based upon management's evaluation of relevant facts and circumstances as at the date of the financial statements. While management believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the estimated amounts. Actual results could differ from such estimates.

Judgments

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

Determining the Functional Currency. The Bank uses its judgment to determine the functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the entity. In making this judgment, the Bank considers the following:

- the currency that mainly influences sales price for financial instruments and services or the currency in which sales prices for its financial instruments and services are denominated and settled;
- the currency in which funds from financing activities are generated; and
- the currency in which receipts from operating activities are usually retained.

Based on the foregoing and the economic substance of the underlying circumstances relevant to the Bank, the functional currency of the Bank has been determined to be the Philippine Peso, which is the currency of the primary economic environment in which the Bank operates.

Determining the Fair Values of Financial Instruments. The Bank carries certain financial assets and liabilities at fair value. When the fair values of financial assets and liabilities recognized or disclosed in the financial statements cannot be derived from the active market, the fair values are determined using internal valuation techniques that include the use of mathematical models. The inputs to these models are taken from observable market where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

The fair values of the Bank's financial instruments are disclosed in Note 7.

Determining the Classification of Financial Instruments. The Bank exercises judgments in classifying a financial instrument upon initial recognition either as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs the classification in the statements of financial position.

The Bank, in classifying financial assets, evaluates, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether the quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's-length basis, among others.

In addition, in classifying financial assets as HTM investments, the Bank evaluates its intention and ability to hold such investments until maturity. Ability to hold the debt securities to maturity is demonstrated by the availability of financial resources to continue to finance the investment until maturity. If the Bank fails to keep these investments until maturity other than in specific circumstances, it will be required to reclassify the entire portfolio as AFS financial assets. The investments would, therefore, then be measured at fair value and not at amortized cost.

The "tainting" rule under PAS 39 requires the reclassification of the entire HTM portfolio to the AFS category and prohibits the Bank from using the HTM category during the reporting year and for the succeeding two (2) full financial years, whenever it sells or reclassifies more than an insignificant amount of HTM investments before maturity, other than for reasons permissible under PAS 39.

Determining the Classification of Lease Agreements. The Bank, as a lessee, has entered into various lease agreements. The Bank has determined that the lessor retains all significant risks and benefits of ownership over the leased properties. Accordingly, these leases are accounted for as operating leases.

Rent expense amounted to ₱84.9 million and ₱85.8 million in 2015 and 2014, respectively (see Note 23).

Evaluating Contingencies. The Bank is currently involved in various legal proceedings pertaining to collectibility of its loans and receivables. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsels handling the Bank's defense in these matters and is based on an analysis of potential results. The Bank currently does not believe that these proceedings will have a material adverse effect on the financial statements (see Note 30).

Assessing the Bank's Ability to Continue as a Going Concern. The Bank's management has made an assessment of its ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the financial reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimating Impairment Losses on Loans and Receivables. The Bank reviews the individually significant loans and receivables at each reporting date to assess whether an impairment loss should be recognized. In particular, judgment by management is required in estimating the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Bank makes judgment about the borrower's financial situation and the net realizable value of the collateral covering the loans and receivables. These estimates are based on a number of factors and assumptions which may differ in the future and may result to changes to the required allowance for impairment losses.

Loans and receivables that have been assessed individually and found not to be impaired and all individually insignificant loans and receivables are then assessed collectively, in groups of assets with similar characteristics, to determine whether provisions should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes into account the data from the loan portfolio, historical default and concentrations of risk and economic.

Provision for credit and impairment losses on loans and receivables amounted to ₱81.6 million and ₱218.6 million in 2015 and 2014, respectively. The allowance for credit and impairment losses on loans and receivables amounted to ₱447.8 million and ₱520.7 million as at December 31, 2015 and 2014, respectively (see Note 12).

The carrying amount of loans and receivables amounted to ₱18,635.3 million and ₱16,852.6 million as at December 31, 2015 and 2014, respectively (see Note 12).

Assessing Impairment Losses on AFS Financial Assets. The Bank determines that AFS financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged decline requires judgment. In making this judgment, the Bank evaluates, among other factors, the future cash flows and the discount factor. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, dismal industry and sector performance, adverse changes in technology, and negative operational and financing cash flows.

No impairment losses on AFS financial assets were recognized in 2015 and 2014.

The carrying amount of AFS financial assets amounted to ₱2,436.1 million and ₱4,055.4 million as at December 31, 2015 and 2014, respectively (see Note 10).

Assessing Impairment Losses on HTM Investments. The Bank determines that HTM investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged decline requires judgment. In making this judgment, the Bank evaluates, among other factors, the future cash flows and the discount factor. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, dismal industry and sector performance, adverse changes in technology, and negative operational and financing cash flows.

No impairment losses on HTM investments were recognized in 2015 and 2014.

As at December 31, 2015 and 2014, the carrying amount of HTM investments is ₱340.0 million and ₱329.8 million, respectively (see Note 11).

Assessing Impairment on Branch Licenses. Branch license is considered an intangible asset with an indefinite useful life, which is required to be assessed for impairment annually by comparing its carrying amount with its recoverable amount, irrespective of whether there is any indication that it may be impaired.

When the branch license's fair value less cost of disposal is lower than its carrying amount, the Bank's impairment test is based on value in use calculations that use a discounted cash flow model. The cash flows are derived from the projection for the next five years and do not include restructuring activities that the Bank is not yet committed to or significant future investments that will enhance the asset base of the branch being tested. The recoverable amount is most sensitive to the discount rate as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

The branches have been identified as the CGU for purposes of impairment testing of branch licenses.

No impairment losses were recognized in 2015 and 2014.

As at December 31, 2015 and 2014, the carrying amount of the branch licenses amounted to ₱225.4 million (see Note 15).

Assessing Impairment on Property and Equipment. The Bank assesses impairment on property whenever events or changes in circumstances indicate that the carrying amounts of these assets may not be recoverable.

The relevant factors that the Bank whether to perform an asset impairment review include, among others, the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

There is no indication that the property and equipment may be impaired. Accordingly, no impairment losses were recognized in 2015 and 2014. The carrying amount of property and equipment subjected to impairment assessment amounted to ₱494.8 million and ₱527.3 million as at December 31, 2015 and 2014, respectively (see Note 13).

Estimated Useful Lives of Branch Licenses. The useful lives of branch licenses are assessed at the individual asset level as having either a finite or indefinite life. Branch licenses are regarded to have an indefinite useful life when, based on analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Bank.

Branch licenses with infinite useful lives amounted to ₱225.4 million as at December 31, 2015 and 2014 (Note 15).

Estimating Useful Lives of Property and Equipment. The Bank estimates the useful lives of property and equipment for purposes of computing depreciation and amortization based on the year over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed annually and changed, 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 property and equipment. However, it is possible that future results of operations could be materially affected by changes in factors mentioned in the foregoing. The amounts and timing of recorded expenses for any year would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the property and equipment would increase the recorded expenses and decrease assets.

There was no change in the estimated useful lives of the property and equipment in 2015 and 2014. The carrying amount of property and equipment amounted to ₱494.8 million and ₱527.3 million as at December 31, 2015 and 2014, respectively (see Note 13).

Determining the Valuation and Classification of Foreclosed Assets. The Bank classifies foreclosed assets, which will be recovered principally through sale, as assets held for sale based on the provisions of PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*. The Bank is committed to a plan to sell and actively markets these foreclosed assets at a price that is reasonable in relation to their current fair value. In determining the fair value of assets held for sale, sales price are analyzed by applying appropriate units of comparison, adjusted by differences between the subject property and related market data. Any subsequent write-down of the asset to fair value less cost to sell is recognized as impairment loss in profit or loss.

There are no impairment losses incurred in 2015. In 2014, provision for impairment losses on assets held for sale amounted to ₱5.5 million. Loss on foreclosure of assets held for sale amounted to ₱8.3 million and ₱9.5 million in 2015 and 2014, respectively. Assets held for sale amounted to ₱117.2 million and ₱126.3 million as at December 31, 2015 and 2014, respectively (see Note 14).

Determining the Retirement Liability. The determination of the obligation and cost of retirement benefits is dependent on selection of certain assumptions determined by management and used by the actuary in calculating such amounts. These assumptions include, among others, discount rate and salary increase rate. Actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligations in such future years.

In determining the appropriate discount rate, management considers the interest rate of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. Further details about the assumptions used are provided in Note 24 to financial statements.

The retirement liability amounted to ₱62.6 million and ₱64.7 million as at December 31, 2015 and 2014, respectively (see Note 24).

Assessing Realizability of Deferred Tax Assets. The Bank reviews the carrying amount of deferred tax assets at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

The estimates of future taxable income indicate that deferred tax assets on certain temporary differences may be utilized in the future.

As at December 31, 2015 and 2014, net deferred tax assets amounted to ₱44.2 million and ₱17.5 million, respectively (see Note 26).

As at December 31, 2015 and 2014, the Bank did not recognize deferred tax assets on temporary differences totaling ₱374.9 million and ₱642.5 million, respectively (see Note 26).

6. Financial Risk Management Objectives and Policies

The Bank has exposure to the following major risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market and interest rate risk

Risk Governance

The Bank's BOD has overall responsibility for the oversight of the Bank's risk management process. The established risk governance framework together with the supporting structure provides for the mechanism to ensure oversight and accountability for risk at various levels in the organization. Various board and management committees, which are responsible for developing, managing and monitoring specific risks that the Bank is exposed to, include the following:

1. Risk Management Committee (RMC)
2. Audit Committee (AC)
3. Loan Committee (LOANCOM)
4. Asset-Liability Committee (ALCO)
5. Credit Committee (CRECOM)

RMC is responsible for developing the Bank's risk strategy and the supporting risk management policies, ensuring the soundness of risk management practices in relation to the risks faced by the Bank.

RMC is supported by the Risk Management Group (RMG) in the exercise of its risk oversight functions. RMG, which is independent of the business units and is directly reporting to the RMC, performs daily market risk analyses to measure market risk exposures and ensure compliance with the Bank's policies, procedures and limit structures, and makes recommendations based on such analyses. RMG, likewise, monitors credit risk exposures and portfolio movements. They also take the lead in the development of the Bank's credit acceptance policies, risk classification and profiling through the administration of the internal credit rating system and the determination of appropriate levels of allowances for credit losses.

AC is responsible for monitoring the Bank's compliance with the risk management policies and procedures, and for reviewing the adequacy of risk management framework in relation to the risks being faced by the Bank. AC is assisted in these functions by the Internal Audit (IA) Department. IA undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the AC.

LOANCOM is a Board Committee that acts as the highest approving body for loan and other credit related matters, except for directors, officers, stockholders and related interest (DOSRI) loans. It ensures that the credit approval or endorsement of credit facilities is based on a diligent, sound and prudent evaluation of the risks involved and is aligned with the Bank's strategic objectives in terms of asset quality.

ALCO is responsible for ensuring that the Bank maintains adequate liquidity, sufficient capital and the appropriate funding to meet business requirements and comply with regulatory requisites. It is also responsible for building a stable funding structure by managing the Bank's asset and liability profile. Moreover, it manages the Bank's financial position and ensures that the Bank's liquidity, capital and funding structure support the business strategies. It likewise establishes the Bank's asset-liability pricing policies.

CRECOM is the management level committee that evaluates and screens all credit proposals that requires the approval of the President, LOANCOM or BOD, and likewise monitors credit underwriting activities performed at management level. It ensures that credit risk is within the BOD established risk tolerance levels and that proposals comply with the credit underwriting standards as established in the Bank's policies and procedures.

Credit Risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty fails to meet its contractual obligations. The Bank's credit risk exposure arises largely from the lending, trade finance and investment activities. The Bank manages credit risk through an established risk control framework that provides for policies and guidelines to the business units together with a system of limits reflective of the Bank's risk tolerance and capacity. A monitoring mechanism is also in place to ensure that exposures to individual counterparties, related accounts, countries, and industries are within BOD established and approved limits and that any credit concentration is within acceptable levels.

While the Credit Risk Control Department of RMG (CRC-RMG) provides for an independent risk monitoring and control of credit exposures, each business unit is responsible for the quality and performance of its credit portfolio. As the first line of defense, business units are responsible for monitoring and controlling the credit risks in its portfolio. The CRC-RMG meanwhile, provides an independent evaluation of the Bank's credit risk exposure through review of loan proposals and credit processes, borrower risk assessments, and credit administration. This is complemented by

regular audits of business units and credit processes undertaken by IA that provide for assurance and feedback mechanisms to determine sufficiency and effectiveness of established risk controls.

The Bank extends various types of loans, several on clean/unsecured basis, and others against hard collaterals and other form of securities. Personal and salary loans are generally granted on a clean/unsecured basis. Other consumer lending products are largely asset-backed financing with auto loans secured by chattel mortgage on the vehicles and real estate loans secured by first real estate mortgage on residential or commercial properties. The Bank's commercial/small-medium enterprise loans cover a mix of clean/unsecured (which includes those under personal guarantees) as well as secured credit facilities (i.e., those supported by real estate and chattel mortgages, guarantees and other registered securities). Estimates of fair value are based on the value of the collateral assessed at the time of the borrowing.

All loan applications, covering the different types of loans, undergo strict credit evaluation in accordance with established risk acceptance criteria. The essential elements that the Bank considers for all its credit dealings and account relationships are: favorable credit checking; good credit standing and track record with other counterparties, banks and trade partners alike; financial strength and cash generating capabilities (fund sourcing), which translate into determination of paying capacity that establishes repayment expectations; and acceptable collateral/security, if applicable. Furthermore, credit underwriting is performed within a framework of delegated credit authorities that take into account facility risks and magnitudes of potential exposures.

Management of Credit Risk

The BOD, through RMC, is assisted in the monitoring and management of credit risk by the CRC-RMG, which continuously implements its risk control programs, in line with its oversight function over the Bank's lending activities. CRC-RMG is principally tasked with identifying, monitoring, reporting and controlling the Bank's credit risk. The specific functions of CRC-RMG are as follows:

- Takes charge of administering the Bank's lending policies, ensuring compliance by those concerned with continuous issuance of updates on policies and process guidelines for bank-wide implementation and compliance.
- Spearheads the activities of the CRECOM, whose main objective is to evaluate and screen loan proposals requiring approvals beyond line management levels.
- Classifies borrowing accounts according to several levels of risk, based on the internal credit risk rating system and loan portfolio assessments, to regularly determine loan impairments for the purpose of determining the appropriate loan loss reserves.
- Conducts credit stress testing and regularly evaluates and monitors the quality of the Bank's loan portfolio via the Portfolio Profile Report, as part of the scheme of controlling large concentration and group exposures.

Maximum Exposure to Credit Risk after Collateral Held or Other Credit Enhancements

The Bank's maximum exposure to the credit risk is equal to the carrying amount of the financial assets, except for the following loans and receivables:

2015				
	Carrying Amount	Fair Value of Collaterals or Credit Enhancements	Maximum Exposure to Credit Risk	Financial Effects of Collaterals or Credit Enhancements
Loans and receivables:				
Receivables from customers:				
Corporate loans	₱10,639,708,100	₱2,042,056,889	₱9,414,473,967	₱1,225,234,133
Consumer loans	7,109,411,392	7,281,031,280	558,287,057	6,551,124,335
	17,749,119,492	9,323,088,169	9,972,761,024	7,776,358,468
Sales contracts receivable	27,565,777	36,824,888	–	27,565,777
	₱17,776,685,269	₱9,359,913,057	₱9,972,761,024	₱7,803,924,245

2014				
	Carrying Amount	Fair Value of Collaterals or Credit Enhancements	Maximum Exposure to Credit Risk	Financial Effects of Collaterals or Credit Enhancements
Loans and receivables:				
Receivables from customers:				
Corporate loans	₱9,759,429,492	₱3,435,648,264	₱7,698,040,534	₱2,061,388,958
Consumer loans	5,473,545,534	5,371,346,365	711,673,733	4,761,871,801
	15,232,975,026	8,806,994,629	8,409,714,267	6,823,260,759
Sales contracts receivable	31,100,077	37,513,789	1,089,046	30,011,031
	₱15,264,075,103	₱8,844,508,418	₱8,410,803,313	₱6,853,271,790

Concentration of Credit Risk Exposure of Financial Assets

The Bank monitors concentration of credit risk by industry. The distribution of the Bank's financial assets and off-balance sheet items by industry sector, before taking into account collaterals held or other credit enhancements (maximum exposure) are as follows:

2015					
	Loans and Receivables ¹	Loans and Advances to Banks ²	Investment Securities ³	Others ⁴	Total
Other community, social and personal activities	₱5,950,504,776	₱–	₱–	₱145,823	₱5,950,650,599
Wholesale and retail trade	4,373,672,572	–	–	35,786,920	4,409,459,492
Real estate	3,163,840,356	–	–	28,753,083	3,192,593,439
Financial intermediaries	1,706,162,421	5,696,888,460	771,764,611	–	8,174,815,492
Manufacturing	1,545,759,825	–	–	–	1,545,759,825
Transportation, storage and communication	791,102,021	–	–	–	791,102,021
Agricultural, hunting and forestry	379,686,122	–	–	–	379,686,122
Mining and quarrying	171,000,000	–	–	–	171,000,000
Construction	111,053,664	–	–	3,000,000	114,053,664
Hotel and restaurant	11,159,813	–	–	–	11,159,813
Electricity, gas and water supply	3,095,325	–	–	–	3,095,325
Philippine government	–	–	4,118,868,889	–	4,118,868,889
	18,207,036,895	5,696,888,460	4,890,633,500	67,685,826	28,862,244,681
Allowance for credit and impairment losses	447,844,581	–	–	–	447,844,581
	₱17,759,192,314	₱5,696,888,460	₱4,890,633,500	₱67,685,826	₱28,414,400,100

¹Comprised of receivables from customers, gross of unearned discounts and capitalized interests and net of allowance for credit and impairment losses.

²Comprised of due from BSP, due from other banks, interbank loans receivables.

³Comprised of financial assets at FVPL, AFS investments (excluding unquoted equity security) and HTM investments.

⁴Comprised of RCOCI, refundable deposits and contingencies relating to outstanding guarantees and domestic LC.

	2014				Total
	Loans and Receivables ¹	Loans and Advances to Banks ²	Investment Securities ³	Others ⁴	
Other community, social and personal activities	₱5,377,330,799	₱–	₱–	₱778,309	₱5,378,109,108
Wholesale and retail trade	3,435,857,631	–	–	44,310,871	3,480,168,502
Real estate	2,787,812,354	–	–	34,526,893	2,822,339,247
Manufacturing	1,873,924,676	–	–	2,043,525	1,875,968,201
Financial intermediaries	1,509,251,366	6,907,873,211	1,267,240,158	–	9,684,364,735
Agricultural, hunting and forestry	415,903,451	–	–	–	415,903,451
Transportation, storage and communication	683,252,404	–	–	–	683,252,404
Construction	117,731,160	–	–	4,046,390	121,777,550
Hotel and restaurant	25,804,738	–	–	–	25,804,738
Mining and quarrying	21,000,000	–	–	–	21,000,000
Electricity, gas and water supply	425,000	–	–	–	425,000
Philippine government	–	–	7,271,652,576	–	7,271,652,576
	16,248,293,579	6,907,873,211	8,538,892,734	85,705,988	31,780,765,512
Allowance for credit and impairment losses	520,735,884	–	–	–	520,735,884
	₱15,727,557,695	₱6,907,873,211	₱8,538,892,734	₱85,705,988	₱31,260,029,628

¹Comprised of receivables from customers, gross of unearned discounts and capitalized interests and net of allowance for credit and impairment losses.

²Comprised of due from BSP, due from other banks, interbank loans receivables.

³Comprised of financial assets at FVPL, AFS investments (excluding unquoted equity security) and HTM investments.

⁴Comprised of RCOCI, refundable deposits and contingencies relating to outstanding guarantees and domestic LC.

The Bank regularly assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. Indication or evidence of impairment may include, among others, indications that a borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in principal and/or interest payments, probability that the borrower will enter bankruptcy or other financial reorganization/restructuring, and other observable data indicating measurable decrease in the estimated future cash flows, such as changes in business or economic conditions that correlate with defaults.

The Bank addresses impairment assessment in two areas: individual or specific assessment and collective assessment.

Individual or Specific Assessment. The Bank determines the impairment loss appropriate for each individually significant loan or receivable on an individual account basis. Factors considered in determining the appropriate amounts of impairment loss include an account's age, payment and collection history, short and medium-term prospects in the industry, timing of expected cash flows and realizable value of collateral.

The Bank establishes criteria for specific loan impairment testing and uses the discounted cash flow technique method to compute for impairment loss. Accounts subjected to specific assessment and are found to be impaired are excluded from the collective impairment assessment.

Collective Assessment. Collective assessment for loan impairment losses are performed on commercial loans and receivables that are not individually significant and those significant loans and receivables, which were individually assessed for impairment but were found not to be impaired. Generally, the Bank applies the probability of loss method in determining the collective impairment loss, where such probability is derived from the product of default rate and loss rate. For personal and salary loans, the added dimension of net flow rate method is considered. This method utilizes the historical data on movements of arrearages (flow-over and flow-back) across the different delinquency age buckets, as a means of determining default and loss rate.

Credit Quality per Class of Financial Assets

In compliance with BSP Circular No. 439, which governs banks' development and implementation of internal credit risk rating systems, the Bank has developed and continually reviews and calibrates its internal risk rating system for large exposures aimed at uniformly assessing its credit portfolio in terms of risk profile.

The following tables show the credit quality of financial assets by class, gross of allowance (amounts in thousands):

	2015					
	Neither Past Due nor Impaired			Past Due but not		
	High Grade	Standard Grade	Total	Individually Impaired	Individually Impaired	Total
Financial assets at FVPL -						
Government securities	₱2,130,533	₱-	₱2,130,533	₱-	₱-	₱2,130,533
AFS financial assets:						
Government securities	1,648,307	-	1,648,307	-	-	1,648,307
Private debt securities	729,610	42,155	771,765	-	-	771,765
HTM investments -						
Government securities	₱340,029	₱-	₱340,029	₱-	₱-	₱340,029
Loans and receivables:						
Loans and discount:						
Corporate	1,605,033	8,746,099	10,351,132	-	462,766	10,813,898
Consumer	6,636,450	85,557	6,722,007	558,784	107,576	7,388,367
Unquoted debt securities	649,948	-	649,948	-	-	649,948
Bills purchased	4,772	-	4,772	-	-	4,772
Accrued interest income	159,775	-	159,775	-	-	159,775
Accounts receivable	44,110	-	44,110	-	-	44,110
Sales contracts receivable	27,566	-	27,566	-	-	27,566
Other assets:						
RCOCI	146	-	146	-	-	146
Refundable deposits	23,003	-	23,003	-	-	23,003
Loans and advances to banks:						
Due from BSP	3,107,652	-	3,107,652	-	-	3,107,652
Due from other banks	1,441,017	-	1,441,017	-	-	1,441,017
Interbank loans receivable	1,148,220	-	1,148,220	-	-	1,148,220
	₱19,696,171	₱8,873,811	₱28,569,982	₱558,784	₱570,342	₱29,699,108

	2014					
	Neither Past Due nor Impaired			Past Due but not		
	High Grade	Standard Grade	Total	Individually Impaired	Individually Impaired	Total
Financial assets at FVPL:						
Government securities	₱4,008,749	₱-	₱4,008,749	₱-	₱-	₱4,008,749
Private bonds	131,126	29,888	161,014	-	-	161,014
AFS financial assets:						
Government securities	2,933,110	-	2,933,110	-	-	2,933,110
Private debt securities	890,041	216,185	1,106,226	-	-	1,106,226
HTM investments -						
Government securities	329,794	-	329,794	-	-	329,794
Loans and receivables:						
Loans and discount:						
Corporate	1,227,422	8,394,234	9,621,656	-	377,361	9,999,017
Consumer	4,495,992	662,913	5,158,905	600,662	-	5,759,567
Unquoted debt securities	701,542	-	701,542	-	-	701,542
Bills purchased	489,710	-	489,710	-	-	489,710
Accrued interest income	199,419	-	199,419	-	-	199,419
Accounts receivable	197,838	-	197,838	-	-	197,838
Sales contracts receivable	31,100	-	31,100	-	-	31,100

(Forward)

	2014					
	Neither Past Due nor Impaired			Past Due but not Individually Impaired	Individually Impaired	Total
	High Grade	Standard Grade	Total			
Other assets:						
RCOCI	₱778	₱-	₱778	₱-	₱-	₱778
Refundable deposits	23,210	-	23,210	-	-	23,210
Loans and advances to banks:						
Due from BSP	3,964,969	-	3,964,969	-	-	3,964,969
Due from other banks	2,317,217	-	2,317,217	-	-	2,317,217
Interbank loans receivable	625,687	-	625,687	-	-	625,687
	₱22,567,704	₱9,303,220	₱31,870,924	₱600,662	₱377,361	₱32,848,947

The table below shows the aging analysis of past due but not individually impaired loans and receivables by class (amounts in thousands).

	December 31, 2015					Total
	Less than 30 Days	31 to 60 Days	61 to 90 Days	91 to 180 Days	Over 180 Days	
Loans and discount – Consumer	₱3,479	₱6,137	₱57,342	₱67,689	₱424,137	₱558,784

	December 31, 2014					Total
	Less than 30 Days	31 to 60 Days	61 to 90 Days	91 to 180 Days	Over 180 Days	
Loans and discount – Consumer	₱16,357	₱7,733	₱59,971	₱67,205	₱449,396	₱600,662

The credit quality of trading and investment securities is generally monitored through the external ratings of eligible external credit rating institutions.

Presented below is the mapping of the credit risk rating from external rating agencies of the Bank's internal risk rating for investment securities:

A. Moody's Rating

Credit Quality	Rating				
	Long-term				Short-term
High Grade	Aaa	Aa	A	Baa	P
Standard Grade	Ba	B			Not Prime
Substandard Grade	Caa	Ca			
Impaired	C				

B. S&P Rating

Credit Quality	Rating				
	Long-term				Short-term
High Grade	AAA	AA	A	BBB	A
Standard Grade	BB	B			B
Substandard Grade	CCC	CC	C		C
Impaired	D				

C. Fitch Rating

Credit Quality	Rating				
	Long-term				Short-term
High Grade	AAA	AA	A	BBB	A
Standard Grade	BB	B			B
Substandard Grade	CCC				C
Impaired	DDD	DD	D		

D. Philratings:

Credit Quality	Rating				
	Long-term				Short-term
High Grade	PRS Aaa	PRS Aa	PRS A	PRS Baa	PRS 1
					PRS 2
					PRS 3
Standard Grade	PRS Ba	PRS B			PRS 4
Substandard Grade	PRS Caa	PRS Ca			PRS 5
Impaired	PRS C				PRS 6

For debt securities not rated by any rating agency, the Bank performs the credit rating review for the issuers of the debt securities based on quantitative and qualitative analyses, the data of which are provided by the Treasury/Trust Group.

Below is the guidance in evaluation if the investment is impaired or not.

Credit Quality	Rating	Assessment
High Grade	1 and 2	Not Impaired
Standard Grade	3	Not Impaired
Substandard Grade	4	Impaired
Impaired	5	Impaired

For loans, the credit quality is generally monitored using the Bank's internal ratings system. It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates management to focus on major potential risk and the comparison of credit exposures across all lines of business, demographics and products. The rating system has two parts, namely, the borrower's risk rating and the facility risk rating. It is supported by a variety of financial analytics, combined with an assessment of management and market information to provide the main inputs for the measurement of credit risk.

The Bank uses Internal Credit Risk Ratings to classify the credit quality of its receivables portfolio. This is being upgraded, as needed, to enhance credit evaluation parameters across different market segments and achieve a more sound and robust credit risk assessment.

Descriptions of the loan grades used by the Bank for receivables from customers are as follows:

Risk Rating	Classification	Credit Quality
1	Excellent	High Grade
2	Strong	High Grade
3	Good	High Grade
4	Satisfactory	Standard Grade
5	Acceptable	Standard Grade
6	Weak	Standard Grade
7	Poor	Impaired
8	Substandard	Impaired
9	Doubtful	Impaired
10	Loss	Impaired

Risk Rating 1 – Excellent. The borrower’s ability to meet its financial commitments is extremely strong and there is a very low probability that it will default on payments due in the coming year. The borrower has a high degree of stability, substance and diversity.

A borrower in this category has access to substantial amounts of funds through the public capital market at any time. It has a strong debt service capacity and has conservative balance sheet leverage (vis-a-vis the industry in which the borrower operates). The track record in profit terms is very good. The borrower is of the highest quality, operating reliably under virtually any and all economic conditions.

Risk Rating 2 – Strong. The borrower’s ability to meet its financial commitments is very strong and there is a low probability that it will default on payments due in the coming year. The borrower normally has a comfortable degree of stability, substance and diversity. Under normal market conditions, borrowers in this category have good access to public capital market to raise funds.

Borrower has a strong market and financial position with a history of successful performance. The overall debt service capacity as measured by cash flow to total debt service is very strong; the critical balance sheet ratios (vis-à-vis applicable industry) are conservative.

These borrowers herein categorized are described as quality corporations or enterprises, which are adequately capitalized and operating profitably.

Risk Rating 3 – Good. The borrower’s ability to meet its financial commitments is strong. It may be described as a big or small corporation whose access to public capital market or to alternative financial market is easy, may be limited to periods of favorable economic and/or market conditions.

A borrower in this category usually exhibits characteristics of some degree of stability and substance and the probability of default is still quite low. However, it may still be susceptible to the negative effects of cyclical business changes.

Typical traits include a combination of comfortable asset protection and an acceptable balance sheet structure (vis-à-vis that industry). The debt service capacity as measured by cash flow analysis is strong.

Risk Rating 4 – Satisfactory. The borrower has adequate capacity to meet its financial commitments. Borrower operates in an environment where clear risk elements exist and the probability of default is somewhat greater. This probability is reflected in volatility of earnings and overall performance. A borrower in this category normally has limited access to public financial market. It should be able to withstand normal business cycles, but any prolonged unfavorable economic climate may create gradual deterioration in its financial health.

Typical for this kind of borrower is the combination of reasonably sound asset and cash flow protection. The debt service capacity as measured by cash flow is deemed adequate. The borrower has reported profit for the past fiscal year and is expected to report a profit in the current year.

Risk Rating 5 – Acceptable. The borrower is less vulnerable but faces major ongoing uncertainties and exposure to adverse business, financial, or economic conditions that could lead to its inadequate capacity to meet its financial commitments.

This category represents borrowers who may still be able to withstand normal business cycles. However, any prolonged unfavorable economic and/or market condition would create an immediate deterioration beyond acceptable level.

This category will apply where the risk is still acceptable for the following reasons:

- There is sufficient cash flow either historically or expected for the future, in spite of an economic downturn combined with asset protection; or
- There is a new business or project finance transaction.

Risk Rating 6 – Weak. The borrower is more vulnerable but currently has the capacity to meet its financial commitments. Adverse business, financial, or economic conditions will likely impair the borrower's capacity or willingness to meet its financial requirements.

This category represents the type of borrower for which unfavorable industry or company-specific risk factors represent a concern. Operating performance and financial strength may be marginal and it is uncertain whether the borrower can attract alternative sources of financing. Typically, the borrower will find it very hard to cope with any significant economic downturn and a default in such a case is more than a possibility.

Generally, a borrower in this category incurs net losses for one or more years. Normally, there is an expectation that conditions will improve and the rating may be upgraded. Any deterioration, however, will almost certainly result in an automatic downgrade.

In summary, this category includes those borrowers where the credit exposure is not at risk of loss at the moment, but wherein performance has weakened, and unless present trends are reversed, could lead to losses.

Risk Rating 7 – Poor. The borrower is currently vulnerable and is dependent on favorable business, financial and economic conditions to meet its financial obligations.

A borrower in this category is characterized by some probability of default, manifested by some or all of the following:

- Evidence of weakness in the borrower's financial condition or creditworthiness.
- Unacceptable risk generated by potential or emerging weaknesses as far as asset protection and/or cash flow is concerned. Concerns center on the potential for a continuation of unfavorable economic, market, or borrower specific conditions or trends, which may affect future debt service capacity.
- Indications that the borrower's ability or willingness to service debt are in doubt.
- Necessity or strong likelihood for rescheduling of the loan.
- Decline in values of, or adverse developments on, collaterals securing the loan.

Risk Rating 8 – Substandard. The borrower is currently highly vulnerable and is in a state of default. Substandard loans are loans or portions thereof which appear to involve a substantial and unreasonable degree of risk to the Bank because of unfavorable or unsatisfactory characteristics. These well-defined adverse elements exist in such loans where there is a possibility of future loss to the institution unless given closer supervision. Such may include adverse trends or development of a financial, managerial, economic or political nature or significant weakness in collateral. Basic characteristics are:

- Past due there is an imminent possibility of foreclosure or acquisition of the collateral because of failure of all collection efforts;
- Past due loans to borrowers whose properties securing the loan have declined in value materially or have been found with defects as to ownership or other adverse information;
- Current loans to borrowers whose financial statements audited by the SEC-accredited external auditors show impaired/negative net worth, except for startup firms which should be evaluated on a case-to-case basis;
- Renewed loans of borrowers with declining trend in operations, illiquidity, or increasing leverage trend in the borrower's financial statements without at least 20.0% repayment of the principal before renewal or extension;
- Current loans of borrowers with unfavorable results of operations for two consecutive years or with impaired/negative net worth, except for startup firms which should be evaluated on a case-to-case basis;
- Loans under litigation; and
- Past due loans for more than 90 days.

Risk Rating 9 – Doubtful. Borrower is in a state of default, where any of the following factors are present:

- Account is already in “non-performing loan” (NPL) status;
- Any portion of any principal and/or interest repayment is in arrears for more than 90 days;
- The borrower is unable or unwilling to service debt over an extended period of time and near future prospects of orderly debt service is doubtful; and
- Overdue loans wherein the prospects of fully applying the collaterals is impaired due to material declines in market value, or subject of adverse claim.

The extent of probability of loss cannot be exactly quantified at this time. Although the possibility of loss is significant, there may be certain important and reasonably specific pending factors that can work to the advantage of the Bank and result in a strengthening of assets of the borrower. Pending factors include merger, acquisition, capital injection and additional cover.

Risk Rating 10 – Loss. Borrower is in a state of default and the prospect for re-establishment of creditworthiness and debt service is remote.

This category also applies where the Bank will take or has taken title to the assets of the borrower and is preparing a foreclosure and/or liquidation of the company.

These are loans, or portions thereof, which are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted although the loans may have some recovery or salvage value. The amount of loss is difficult to measure and it is neither practical nor desirable to defer writing off these basically worthless assets even though partial recovery may be obtained in the future. Basic characteristics are:

- Past due clean loans, the interest of which has remained unpaid for a period of six months;
- Loans payable in installments where amortization applicable to interest is past due for a period of six months, unless the loan is fully secured;
- When the borrower’s whereabouts are unknown, or he is insolvent, or his earning power is permanently impaired and his co-makers or guarantors are insolvent or that their guarantee is not financially supported;
- Where the collaterals securing the loans are considered worthless and the borrower and/or his co-makers are insolvent; and
- Loan considered as absolutely uncollectible.

Collateral and Other Credit Risk Mitigation.

The amount and type of collateral, required depends on an assessment of the credit risk of the obligor. The Bank implements certain requirements regarding the acceptability of types of collateral and valuation.

Collateral comes in the form of financial or non-financial assets. The main types of collateral obtained include cash or securities, charges over real estate or chattel properties, inventory and trade receivables and mortgages over residential properties. The Bank also obtains guarantees from parent companies for loans of borrowing entities belonging to a group of companies.

The Bank monitors the market value of collateral, and request for additional collateral in accordance with the underlying agreement.

The following table shows the fair value of collaterals held against the loans and receivables that are neither past due nor impaired:

	2015	2014
Properties	₱8,106,363,559	₱7,143,156,064
Deposits	305,843,879	605,050,709
	₱8,412,207,438	₱7,748,206,773

It is the Bank's policy to sell foreclosed assets through public bidding (only after the assets are appraised anew to determine current market value, and duly bid based on the approved minimum bid price).

Liquidity Risk

Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from the Bank's inability to meet its obligations when these become due, without incurring unacceptable losses or costs. Specifically, this pertains to events that may necessitate the Bank to enter into transactions that would realize significant losses or costs in order to meet its obligations when these fall due.

ALCO is responsible for formulating the Bank's liquidity risk management policies, whereas the RMG is responsible for monitoring such risks. Liquidity management is among the most important activities conducted within the Bank. The Bank manages its liquidity risk through analyzing net funding requirements under alternative scenarios, diversification of funding sources and contingency planning. The Bank utilizes a diverse range of sources of funds, although short-term deposits made with the Bank's network of domestic branches comprise the majority of such funding.

The Bank's liquidity risk is managed by holding sufficient liquid assets of appropriate quality to ensure short-term funding requirements are met with minimum sacrifice to market price and by maintaining a balanced loan portfolio, which is re-priced on a regular basis. Deposits with banks are made on a short-term basis with almost all being available on demand within three months.

The Bank's Treasury Department uses liquidity forecast models that estimate the Bank's cash flow requirements based on the Bank's actual contractual obligations under normal circumstances and extraordinary circumstances. RMG prepares a monthly maximum cumulative outflow report, which is an analysis of maturity gaps of the Bank's assets and liabilities.

Aging of Financial Assets and Liabilities by Remaining Contractual Maturities

The tables below summarize the maturity profile of the Bank's financial assets and liabilities used for liquidity management based on contractual undiscounted payments and receipts as at December 31, 2015 and 2014:

	2015						Total
	On Demand	Within 30 Days	31 to 60 Days	61 to 180 Days	181 to 360 Days	Over 360 Days	
Financial Assets							
Financial assets at FVPL	P-	P756,201,001	P534,420,534	P757,226,921	P106,514,032	P-	P2,154,362,488
AFS financial assets	-	9,865,788	1,124,105	43,089,999	8,868,216	2,374,420,412	2,437,368,520
HTM investments	-	-	4,255,858	4,375,109	-	340,029,282	348,660,249
COCI	688,699,312	-	-	-	-	-	688,699,312
Due from BSP	-	3,107,652,243	-	-	-	-	3,107,652,243
Due from other banks	-	1,441,016,646	-	-	-	-	1,441,016,646
Interbank loans receivable	-	1,148,219,571	-	-	-	-	1,148,219,571
Loans and receivables:							
Loans and discounts	-	5,049,737,692	2,074,541,005	3,815,154,508	1,462,653,977	11,872,251,241	24,274,338,423
Unquoted debt securities	-	-	11,604,450	-	-	645,703,884	657,308,334
Accrued interest income	-	29,036,424	12,753,032	22,126,123	8,010,975	71,745,407	143,671,961
Accounts receivable	-	13,119,538	4,439,700	7,412,403	1,646,128	17,492,293	44,110,062
Sales contracts receivable	-	441,230	441,230	1,764,920	2,647,380	102,377,402	107,672,162
Other assets	-	-	-	-	-	23,148,637	23,148,637
	P688,699,312	P11,555,290,133	P2,643,579,914	P4,651,149,983	P1,590,340,708	P15,447,168,558	P36,576,228,608
Financial Liabilities							
Deposit liabilities:							
Demand	P6,007,736,808	P-	P-	P-	P-	P-	P6,007,736,808
Savings	-	1,234,842,785	5,095,824	-	-	1,282,855,276	2,522,793,885
Time	-	9,786,569,861	4,321,568,903	2,701,296,451	583,821,011	1,353,727,023	18,746,983,249
	6,007,736,808	11,021,412,646	4,326,664,727	2,701,296,451	583,821,011	2,636,582,299	27,277,513,942
Manager's checks	-	136,967,809	-	-	-	-	136,967,809
Bills payable	-	36,781,584	-	-	-	-	36,781,584
Accrued interest expense	-	25,274,872	11,311,877	6,926,681	1,481,466	5,727,976	50,722,872
Unsecured subordinated debt	-	-	7,656,250	7,656,250	15,312,500	444,564,236	475,189,236
Other liabilities*	-	646,022,496	-	-	-	-	646,022,496
	P6,007,736,808	P11,866,459,407	P4,345,632,854	P2,715,879,382	P600,614,977	P3,086,874,511	P28,623,197,939

* Comprised of accounts payable, due to PDIC, payment orders, bills purchased-contra and marginal deposits.

	2014						Total
	On Demand	Within 30 Days	31 to 60 Days	61 to 180 Days	181 to 360 Days	Over 360 Days	
Financial Assets							
Financial assets at FVPL	P-	P13,937,800	P56,984,841	P26,170,650	P99,812,041	P6,724,459,365	P6,921,364,697
AFS financial assets	-	22,931,815	10,295,800	79,923,053	119,062,542	6,656,221,868	6,888,435,078
HTM investments	-	-	4,885,660	7,127,250	12,012,910	518,360,731	542,386,551
COCI	903,508,869	-	-	-	-	-	903,508,869
Due from BSP	-	3,964,969,282	-	-	-	-	3,964,969,282
Due from other banks	-	2,317,217,108	-	-	-	-	2,317,217,108
Interbank loans receivable	-	625,686,821	-	-	-	-	625,686,821
Loans and receivables:							
Loans and discounts	-	3,508,769,957	1,716,546,650	4,480,005,987	2,158,149,112	9,662,972,084	21,526,443,790
Unquoted debt securities	-	-	11,604,450	-	6,861,626	695,251,304	713,717,380
Accrued interest income	-	34,625,200	22,813,525	45,993,311	20,098,607	84,227,983	207,758,626
Accounts receivable	153,155,507	10,247,242	4,535,419	11,788,804	7,489,120	10,621,445	197,837,537
Sales contracts receivable	-	215,973	215,973	863,891	5,183,346	24,620,895	31,100,078
Other assets	-	-	-	-	-	24,221,524	24,221,524
	P1,056,664,376	P10,498,601,198	P1,827,882,318	P4,651,872,946	P2,428,669,304	P24,400,957,199	P44,864,647,341
Financial Liabilities							
Deposit liabilities:							
Demand	P5,498,315,951	P-	P-	P-	P-	P-	P5,498,315,951
Savings	-	94,015,603	94,015,603	376,062,411	564,093,616	1,078,338,785	2,206,526,018
Time	-	12,570,181,213	3,696,599,071	3,370,920,539	961,614,030	2,147,963,500	22,747,278,353
	5,498,315,951	12,664,196,816	3,790,614,674	3,746,982,950	1,525,707,646	3,226,302,285	30,452,120,322
Manager's checks	-	151,068,397	-	-	-	-	151,068,397
Bills payable	-	279,131,901	-	-	-	-	279,131,901
Accrued interest expense	-	34,144,164	9,329,672	9,398,795	3,192,034	6,892,562	62,957,227
Unsecured subordinated debt	-	-	5,107,243	7,656,250	15,312,500	699,062,500	727,138,493
Other liabilities*	-	1,079,917,011	-	-	-	-	1,079,917,011
	P5,498,315,951	P14,208,458,289	P3,805,051,589	P3,764,037,995	P1,544,212,180	P3,932,257,347	P32,752,333,351

* Comprised of accounts payable, due to PDIC, payment orders, bills purchased-contra and marginal deposits.

Market Risk

Market risk is the risk of loss to future earnings, fair values or future cash flows as a result of changes in interest rate, foreign exchange rate, commodity prices, equity prices and other market changes. The Bank's market risk originates from its holdings of debt securities.

ALCO, chaired by the Head of Treasury, is the senior review and decision-making body for the management of all related market risk. In managing market risk, the Bank uses a framework of policies and procedures, measurement tools, controls and limits. The Treasury Group manages asset/liability risks arising from both normal banking operations and from trading operations in financial market. Daily monitoring of compliance with the policies, procedures and limits is performed by the Market Risk Department under RMG. The limits are annually reviewed by the ALCO and RMG and approved by RMC. RMG performs regular reporting to ALCO and to the RMC, which is a sub-committee of the BOD.

Interest Rate Risk

The Bank follows a prudent policy on managing its assets and liabilities so as to ensure that exposure to fluctuations in interest rate are kept within acceptable limits.

The Bank measures the sensitivity of its assets and liabilities to interest rate fluctuations by way of Earnings-at-Risk (EaR). EaR is a measure of likely earnings volatility for accrual portfolios. It is calculated as the change in income over the next 12 months, given current exposures that will result from one-year standard deviation change in interest rate, updated monthly. EaR is calculated based on 99.00% confidence level. It is accomplished monthly, with quarterly stress test.

The following tables demonstrate the sensitivity to a reasonable possible change in interest rate of the Bank's net interest income and equity with all other variables held constant (amounts in millions):

	2015			
	Increase (Decrease) in Basis Points			
	50	100	(50)	(100)
Changes in net interest income:				
Loans and receivables	P4.74	P9.48	(P4.74)	(P9.48)
Deposit liabilities	(11.41)	(22.82)	11.41	22.82
As a percentage of the net interest income for the year	(1%)	(1%)	1%	1%
Changes in equity * -				
AFS financial assets	(108.08)	(208.27)	116.63	242.83

**The impact on the Bank's equity already excludes the impact of transactions affecting the profit or loss.*

	2014			
	Increase (Decrease) in Basis Points			
	50	100	(50)	(100)
Changes in net interest income:				
Loans and receivables	P4.30	P8.61	(P4.30)	(P8.61)
Deposit liabilities	(12.45)	(24.89)	12.45	24.89
As a percentage of the net interest income for the year	(1%)	(2%)	1%	2%
Changes in equity * -				
AFS financial assets	(189.94)	(360.77)	194.46	410.86

**The impact on the Bank's equity already excludes the impact of transactions affecting the profit or loss.*

Foreign Currency Risk

Foreign currency risk is the risk of an investment's value erosion due to an adverse movement in foreign exchange rate. It arises due to a mismatch in the Bank's foreign currency-denominated assets and liabilities.

Foreign currency-denominated deposits are generally used to fund the Bank's foreign currency-denominated loan and investment portfolio in the FCDU. Banks are required by BSP to match the foreign currency-denominated liabilities with the foreign currency-denominated assets held under the FCDU books. In addition, BSP requires 100% asset cover for its FCDU liabilities, 30% of which should be in the form of liquid assets. As at December 31, 2015 and 2014, the Bank is in compliance with the said regulation.

The Bank's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines.

The following table summarizes the Bank's foreign currency-denominated financial assets and liabilities as at December 31, 2015 and 2014. Included in the table are assets and liabilities at carrying amounts in Philippine Peso equivalent, categorized by currency.

	2015			2014		
	USD	Others*	Total	USD	Others*	Total
Financial Assets						
Cash and cash equivalents	₱43,615,120	₱-	₱43,615,120	₱63,348,523	₱40,196	₱63,388,719
Due from other banks	2,227,122,704	141,068,191	2,368,190,895	540,101,842	101,640,923	641,742,765
Loans and receivables	58,476,478	-	58,476,478	64,326,046	-	4,326,046
	2,329,214,302	141,068,191	2,470,282,493	667,776,411	101,681,119	769,457,530
Financial Liabilities						
Deposit liabilities	4,064,185,149	49,942,032	4,114,127,181	1,635,124,674	2,100,949	1,637,225,623
Net Exposure	₱1,734,970,847	₱91,126,159	₱1,643,844,688	₱967,348,263	₱99,580,170	₱867,768,093

* Consist of Euro, United Kingdom Pound, Canadian Dollar, Australian Dollar, Hong Kong Dollar, New Zealand Dollar, Singapore Dollar, Japanese Yen, Swiss Franc and Chinese Yuan

The following table sets forth the impact of reasonably possible changes in the USD exchange rate on the Bank's net income (amounts in millions):

	2015			
	Increase (Decrease) in Currency			
	5.0%	10.0%	(5.0%)	(10.0%)
USD	₱0.23	₱0.47	(₱0.23)	(₱0.47)
	2014			
	Increase (Decrease) in Currency			
	5.0%	10.0%	(5.0%)	(10.0%)
USD	₱0.16	₱0.33	(₱0.16)	(₱0.33)

The increase in USD exchange rate represents depreciation of Philippine Peso while the decrease in USD exchange rate represents appreciation of Philippine Peso. The increase or decrease in exchange rate of other currencies is not significant.

There is no other impact in the Bank's equity other than those already affecting the net income.

Market Risk in the Trading Book

The Bank is exposed to the potential loss in its trading portfolio because the value of its trading positions is sensitive to changes in market prices and rate. The trading activities of the Bank include investments on fixed income securities and foreign exchange trading, which exposes the Bank to interest rate and foreign exchange risks. In the trading book, market risk is controlled by a daily analysis of the Value-at-Risk (VaR) of financial instruments under normal market conditions.

Objectives and Limitations of the VaR Methodology

The Bank uses the VaR approach in assessing the possible changes in the market value of the trading portfolio based on historical data for a rolling one year period. The Bank employs the use of historical methodology in calculating the VaR. This model assumes that the exact distribution of past returns does not apply during sudden changes in market condition. The use of historical VaR model has limitations which requires a significant amount of risk factor history. It does not capture probabilities that have not yet occurred while it captures irregularities present in the historical database.

The VaR figures are backtested to validate the robustness of the VaR model. The Bank performs the hypothetical and actual backtesting procedures both for RBU and FCDU securities. Likewise, to complement VaR measure, the Bank performs stress tests wherein the trading portfolios are valued under extreme market scenarios.

VaR Assumptions/Parameters

The VaR that the Bank measures is an estimate, using actual historical rates and revalues positions for each change in the market. It is appropriate for all types of instruments, linear and non-linear, with stable risk factors for which there is a rich historical database. Since VaR is an integral part of the Bank's market risk management, VaR limits have been established annually for all financial trading activities and exposures against the VaR limits are monitored on a daily basis. Limits are based on the tolerable risk appetite of the Bank.

The Market Risk Officer of the Bank prepares a daily VaR report containing details on the VaR amount, VaR limit utilization, and VaR limit breaches, if any. This report is submitted to the traders concerned, Treasury Head, Chief Risk Officer, Treasury Operations Head, and the President. Moreover, the VaR results are discussed and reported in the monthly Risk Management Committee meetings.

The following table provides the VaR summary of the Bank for the years ended December 31, 2015 and 2014 (amounts in thousands):

	2015		2014	
	Foreign Exchange	Fixed Income	Foreign Exchange	Fixed Income
December 29	₱22	₱34,212	₱113	₱44,744
Average Daily	97	61,490	108	51,274
Highest	1,987	111,759	1,559	87,775
Lowest	0.11	33,305	1	17,125

Fixed income VaR includes value-at-risk for investment securities denominated in currencies other than Philippine Peso. VaR being a measure of risk in the trading book only includes held for trading portfolio.

The Bank's trading in fixed income securities is exposed to movements in interest rate. The high and low of the total portfolio may not equal to the sum of the individual components as the high and low of the individual portfolios may have occurred on different trading days. The VaR or foreign exchange is the foreign exchange risk throughout the Bank. The Bank when aggregating the foreign exchange VaR and interest VaR does not consider the correlation effects between the two risks.

Capital Management

The primary objectives of the Bank's capital management are to ensure that it complies with externally-imposed capital requirements and maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital, or issue capital securities. No changes were made in the objectives, policies and processes from the previous year.

Regulatory Qualifying Capital

Under existing BSP regulations, the determination of the compliance with regulatory requirements and ratios is based on the amount of the "qualifying capital" (regulatory net worth) as reported to BSP, which is determined on the basis of regulatory accounting policies that differ from PFRS in some respects.

The risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.00%. Qualifying capital and risk-weighted assets (RWA) are computed based on BSP regulations. RWA consist of total assets less cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letter of credit to the extent covered by margin deposits and other non-risk items determined by the Monetary Board (MB) of the BSP.

The details of CAR as reported to the BSP, based on BSP Circular 688, *Revised Risk-Based Capital Adequacy Framework for Standalone Thrift Banks, Rural Banks and Cooperative Banks*, are as follows (amounts in thousands):

	2015	2014
Tier 1 capital	₱2,139,584	₱1,927,869
Required deductions	47,600	75,992
	2,091,984	1,851,877
Excess from Tier 2 deducted from Tier 1 Capital*	-	-
Net Tier 1 Capital	2,091,984	1,851,877
Tier 2 capital	961,952	931,795
Required deductions	-	-
	961,952	931,795
Excess of Tier 2 deducted from Tier 1 Capital*	-	-
Net Tier 2 Capital	961,952	931,795
Total Qualifying Capital	₱3,053,936	₱2,783,672

*Deductions to Tier 2 Capital are capped at its total gross amount and any excess shall be deducted from Tier 1 Capital.

	2015	2014
Credit RWA	₱19,396,394	₱18,356,730
Market RWA	1,606,421	2,822,807
Operational RWA	2,024,693	1,893,313
Total RWA	₱23,027,508	₱23,072,850
Tier 1 capital ratio	9.08%	8.03%
Total capital ratio	13.26%	12.07%

The regulatory qualifying capital of the Bank consists of Tier 1 (core) capital, which comprises paid-up common stock, surplus including current year profit, and cumulative foreign currency translation less required deductions such as unsecured credit accommodations to DOSRI and deferred income tax. Certain adjustments are made to results and reserves based on PFRS, as prescribed by the BSP. The other component of regulatory capital is Tier 2 (supplementary) capital, which includes paid-up preferred stock, unsecured subordinated debt and general loan loss provision.

Standardized credit risk weights were used in the credit assessment of asset exposures. Third party credit assessments were based on the ratings by Standard & Poor's, Moody's, Fitch and PhilRatings on exposures to Sovereigns, MDBs, Banks, LGUs, Government Corporations and Corporates.

The Bank has complied with all externally imposed capital requirements in 2015 and 2014.

7. Fair Value Measurement

The following table presents the carrying amounts and fair values of the Company's assets measured at fair value and for which fair values are disclosed, and the corresponding hierarchy:

	Note	Carrying Amount	2015		
			Quoted Prices in Active Market (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets Measured at Fair Value	9				
Financial assets at FVPL -					
Government securities		₱2,130,532,834	₱2,130,532,834	₱-	₱-
AFS financial assets:	10				
Government securities		1,648,306,773	1,648,306,773	-	-
Private bonds		771,764,611	771,764,611	-	-
		2,420,071,384	2,420,071,384	-	-
Assets for which Fair Values are Disclosed					
HTM investments -	11				
Government securities		340,029,282	393,889,236	-	-
Loans and receivables:	12				
Receivable from customers:					
Corporate lending		10,639,708,100	-	-	10,629,472,857
Consumer lending		7,109,411,392	-	-	7,232,044,590
Unquoted debt securities		649,948,266	-	-	677,514,043
		18,399,067,758	-	-	18,539,031,490
Assets held for sale	14	117,201,260	-	117,201,260	-
Refundable deposits	16	23,002,814	-	23,002,814	-
Total Assets		₱23,429,905,332	₱4,944,493,454	₱140,204,074	₱18,539,031,490
Liabilities for which Fair Values are Disclosed					
Time deposits	17	₱18,367,402,985	₱-	₱18,367,402,985	₱-
Unsecured subordinated debt	20	500,000,000	-	558,869,251	-
Total Liabilities		₱18,867,402,985	₱-	₱18,926,272,236	₱-

	Note	Carrying Amount	2014		
			Quoted Prices in Active Market (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets Measured at Fair Value	9				
Financial assets at FVPL:					
Government securities		₱4,008,748,622	₱4,008,748,622	₱-	₱-
Private bonds		161,013,689	161,013,689	-	-
		4,169,762,311	4,169,762,311	-	-

(Forward)

	Note	2014			
		Carrying Amount	Fair Value		
			Quoted Prices in Active Market (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
AFS financial assets:	10				
Government securities		₱2,933,109,577	₱2,933,109,577	₱-	₱-
Private bonds		1,106,226,470	1,106,226,470	-	-
		4,039,336,047	4,039,336,047	-	-
Assets for which Fair Values are Disclosed					
HTM investments -	11				
Government securities		329,794,376	416,592,832	-	-
Loans and receivables:	12				
Receivable from customers:					
Corporate lending		9,759,429,492	-	-	10,331,257,821
Consumer lending		5,473,545,534	-	-	5,613,787,586
Unquoted debt securities		701,542,198	-	-	701,542,198
		15,934,517,224	-	-	16,646,587,605
Assets held for sale	14	126,274,908	-	129,047,934	-
Refundable deposits	16	23,209,525	-	23,987,834	-
Total Assets		₱24,622,894,391	₱8,625,691,190	₱153,035,768	₱16,646,587,605
Liabilities for which Fair Values are Disclosed					
Time deposits	17	₱21,642,896,394	₱-	₱21,426,582,569	₱-
Unsecured subordinated debt	20	500,000,000	-	558,869,251	-
Total Liabilities		₱22,142,896,394	₱-	₱21,985,451,820	₱-

There were no transfers between levels/hierarchy of fair value measurements in 2015 and 2014.

The methods and assumptions used by the Bank in estimating the fair value of the assets and liabilities of the Bank that are carried at fair value and those whose fair values are disclosed are as follows:

Debt Securities. Fair values are generally based upon quoted market prices, if available. If the market prices are not readily available, fair values are estimated using either values obtained from adjusted quoted market prices of comparable investments or using the discounted cash flow methodology.

Loans and Receivables. Fair values are estimated using the discounted cash flow methodology, using the Bank's current incremental lending rate for similar types of loans.

Significant Unobservable Inputs	Range (weighted average)
Transfer pool rate	3.52% - 7.29%
Credit spread	0.50% - 2.50%

Certain loans are subject to quarterly repricing. Hence, the carrying amounts of these loans approximate fair values.

Time Deposits, Bills Payable and Unquoted Debt Obligations. Fair values of these instruments are estimated using the discounted cash flow methodology using the Bank's current incremental borrowing rates for similar borrowings with maturities consistent with the remaining liabilities being valued.

Assets Held for Sale. Fair value is based on valuation using market data approach, as determined by independent and/or in-house appraiser.

Refundable Deposits. Fair value is based on discounted cash flows using the prevailing credit-adjusted interest rate.

Other Financial Liabilities. For financial liabilities other than time deposits and bills payable, the carrying amounts approximate fair values considering that these are due and demandable.

The table below presents the financial assets and liabilities of the Bank, whose carrying amounts approximate fair values due to the short-term nature of the transactions:

	2015		2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and other cash items	₱688,754,312	₱688,754,312	₱903,508,869	₱903,508,869
Due from BSP	3,107,652,243	3,107,652,243	3,964,969,282	3,964,969,282
Due from other banks	1,441,016,646	1,441,016,646	2,317,217,108	2,317,217,108
Interbank loans receivable	1,148,219,571	1,148,219,571	625,686,821	625,686,821
Loans and receivables:				
Receivables from customers -				
Corporate loans	177,223,254	177,223,254	139,539,816	139,539,816
Accrued interest income	159,774,608	159,774,608	199,419,439	199,419,439
Accounts receivable	44,110,060	44,110,060	197,837,537	197,837,537
RCOCI	145,823	145,823	778,309	778,309
	₱6,766,896,517	₱6,766,896,517	₱8,348,957,181	₱8,348,957,181
Financial Liabilities				
Deposit liabilities	₱8,521,583,148	₱8,521,583,148	₱7,721,974,782	₱7,721,974,782
Bills payable	36,781,584	36,781,584	366,183,853	366,183,853
Accrued interest	50,722,871	50,722,871	62,957,227	62,957,227
Other liabilities*	618,205,595	618,205,595	1,079,917,011	1,079,917,011
	₱9,227,293,198	₱9,227,293,198	₱9,231,032,873	₱9,231,032,873

*Includes accounts payable, due to PDIC, payment orders, bills purchased-contra and marginal deposits.

8. Interbank Loans Receivable

This account pertains to short-term loans to local and foreign banks maturing up to three months. Interbank loans receivable amounted to ₱1,148.2 million and ₱625.7 million as at December 31, 2015 and 2014, respectively. Interest income on interbank loans receivable amounted to ₱5.4 million and ₱2.9 million in 2015 and 2014, respectively.

Below are the ranges of interest rates applicable to the interbank loans receivable:

	2015	2014
Local banks	2.50%	2.00% to 4.0%
Foreign banks	0.05% to 0.25%	0.25% to 1.0%

9. Financial Assets at FVPL

This account consists of:

	2015	2014
Government securities	₱2,130,532,834	₱4,008,748,622
Private bonds	-	161,013,689
	₱2,130,532,834	₱4,169,762,311

Unrealized trading gains (losses) on financial assets at FVPL included under “Net trading and securities gains” in the statements of income amounted to (₱180.9 million) and ₱56.8 million in 2015 and 2014, respectively.

Financial assets at FVPL bear effective interest rates as follows:

	2015	2014
Philippine Peso-denominated	1.20% to 6.00%	2.89% to 3.50%
Foreign currency-denominated	0.70% to 37.66%	2.12% to 14.28%

Net trading and securities gains (losses) from investment securities are as follows:

	Note	2015	2014
Financial assets at FVPL			
Unrealized trading gain (loss)		(₱180,862,254)	₱56,799,583
Realized gains		42,571,875	224,392,257
AFS financial assets	10	18,435,318	45,677,438
		(₱119,855,061)	₱326,869,278

Interest income earned from investment securities are as follows:

	Note	2015	2014
Financial assets at FVPL		₱145,529,361	₱143,865,916
AFS financial assets	10	142,839,079	204,331,945
HTM investments	11	17,467,193	13,356,586
		₱305,835,633	₱361,554,447

10. AFS Financial Assets

This account consists of:

	2015	2014
Government securities	₱1,648,306,773	₱2,933,109,577
Private bonds	771,764,611	1,106,226,470
Unquoted equity security	16,073,463	16,073,463
	₱2,436,144,847	₱4,055,409,510

The unquoted equity security pertains to investment in shares of stock of Bancnet, Inc. acquired on November 11, 2011, which the Bank intends to hold for the long-term.

AFS financial assets bear effective interest rates as follows:

	2015	2014
Philippine Peso-denominated	1.83% to 7.18%	2.00% to 7.18%
Foreign currency-denominated	2.27% to 32.97%	2.98% to 18.99%

Net trading and securities gains from AFS financial assets amounted to ₱18.4 million and ₱45.7 million in 2015 and 2014, respectively (see Note 9).

Interest income earned amounted to ₱142.8 million and ₱204.3 million in 2015 and 2014, respectively (see Note 9).

The movements in cumulative unrealized gains (losses) on AFS financial assets are as follows:

	Note	2015	2014
Balance at beginning of year		₱24,605,598	(₱134,445,332)
Changes in fair value		(194,708,627)	204,388,637
Gain on sale of AFS financial asset taken to profit or loss	9	(18,435,318)	(45,677,438)
Amortization of unrealized losses on reclassified AFS financial assets		471,818	339,731
		(212,672,127)	159,050,930
Balance at end of year		(₱188,066,529)	₱24,605,598

Cumulative unrealized gains (losses) on AFS investments include unrealized losses on reclassified AFS financial assets amounting to ₱6.3 million and ₱6.8 million as at December 31, 2015 and 2014, respectively.

Reclassification of AFS Financial Assets

The Bank identified certain eligible AFS financial assets for which it had a clear change of intent to hold these financial assets until maturity in order to adequately manage its net interest earning streams by matching these securities against its core funding, as defined under its existing risk management measurements and parameters.

On July 1, 2008, the Bank reclassified USD-denominated investment securities with face amount of \$2.3 million and effective interest of 6.80% from AFS financial assets to HTM investments. The reclassification is compliant with the criteria and rules set forth in BSP Circular Nos. 626 and 628, *Guidelines on the Reclassification of Financial Assets*, as well as those provided in the SEC Memorandum Circular No. 10, Series of 2008, on Amendments to PAS 39 and PFRS 7.

The carrying amount and fair value of financial assets reclassified out of AFS financial assets to HTM investments amounted to ₱127.3 million and ₱171.0 million, respectively, as at December 31, 2015, and ₱121.6 million and ₱160.6 million, respectively, as at December 31, 2014.

Prior to reclassification, the fair value loss on the reclassified AFS financial assets recognized in “Net unrealized gains (losses) on AFS financial assets” reported under the equity section of the statements of financial position amounted to ₱9.7 million. Had the reclassification not been made, the fair value loss recognized in “Net unrealized gains (losses) on AFS financial assets” would have decreased by ₱43.2 million and ₱39.0 million in 2015 and 2014, respectively. As at December 31, 2015 and 2014, the Bank expects to recover the entire cash flows of these reclassified financial assets.

11. HTM Investments

This account consists of:

	2015	2014
Government debt securities:		
Face value	₱249,418,000	₱237,016,000
Unamortized premium	90,611,282	92,778,376
	₱340,029,282	₱329,794,376

In 2014, the Bank acquired additional HTM investments amounting to ₱208.2 million that will mature on March 16, 2025, which bear interest rate of 3.99%. The other HTM investments pertain to Republic of the Philippines bonds that will mature on February 2, 2030, which bear effective interest of 7.47%.

Interest income earned on HTM investments amounted to ₱17.5 million and ₱13.4 million in 2015 and 2014, respectively (see Note 9). Amortization of premium amounted to ₱7.0 million and ₱3.3 million in 2015 and 2014, respectively.

12. Loans and Receivables

This account consists of:

	2015	2014
Receivables from customers	₱18,201,735,800	₱16,243,420,559
Unquoted debt securities	649,948,266	701,542,198
Accrued interest income	159,774,608	199,419,439
Accounts receivable	44,110,060	197,837,537
Sales contracts receivable	27,565,777	31,100,077
	19,083,134,511	17,373,319,810
Allowance for credit and impairment losses	(447,844,581)	(520,735,884)
	₱18,635,289,930	₱16,852,583,926

Receivables from customers consist of:

	Note	2015	2014
Loans and discounts:			
Corporate lending		₱10,813,897,763	₱9,999,016,728
Consumer lending		7,388,367,405	5,759,567,202
Bills purchased	21	4,771,727	489,709,649
		18,207,036,895	16,248,293,579
Unearned discounts and capitalized interest		(5,301,095)	(4,873,020)
		₱18,201,735,800	₱16,243,420,559

Unquoted debt securities consist of:

	2015	2014
Private bonds:		
Face value	₱649,985,831	₱704,680,273
Unamortized discount	(37,565)	(3,138,075)
	₱649,948,266	₱701,542,198

Unquoted debt securities bear effective interest rates ranging from 3.14% to 6.75% in 2015 and 2014.

Accounts receivable include receivables from officers relating to the car plan amounting to ₱26.2 million and ₱27.7 million as at December 31, 2015 and 2014, respectively (see Note 28).

Sales contracts receivable pertain to receivables from buyers of real properties classified as assets held for sale, bearing nominal interest of 10%, with terms of 10 or 15 years.

The movements in the allowance for credit and impairment losses on loans and receivables follow:

	2015		
	Corporate Lending	Consumer Lending	Total
Balance at beginning of year	₱234,714,216	₱286,021,668	₱520,735,884
Write-off	(48,764,800)	(105,710,043)	(154,474,843)
Provision (reversal)	(17,060,848)	98,644,388	81,583,540
Balance at end of year	₱168,888,568	₱278,956,013	₱447,844,581
Specific impairment	₱154,537,469	₱39,472,015	₱194,009,484
Collective impairment	14,351,099	239,483,998	253,835,097
	₱168,888,568	₱278,956,013	₱447,844,581
Gross amount of loans individually determined to be impaired	₱462,765,654	₱107,575,678	₱570,341,332

	2014		
	Corporate Lending	Consumer Lending	Total
Balance at beginning of year	₱98,461,450	₱203,675,189	₱302,136,639
Provision	136,252,766	82,346,479	218,599,245
Balance at end of year	₱234,714,216	₱286,021,668	₱520,735,884
Specific impairment	₱194,212,699	₱—	₱194,212,699
Collective impairment	40,501,517	286,021,668	326,523,185
	₱234,714,216	₱286,021,668	₱520,735,884
Gross amount of loans individually determined to be impaired	₱377,361,342	₱—	₱377,361,342

The following table shows information relating to receivables from customers by collateral (at gross amounts):

	2015		2014	
	Amount	%	Amount	%
Secured by:				
Chattel mortgage	₱3,995,583,998	21.95	₱2,536,608,544	15.61
Real estate mortgage	3,679,736,065	20.21	3,383,593,153	20.82
Deposits	234,102,350	1.29	489,100,703	3.01
Others	50,007,681	0.27	92,475,868	0.57
	7,959,430,094	43.72	6,501,778,268	40.01
Unsecured	10,247,606,801	56.28	9,746,515,311	59.99
	₱18,207,036,895	100.00	₱16,248,293,579	100.00

As at December 31, 2015 and 2014, information on the concentration of credit (at gross amounts) as to industry follows:

	2015		2014	
	Amount	%	Amount	%
Other community, social and personal activities	₱5,950,504,776	32.68	₱5,377,330,799	33.09
Wholesale and retail trade	4,373,672,572	24.02	3,435,857,631	21.15
Real estate	3,163,840,356	17.38	2,787,812,354	17.16
Financial intermediaries	1,706,162,421	9.37	1,509,251,366	9.29
Manufacturing	1,545,759,825	8.49	1,873,924,676	11.53
Transportation, storage and communication	791,102,021	4.35	683,252,404	4.21
Agricultural, hunting and forestry	379,686,122	2.09	415,903,451	2.56
Mining and quarrying	171,000,000	0.94	21,000,000	0.13
Construction	111,053,664	0.61	117,731,160	0.72
Hotel and restaurants	11,159,813	0.06	25,804,738	0.16
Electricity, gas and water supply	3,095,325	0.02	425,000	0.00
	₱18,207,036,895	100.00	₱16,248,293,579	100.00

Majority of the Bank's loan exposure arises from corporate and consumer loans extended to other community, social and personal activities. The loan product does not cover a specific industry. Hence, the Bank does not have concentration of credit risk to particular industries as at December 31, 2015 and 2014.

Thrift banks are not covered by the loan concentration limit of 30.00% prescribed by the BSP.

Non-performing loans (NPLs), as a general rule, refer to loan accounts whose principal and/or interest is unpaid for 30 days or more after due date or after these become past due in accordance with existing rules and regulations of BSP. This applies to loans payable in lump sum and loans payable in quarterly, semi-annual or annual installments, in which case, the total outstanding balance, thereof, is considered nonperforming.

In the case of receivables that are payable in monthly installments, the total outstanding balance is considered nonperforming when three or more installments are in arrears. In the case of receivables that are payable in daily, weekly, or semi-monthly installments, the total outstanding balance is considered nonperforming at the same time that these become past due in accordance with existing BSP regulations (i.e., the entire outstanding balance of the receivable is considered as past due when the total amount of arrearages reaches 10.00% of the total receivable balance).

Based on the revised definition of NPL under BSP Circular No. 772, *Amendments to Regulations on Non-Performing Loans*, the gross and net NPLs of the Bank as reported to the BSP amounted to ₱1,045.5 million and ₱639.0 million as at December 31, 2015, respectively, and ₱929.9 million and ₱467.9 million as at December 31, 2014, respectively. The gross and net NPL ratios of the Bank are 5.69% and 3.48% as at December 31, 2015, respectively, and 5.62% and 2.82% as at December 31, 2014, respectively.

As at December 31, 2015 and 2014, breakdown of the secured and unsecured NPLs follows:

	2015	2014
Secured	₱403,970,798	₱279,849,801
Unsecured	641,513,687	650,033,509
	₱1,045,484,485	₱929,883,310

Restructured loans, which do not meet the requirements to be treated as performing receivables, are also considered as NPLs. Restructured loans amounted to ₱14.5 million and ₱12.3 million as at December 31, 2015 and 2014, respectively. Interest income on restructured receivables amounted to ₱6.0 million and ₱4.4 million in 2015 and 2014, respectively.

The details of interest income on loans and receivables are as follows:

	2015	2014
Corporate loans	₱677,577,029	₱687,822,025
Consumer loans	633,502,598	527,892,938
Unquoted debt securities	41,969,073	40,187,817
Bills discounted	40,664,265	31,161,300
Sales contracts receivable	2,197,447	2,208,353
	₱1,395,910,412	₱1,289,272,433

Of the total loans and receivables as at December 31, 2015 and 2014, 65.93% and 60.45% respectively, are subject to periodic interest repricing. The remaining peso-denominated loans have annual fixed interest ranging from 3.54% to 24.00% in 2015 and 2014.

13. Property and Equipment

The details and movements in this account are as follows:

	2015				Total
	Land	Building and Condominium Units	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	
Cost					
Balance at beginning of year	₱164,344,500	₱247,399,440	₱513,050,544	₱249,970,301	₱1,174,764,785
Additions	–	3,992,163	41,274,283	14,438,168	59,704,614
Disposals	–	(91,271)	(19,790,769)	(221,003)	(20,103,043)
Reclassifications	–	(2,086,677)	2,591,003	(504,326)	–
Balance at end of year	164,344,500	249,213,655	537,125,061	263,683,140	1,214,366,356
Accumulated Depreciation and Amortization					
Balance at beginning of year	–	68,820,940	417,271,625	158,730,174	644,822,739
Depreciation and amortization	–	11,780,040	49,879,933	22,502,207	84,162,180
Disposals	–	–	(11,965,124)	(78,199)	(12,043,323)
Reclassifications	–	44,772	369,592	(414,364)	–
Balance at end of year	–	80,645,752	455,556,026	180,739,818	716,941,596
Accumulated Impairment					
Balance at beginning and end of year	–	2,667,217	–	–	2,667,217
Carrying Amount	₱164,344,500	₱165,900,686	₱81,569,035	₱82,943,322	₱494,757,543

	2014				Total
	Land	Building and Condominium Units	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	
Cost					
Balance at beginning of year	₱164,344,500	₱235,823,583	₱499,087,957	₱229,067,377	₱1,128,323,417
Additions	–	4,223,776	30,337,185	22,013,660	56,574,621
Disposals	–	–	(9,714,401)	(418,852)	(10,133,253)
Reclassifications	–	7,352,081	(6,660,197)	(691,884)	–
Balance at end of year	164,344,500	247,399,440	513,050,544	249,970,301	1,174,764,785
Accumulated Depreciation and Amortization					
Balance at beginning of year	–	51,940,182	389,344,959	131,884,824	573,169,965
Depreciation and amortization	–	12,021,305	40,806,887	25,845,856	78,674,048
Disposals	–	–	(6,745,883)	(275,391)	(7,021,274)
Reclassifications	–	4,859,453	(6,134,338)	1,274,885	–
Balance at end of year	–	68,820,940	417,271,625	158,730,174	644,822,739
Accumulated Impairment					
Balance at beginning and end of year	–	2,667,217	–	–	2,667,217
Carrying Amount	₱164,344,500	₱175,911,283	₱95,778,919	₱91,240,127	₱527,274,829

Gain (loss) from sale of property and equipment included under “Net gain (loss) from assets sold or acquired” in the statements of income amounted to (₱2.2 million) and ₱382,484 in 2015 and 2014, respectively (see Note 14).

As at December 31, 2015 and 2014, the cost of fully-depreciated assets still being used in operations amounted to ₱296.9 million and ₱295.0 million, respectively.

14. Assets Held for Sale

This account consists of properties acquired/foreclosed in settlement of loans and receivables aggregating to ₱117.2 million and ₱126.3 million as at December 31, 2015 and 2014, respectively.

Loans and receivables amounting to ₱81.7 million and ₱70.1 million were reclassified to assets held for sale in 2015 and 2014, respectively.

“Net gain (loss) from assets sold or acquired” in the statements of income consist of the following:

	Note	2015	2014
Assets held for sale:			
Loss on foreclosure		(₱8,320,148)	(₱9,484,656)
Gain (loss) on sale		(3,496,509)	23,493,621
Gain (loss) on sale of property and equipment	13	(2,219,749)	382,484
		(₱14,036,406)	₱14,391,449

Unrealized loss on foreclosure amounted to ₱8.6 million and ₱4.6 million in 2015 and 2014, respectively.

There are no impairment losses incurred in 2015. In 2014, provision for impairment losses on assets held for sale amounted to ₱5.5 million (see Note 25).

15. Branch Licenses

This account pertains to the branch licenses recognized through business combination, including the branch licenses of CSB, amounting to ₱128.0 million, and licensing fees incurred in opening additional branches.

As at December 31, 2015 and 2014, the Bank has a total of 42 and 41 branches, respectively. Of the 42 branches, 18 are in restricted areas.

16. Other Assets

This account consists of:

	2015	2014
Prepaid expenses	₱47,821,142	₱59,018,377
Refundable deposits	23,002,814	23,209,525
Documentary stamp taxes	5,233,249	8,144,305
Other investments	4,663,333	4,663,333
Deferred lease	1,181,740	1,716,341
RCOCI	145,823	778,309
CWT	-	4,707,376
Others	9,654,995	4,764,610
	₱91,703,096	₱107,002,176

Prepaid expenses include prepaid rentals, group life insurance, and employee benefits related to the car plan for the officers of the Bank.

Refundable deposits include noninterest-bearing rental deposits. Unamortized discount on refundable deposits amounted to ₱1.2 million and ₱2.5 million as at December 31, 2015 and 2014, respectively. Accretion recognized under "Interest income - due from BSP and other banks" amounted to ₱875,627 and ₱836,826 in 2015 and 2014, respectively.

Other investments represent membership fees in Bancnet and Credit Management Association of the Philippines.

Deferred lease pertains to the difference between the nominal value of the refundable deposit and its fair value at inception of the lease, which is amortized as expense on a straight-line basis over the lease term (see Note 23).

Others consist mainly of the deposit with a health care agency for the establishment of the Bank's employee health plan.

17. Deposit Liabilities

This account is consists of:

	2015	2014
Time	₱18,367,402,985	₱21,642,896,394
Demand	6,007,504,383	5,498,315,951
Savings	2,514,078,765	2,223,658,831
	₱26,888,986,133	₱29,364,871,176

BSP Circular 832, *Increase in Reserve Requirements*, which took effect on May 30, 2014, promulgated the 1.00% increase from 7.00% to 8.00% in the reserve requirements on peso deposit liabilities and deposit substitutes.

As mandated by BSP Circular 753, *Unification of the Statutory/Legal and Liquidity Reserve Requirement, Non-Remuneration of the Unified Reserve Requirement, Exclusion of Vault Cash and Demand Deposits as Eligible Forms of Reserve Requirement Compliance, and Reduction in the Unified Reserve Requirement Ratios*, which took effect on April 6, 2012, only demand deposit accounts maintained by banks with the BSP are eligible for compliance with reserve requirements, thereby excluding government securities and cash in vault as eligible reserves. Further, deposits maintained with the BSP in compliance with the reserve requirements should earn interest.

As at December 31, 2015 and 2014, the Bank was in compliance with these BSP regulations. The available reserves as at December 31, 2015 and 2014 are as follows:

	2015	2014
Due from BSP - Demand deposit account	₱1,957,652,243	₱2,034,969,282

As at December 31, 2015 and 2014, 61.70% and 72.85% of the total deposit liabilities, respectively, are subject to periodic interest repricing. The remaining deposit liabilities bear annual fixed interest rate as follows:

	2015	2014
Peso-denominated	0.50% to 2.50%	0.25% to 2.78%
Dollar-denominated	1.00% to 2.25%	1.00% to 2.80%

Interest expense charged to the statements of income is as follows:

	Note	2015	2014
Deposit liabilities:			
Time		₱497,444,055	₱561,146,157
Demand		13,384,390	11,942,033
Savings		10,499,435	9,026,945
		521,327,880	582,115,135
Unsecured subordinated debt	20	30,625,000	30,625,000
Bills payable	18	5,730,858	10,726,790
		₱557,683,738	₱623,466,925

18. Bills Payable

As at December 31, 2015 and 2014, bills payable consists of BSP rediscounted loans with interest rate of 4.00% and 4.06% in 2015 and 2014, respectively. Interest expense on bills payable amounted to ₱5.7 million and ₱10.7 million in 2015 and 2014, respectively (see Note 17).

19. Accrued Interest, Taxes and Other Expenses

This account consists of:

	2015	2014
Accrued expenses:		
Interest	₱50,722,871	₱62,957,227
Compensation and other benefits	26,285,416	43,648,376
Rent	23,251,812	29,584,971
Security, messengerial and janitorial	6,784,097	5,432,954
ATM related expenses	2,464,916	1,532,091
Utilities and leased line	1,607,891	6,725,610
Others	4,638,228	4,696,844
	115,755,231	154,578,073
Gross receipts tax	4,830,634	13,262,869
	₱120,585,865	₱167,840,942

Accrual for other expenses pertains to expenses for insurance, publications, repairs and maintenance.

20. Unsecured Subordinated Debt

On January 5, 2012, the Monetary Board of the BSP, in its Resolution No. 30, approved the Bank's issuance of Unsecured Subordinated Debt with aggregate principal amount of ₱500.0 million. The Unsecured Subordinated Debt, which was issued on May 30, 2012, bears interest of 6.125% per annum, payable quarterly.

The Unsecured Subordinated Debt will mature after 10 years from issuance date but may be called by the Bank on any interest payment date after the 5th year of issuance at principal amount plus accrued interest.

Interest expense on Unsecured Subordinated Debt amounted to ₱30.6 million both in 2015 and 2014 (see Note 17).

21. Other Liabilities

This account consists of:

	Note	2015	2014
Accounts payable		₱577,409,294	₱557,256,502
Due to Philippine Deposit Insurance Corporation (PDIC)		27,102,067	29,344,005
Withholding taxes		14,168,496	14,217,256
Payment orders		6,824,695	882,020
Bills purchased - contra	12	4,771,727	489,709,649
(Forward)			

	Note	2015	2014
Statutory obligations		₱2,155,761	₱2,186,758
Marginal deposits		2,097,812	2,724,835
Others		8,713,675	10,698,967
		₱643,243,527	₱1,107,019,992

Accounts payable pertain to noninterest-bearing payables normally settled within one year.

Due to PDIC pertains to the Bank's insurance premium on deposit liabilities, which was subsequently paid a month after the reporting date.

Others include stale checks and incoming dollar remittances to the Bank for payment to various payees as part of its intermediary services.

22. Maturity Profile of Assets and Liabilities

The following tables present the assets and liabilities as at December 31, 2015 and 2014 analyzed according to whether these are expected to be recovered or settled within 12 months or over 12 months from the reporting date:

	Note	2015			2014		
		Within One Year	Over One Year	Total	Within One Year	Over One Year	Total
Financial Assets							
Cash and other cash items		₱688,754,312	₱—	₱688,754,312	₱903,508,869	₱—	₱903,508,869
Due from BSP		3,107,652,243	—	3,107,652,243	3,964,969,282	—	3,964,969,282
Due from other banks		1,441,016,646	—	1,441,016,646	2,317,217,108	—	2,317,217,108
Interbank loans receivable	8	1,148,219,571	—	1,148,219,571	625,686,821	—	625,686,821
Financial assets at FVPL	9	2,130,532,834	—	2,130,532,834	4,169,762,311	—	4,169,762,311
AFS financial assets	10	61,724,435	2,374,420,412	2,436,144,847	506,825,166	3,548,584,344	4,055,409,510
HTM investments	11	—	340,029,282	340,029,282	—	329,794,376	329,794,376
Loans and receivables - gross	12	12,502,567,035	6,585,868,571	19,088,435,606	6,942,451,113	10,435,741,717	17,378,192,830
Other assets ¹	16	23,148,637	—	23,148,637	23,987,834	—	23,987,834
		21,103,615,713	9,300,318,265	30,403,933,978	19,454,408,504	14,314,120,437	33,768,528,941
Nonfinancial assets							
Property and equipment	13	—	1,214,366,356	1,214,366,356	—	1,174,764,785	1,174,764,785
Assets held for sale	14	117,201,260	—	117,201,260	126,274,908	—	126,274,908
Branch licenses	15	—	225,390,000	225,390,000	—	225,390,000	225,390,000
Net deferred tax assets	26	—	44,207,985	44,207,985	—	17,479,611	17,479,611
Other assets	16	—	68,554,459	68,554,459	—	83,014,342	83,014,342
		117,201,260	1,552,518,800	1,669,720,060	126,274,908	1,500,648,738	1,626,923,646
		21,220,816,973	10,852,837,065	32,073,654,038	19,580,683,412	15,814,769,175	35,395,452,587
Less:							
Allowance for credit and impairment losses ²	12, 13	—	450,511,798	450,511,798	—	523,403,101	523,403,101
Accumulated depreciation and amortization	13	—	716,941,596	716,941,596	—	644,822,739	644,822,739
Unearned discounts and capitalized interest	12	—	5,301,095	5,301,095	—	4,873,020	4,873,020
		—	1,172,754,489	1,172,754,489	—	1,173,098,860	1,173,098,860
		₱21,220,816,973	₱9,680,082,576	₱30,900,899,549	₱19,580,683,412	₱14,641,670,315	₱34,222,353,727
Financial liabilities							
Deposit liabilities	17	₱24,310,415,551	₱2,578,570,582	₱26,888,986,133	₱26,459,765,049	₱2,905,106,127	₱29,364,871,176
Manager's checks		136,967,809	—	136,967,809	151,068,397	—	151,068,397
Bills payable	18	36,781,584	—	36,781,584	366,183,853	—	366,183,853
Accrued interest, taxes and other expenses	19	110,027,256	5,727,975	115,755,231	154,578,073	—	154,578,073
Unsecured subordinated debt	20	—	500,000,000	500,000,000	—	500,000,000	500,000,000
Other liabilities	21	626,919,270	—	626,919,270	628,904,562	—	628,904,562
		25,221,111,470	3,084,298,557	28,305,410,027	27,760,499,934	3,405,106,127	31,165,606,061
Nonfinancial liabilities							
Accrued taxes and other expenses ³	19	4,830,634	—	4,830,634	13,262,869	—	13,262,869
Net retirement liability		—	62,594,572	62,594,572	—	64,691,511	64,691,511
Income tax payable		2,900,143	—	2,900,143	—	—	—
Other liabilities ⁴	21	16,324,257	—	16,324,257	16,404,014	—	16,404,014
		24,055,034	62,594,572	86,649,606	29,666,883	64,691,511	94,358,394
		₱25,245,166,504	₱3,146,893,129	₱28,392,059,633	₱27,790,166,817	₱3,469,797,638	₱31,259,964,455

¹ Other financial assets pertain to refundable deposits and RCOCI (see Note 16).

² Allowance for credit and impairment losses includes allowance for credit and impairment losses of loans and receivables (see Note 12) and accumulated impairment of property and equipment (see Note 13).

³ Accrued taxes and other expenses pertain to gross receipt tax (see Note 19).

⁴ Other non-financial liabilities pertain to withholding tax payable and, statutory liabilities (see Note 21).

23. Operating Leases

The Bank leases the premises being occupied by certain branches for periods ranging from five to 10 years, renewable under certain terms and conditions. The rent expense included under "Occupancy" in the statements of income amounted to ₱84.9 million and ₱85.8 million in 2015 and 2014, respectively.

At the inception of the lease, the Bank pays the lessors security deposits, which are noninterest-bearing and are refundable upon termination of the lease agreements. Refundable deposits related to lease of properties amounted to ₱17.6 million and ₱18.3 million in 2015 and 2014, respectively (see Note 16).

The following table presents the future minimum lease payments of the Bank for non-cancellable leases:

	2015	2014
Within one year	₱21,293,128	₱10,298,182
More than one year but not more than five years	30,889,046	26,285,035
	₱52,182,174	₱36,583,217

24. Retirement Benefits

The Bank has a funded, noncontributory defined benefit retirement plan covering all of its officers and regular employees. Under the retirement plan, all covered officers and employees are entitled to cash benefits after satisfying certain age and service requirements.

The retirement fund of the Bank is placed under the management of the Bank's Trust Group starting in 2013 with oversight from the Bank's Retirement Fund Committee, which is appointed by the BOD. The Retirement Plan Trustee, as appointed by the Bank, in the Trust Agreement, is responsible for the general administration of the Retirement Plan and the management of the Retirement Fund.

The retirement benefits recognized in the statements of income follow:

	2015	2014
Current service cost	₱13,088,485	₱13,243,679
Net interest cost	3,133,254	3,233,931
	₱16,221,739	₱16,477,610

Net retirement liability is as follows:

	2015	2014
Present value of retirement obligation	₱67,642,011	₱69,713,130
Fair value of plan assets	(5,047,439)	(5,021,619)
	₱62,594,572	₱64,691,511

Movements in the present value of retirement liability follow:

	2015	2014
Balance at beginning of year	₱69,713,130	₱53,082,770
Current service cost	13,088,485	13,243,679
Interest cost	3,368,776	3,386,681
Remeasurement loss (gains) arising from:		
Changes in financial/demographic assumptions	(3,391,533)	–
Experience adjustments	759,320	–
Benefits paid	(15,896,167)	–
Balance at end of year	₱67,642,011	₱69,713,130

Movements in the fair value of the plan assets follow:

	2015	2014
Balance at beginning of year	₱5,021,619	₱4,868,869
Interest income	235,522	152,750
Remeasurement loss (excluding amount included in net interest)	(209,702)	–
Balance at end of year	₱5,047,439	₱5,021,619

The plan assets are carried at fair value. All equity, debt instruments and investments of the pooled funds held have quoted prices in active market. The fair value of other assets and liabilities, which include deposits in banks, BSP's special deposit account, accrued interest and other receivables and trust fee payables, approximate carrying amount due to the short-term nature of these accounts.

The plan assets are diversified investments; those in short-term placements will be further invested depending on the market direction.

Details of cumulative remeasurement loss follow:

Changes in financial/demographic assumptions	₱3,391,533
Experience adjustments	(759,320)
Movements in the fair value of plan assets	(209,702)
Balance at end of year	₱2,422,511

The fair value of plan assets by class follow:

	2015	2014
Debt instruments:		
Government securities	₱3,375,804	₱3,202,229
Private bonds	868,980	991,792
	4,244,784	4,194,021
Investments in Unit Investment Trust Funds	488,855	527,598
Equity instruments -		
Financial intermediaries	313,800	300,000
Fair value of plan assets	₱5,047,439	₱5,021,619

The principal actuarial assumptions used in determining the retirement liability as at December 31, 2015 and 2014 are shown below:

	2015	2014
Discount rate	5.04%	6.25%
Salary increase	3.00%	4.50%
Average expected future years of service	14.00	25.90

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at December 31, 2015, assuming all other assumptions were held constant:

	Basis Points	Effect on Retirement Liability
Discount rate	+100 bps	(₱7,286,464)
	-100 bps	8,730,167
Salary increase rate	+100 bps	9,117,962
	-100 bps	(7,710,726)

The average duration of the defined benefit obligation at the end of the reporting year is 20.64 years.

Shown below is the maturity analysis of the undiscounted benefit payments as at December 31, 2015:

2016	₱3,748,479
2017 to 2021	30,171,201
2022 to 2026	33,804,908
2027 to 2031	89,529,165
2032 to 2036	126,766,539
2037 and beyond	338,349,718
	₱622,370,010

25. Other Operating Expenses

Other expenses consist of:

	Note	2015	2014
Fees and commissions		₱49,055,622	₱45,316,749
Repairs and maintenance		37,118,706	33,897,577
Postage		32,327,614	40,397,506
Appraisal fees		11,466,458	8,817,934
Transportation and travel		10,354,948	11,085,788
Supervision fees		9,419,382	8,793,053
Litigation cost		8,948,026	7,178,416
Stationery and supplies used		6,695,780	9,338,489

(Forward)

	Note	2015	2014
Promotions and advertising		₱3,472,842	₱10,624,311
Management and other professional fees		2,607,080	3,538,440
Provision for impairment losses of assets held for sale	14	–	5,464,517
Others		7,973,776	13,226,877
		₱179,440,234	₱197,679,657

26. Income and Other Taxes

Current income tax expense consists of:

	2015	2014
Final tax	₱58,940,427	₱65,578,441
Minimum corporate income tax (MCIT)	17,457,570	15,486,510
	₱76,397,997	₱81,064,951

Under Philippine tax laws, the Bank is subject to percentage and other taxes, presented as “Taxes and licenses” in the statements of income, as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax (GRT) and documentary stamp tax.

Republic Act (RA) No. 9337, *An Act Amending National Internal Revenue Code*, provides that the regular corporate income tax (RCIT) rate is 30% and interest expense allowed as deductible expense is reduced by 33% of interest income subjected to final tax.

RA No. 9294, *An Act Restoring the Tax Exemption of Offshore Banking Units (OBUs) and Foreign Currency Deposit Units*, which became effective in May 2004, provides that the income derived by the FCDU from foreign currency transactions with non-residents, off-shore banking units (OBUs), and local commercial banks, including branches of foreign banks, is tax-exempt while interest income on foreign currency-denominated loans from residents other than OBUs or other depository banks under the expanded system is subject to 10% onshore income tax.

The reconciliation between the statutory income tax and effective income tax follows:

	2015	2014
Statutory income tax	₱24,021,136	₱49,813,965
Tax effects of:		
Nondeductible expenses	134,487,503	159,103,232
Interest income subject to final tax	(83,262,484)	(38,377,846)
Non-taxable income	(52,479,767)	(132,156,963)
Expired NOLCO	26,881,183	3,776,763
Changes in unrecognized deferred tax assets	(12,036,233)	2,174,808
Expired MCIT	11,331,532	11,299,769
	₱48,942,870	₱55,633,728

Deferred tax assets and liabilities consist of:

	2015	2014
Deferred tax assets on:		
Allowance for credit and impairment losses	₱41,454,246	₱21,454,246
Carry forward benefit of MCIT	28,862,118	13,375,608
Accrued rent	6,975,544	8,875,496
Allowance for impairment losses on assets held for sale	3,448,629	4,648,562
Unrealized loss on foreclosure of acquired assets	2,594,201	1,375,803
Net operating loss carryover (NOLCO)	-	6,149,896
	83,334,738	55,879,611
Deferred tax liabilities on:		
Fair value adjustment on branch licenses acquired in business combination	(38,400,000)	(38,400,000)
Remeasurement gain on retirement liability	(726,753)	-
Net deferred tax assets	₱44,207,985	₱17,479,611

As at December 31, 2015 and 2014, the Bank has not recognized deferred tax assets relating to the following deductible temporary differences, NOLCO and carry-forward benefit of MCIT over RCIT.

	2015	2014
Allowance for credit and impairment losses	₱309,663,761	₱449,221,731
Retirement liability	62,594,572	64,691,511
Accumulated impairment of property and equipment	2,667,217	2,667,217
NOLCO of FCDU	-	99,064,653
Carry-forward benefit of MCIT over RCIT	-	26,818,042
	₱374,925,550	₱642,463,154

Details of the MCIT and NOLCO follow:

MCIT

Year Incurred	Amount	Expired	Balance	Expiry Year
2012	₱11,331,532	₱11,331,532	₱-	2015
2013	13,375,608	-	13,375,608	2016
2014	15,486,510	-	15,486,510	2017
2015	17,457,570	-	17,457,570	2018
	₱57,651,220	₱11,331,532	₱46,319,688	

NOLCO

As at December 31, 2015, the Bank has no outstanding NOLCO. NOLCO incurred in 2012 amounting to ₱30.0 million was applied against the taxable income in 2015.

27. Capital Stock

This account consists of:

	Number of Shares		Amount	
	2015	2014	2015	2014
Authorized - ₱10 par value				
Common stock	300,000,000	300,000,000	₱3,000,000,000	₱3,000,000,000
Perpetual preferred stock	100,000,000	100,000,000	1,000,000,000	1,000,000,000
Issued and outstanding:				
Common stock				
Balance at beginning of year	189,500,000	162,500,000	₱1,895,000,000	₱1,625,000,000
Issuance	17,500,000	27,000,000	175,000,000	270,000,000
Balance at end of year	207,000,000	189,500,000	₱2,070,000,000	₱1,895,000,000
Perpetual preferred stock				
Balance at beginning of year	30,000,000	6,250,000	₱300,000,000	₱62,500,000
Issuance	–	23,750,000	–	237,500,000
Balance at end of year	30,000,000	30,000,000	₱300,000,000	₱300,000,000

The perpetual preferred stock is cumulative and has no voting rights.

In 2015, 17.5 million common shares were issued to the stockholders for a total amount of ₱175.0 million. The issuance of common shares was approved by the BOD on October 20, 2015.

In 2014, 27.0 million common shares and 23.8 million preferred shares were issued to stockholders for a total amount of ₱270.0 million and ₱237.5 million, respectively. The issuances of common and preferred shares were approved by the BOD on October 14, 2014.

28. Related Party Transactions and Balances

In the ordinary course of business, the Bank can enter into loan and other transactions with its related parties and with certain directors, officers, stockholders, and related interests (DOSRI). Under the Bank's policy, these loans and other transactions are made substantially on the same terms as with other individuals and businesses of comparable risks. The amount of individual loans to DOSRI, of which 70.00% must be secured, should not exceed the amount of their respective deposits and book value of their respective investments in the Bank. These limits do not apply to loans secured by assets considered as non-risk as defined in the regulations.

On January 31, 2007, BSP Circular No. 560, *Ceilings on loans, other credit accommodations and guarantees granted to subsidiaries and affiliates*, which became effective February 15, 2007, was issued providing the rules and regulations that govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. Under the said circular, the total outstanding loans, credit accommodations and guarantees to each of the bank's subsidiaries and affiliates should not exceed 10.00% of a bank's net worth, the unsecured portion should not exceed 5.00% of such net worth. Further, the total outstanding exposures should not exceed 20.00% of the net worth of the lending bank.

On March 15, 2004, the BSP issued Circular No. 423, *Amendments to Sections X326 to X338 of the Manual of Regulations of Banks*, which provides for the amended definition of DOSRI accounts. The following table shows information relating to DOSRI accounts of the Bank:

	2015	2014
Total outstanding DOSRI loans	₱269,086,783	₱56,361,647
Percent of DOSRI accounts granted under BSP Circular No. 423	1.46%	0.34%
Percent of DOSRI accounts to total loans	1.46%	0.34%
Percent of past due DOSRI accounts to total DOSRI loans	0.47%	-
Percent of nonperforming DOSRI accounts to total DOSRI loans	0.47%	-

Any violation of the provisions under BSP Circular No. 423 is subject to regulatory sanctions. However, loans, other credit accommodations and guarantees, as well as availments of previously approved loans and committed credit lines that are not considered DOSRI (non-DOSRI) accounts prior to the issuance of BSP Circular No. 423 are not covered by such sanctions for a transition period of two years from the effectivity of the Circular or until said loan, other credit accommodations and guarantees become past due, or are extended, renewed or restructured, whichever comes later.

Total interest income on DOSRI accounts amounted to ₱2.5 million and ₱7.5 million in 2015 and 2014, respectively.

The effects of the foregoing transactions are shown under the appropriate accounts in the financial statements.

The significant transactions and account balances with respect to related parties that are included in the financial statements follow:

Nature of Transactions	2015		2014	
	Transactions during the Year	Outstanding Balances	Transactions during the Year	Outstanding Balances
Key Management Personnel				
Loans and receivables	₱6,242,000	₱6,865,088	₱3,220,000	₱6,408,930
Interest income	386,924	-	535,016	-
Deposit liabilities	252,169,879	35,735,221	1,255,270,407	125,548,031
Interest expense	995,363	-	205,679	60,169
Subsidiaries of the Parent Company				
Loans and receivables	916,028,057	264,486,549	49,287,000	53,190,884
Accrued interest income	3,835,318	-	9,899,542	-
Deposit liabilities	163,296,294,085	385,958,393	-	-
Accrued interest expense	2,136,399	94,158	-	-
Trust fee	97,753	-	439,162	-
Rent expense	6,109,506	-	3,666,830	-
Parent Company				
Deposit liabilities	421,399,123	6,671,918	2,349,232,124	6,392,057
Interest expense	18,812	-	3,767	-

(Forward)

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Nature of Transactions	2015		2014	
	Transactions during the Year	Outstanding Balances	Transactions during the Year	Outstanding Balances
Stockholders				
Loans and receivables	₱2,000,000	₱2,100,234	₱2,000,000	₱2,170,763
Accrued interest income	62,888	–	65,800	–
Deposit liabilities	1,991,063,456	100,621,836	926,163	242,236,786
Accrued interest expense	2,238,061	121,529	–	–

Terms and Conditions

Loans and receivables are secured by chattel mortgages, deposits and real estate properties, having terms ranging from one to thirteen years, and bear interest ranging from 3.00% to 12.00% and 4.47% to 12.00% in 2015 and 2014, respectively. As at December 31, 2015 and 2014, no provision for credit and impairment losses was recognized relating to receivables from related parties.

Deposits have interest ranging from 0.25% to 2.00% and 0.25% to 1.50% in 2015 and 2014, respectively.

Trust fees pertain to fees charged for trust operations. These are included under “Other expenses” in the statement of income.

Rent expense pertains to leases of ATM and branch premises.

Compensation of key management personnel included under “Compensation and fringe benefits” in the statements of income follows:

	2015	2014
Short-term employee benefits	₱113,101,819	₱130,534,372
Post-employment retirement benefits	7,917,127	9,137,406
	₱121,018,946	₱139,671,778

Transactions with Retirement Plan

The retirement plan of the Bank is considered as a related party. The retirement plan is in the form of a trust administered by the Trust Group under the supervision of the Retirement Fund Committee. The values of the assets of the fund are as follows (see Note 24):

	2015	2014
Debt instruments	₱4,244,784	₱4,194,021
Investments in UITF	488,855	527,598
Equity instruments	313,800	300,000
	₱5,047,439	₱5,021,619

29. Trust Operations

On May 21, 2008, the Bank was granted a license by the BSP to conduct its trust operations. The Bank started its trust operations on June 2, 2008.

Securities and other resources held by the Bank in fiduciary or agency capacity for its customers are not included in the accompanying statements of financial position since these are not assets of the

Bank. Total assets held by the Bank's Trust Group amounted to ₱4.7 billion and ₱2.2 billion as at December 31, 2015 and 2014, respectively.

In compliance with current banking regulations relative to the Bank's trust operations, government securities included under AFS financial assets with a total face value of ₱46.0 million and ₱22.0 million as at December 31, 2015 and 2014, respectively, are deposited with the BSP. In addition, 10% of the Bank's net income realized from its trust operations is appropriated to surplus reserve until such reserve for trust operations amounts to 20% of the Bank's regulatory capital.

30. Commitments and Contingencies

In the normal course of the Bank's operations, there are various outstanding commitments and contingencies such as guarantees and commitments to extend credit, which are not reflected in the financial statements. The Bank does not anticipate significant losses as a result of these transactions.

As at December 31, 2015 and 2014, the Bank has several suits and claims that remain pending before various courts. Based on the opinion of its legal counsels, the Bank is in a good position to secure a favorable judgment in most of these cases. Management therefore believes, based on the opinion of its legal counsels, that the ultimate outcome of such cases and claims will not have a material adverse effect on the Bank's financial position and financial performance.

The following is a summary of the commitments and contingencies at their equivalent contractual amounts:

	2015	2014
Investment management account	₱4,501,265,052	₱2,047,159,546
Spot exchange	800,020,000	469,560,000
Trust group accounts	245,872,480	192,623,849
Sight/usance foreign LC	36,463,094	8,921,640
Domestic letters of credit (LC)	22,500,000	41,853,519
Sight/usance domestic LC	16,286,920	11,083,678
Inward bills for collection	8,905,499	14,412,345
Outstanding guarantees issued - others	5,750,269	8,486,914
Items held for safekeeping	158,128	44,956
Late payment deposit/payment received	58,300	474,339
Items held as collateral	2,345	3,280

31. Financial Performance

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

	2015	2014
Return on average equity	1.24%	5.22%
Return on average assets	0.10%	0.36%
Net interest margin on average earning assets	3.88%	3.72%

32. Supplementary Information Required by the Bureau of Internal Revenue (BIR)

Revenue Regulations No. 15-2010

Gross Receipt Tax (GRT)

The Bank is subject to GRT on its gross income from Philippine sources. GRT is imposed on interest, fees and commissions from lending activities at 5.00% or 1.00%, depending on the loan term, and at 7.00% on non-lending fees and commissions, trading and foreign exchange gains and other items constituting gross income.

The details of the GRT expense and corresponding GRT tax base in 2015 are as follows:

	GRT Tax Base	GRT
Interest income	₱1,614,309,493	₱76,598,117
Others	325,210,569	21,406,358
	₱1,939,520,062	₱98,004,475

Taxes and Licenses

This includes all other taxes, local and national, incurred in 2015 and lodged under the "Taxes and licenses" account in the statements of comprehensive income, as follows:

	Amount
GRT	₱98,004,475
Documentary stamp taxes	75,859,099
Real estate, municipal and other taxes	6,123,500
Fringe benefit taxes	3,249,881
Car registration	184,795
	₱183,421,750

Withholding Taxes

Details of total remittances in 2015 and balances in 2015 follow:

	Paid	Accrued
Final withholding taxes	₱77,060,617	₱5,999,115
Compensation taxes	71,835,689	6,873,044
Expanded withholding taxes	14,976,883	1,298,861
	₱163,873,189	₱14,171,020

Tax Assessments and Cases

As at December 31, 2015, the Bank has no tax assessments and no outstanding tax cases, litigation and/or prosecution in courts or bodies outside the BIR.

Revenue Regulations No. 19-2011

Taxable Income

Taxable interest income of RBU amounted to ₱1,303,228,257.

Deductible Cost of Services

	RBU	FCDU	Total
Interest expense	₱359,424,098	₱—	₱359,424,098
Compensation and fringe benefits	244,983,240	230,267	245,213,507
Insurance	51,699,011	48,593	51,747,604
Supervision	8,656,410	8,137	8,664,547
	₱664,762,759	₱286,997	₱665,049,756

Itemized Deductions

	RBU	FCDU	Total
Taxes and licenses	₱155,507,598	₱381,057	₱155,888,655
Write-off of receivables	154,474,843	—	154,474,843
Compensation and fringe benefits	125,920,662	118,356	126,039,018
Occupancy	103,102,314	92,947	103,195,261
Depreciation and amortization	77,345,028	72,699	77,417,727
Security, messengerial and janitorial	48,065,211	45,178	48,110,389
Repairs and maintenance	33,050,708	31,065	33,081,773
Fees and commissions	31,215,189	488,940	31,704,129
Appraisal fees	6,374,894	9,905	6,384,799
Stationery and supplies used	6,153,421	5,784	6,159,205
Transportation and travel	4,976,614	4,678	4,981,292
Promotion and advertising	3,191,542	3,000	3,194,542
Insurance	2,781,061	2,614	2,783,675
Management and professional fees	2,395,906	2,252	2,398,158
Litigation	1,907,804	—	1,907,804
Fines and penalties	901,440	—	901,440
Membership fees and dues	767,863	722	768,585
Others	71,482,954	46,529	71,529,483
	₱829,615,052	₱1,305,726	₱830,920,778

NOLCO applied against the taxable income of RBU and FCDU amounted to ₱20,499,671 and ₱9,460,709, respectively, in 2015.

Other Taxable Income

	RBU	FCDU	Total
Service charges, fees and commissions	₱162,164,779	₱10,450,828	₱172,615,607
Trading and securities gains	46,586,250	602,604	47,188,854
Others	14,895,531	—	14,895,531
	₱223,646,560	₱11,053,432	₱234,699,992



REYES TACANDONG & Co.
FIRM PRINCIPLES. WISE SOLUTIONS.

BOA/PRC Accreditation No. 4782
December 29, 2015, valid until December 31, 2018
SEC Accreditation No. 0207-FR-1 (Group A)
September 6, 2013, valid until September 5, 2016

Citibank Tower
8741 Paseo de Roxas
Makati City 1226 Philippines
Phone : +632 982 9100
Fax : +632 982 9111
Website : www.reyestacandong.com

REPORT OF INDEPENDENT AUDITOR ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
Sterling Bank of Asia Inc. (A Savings Bank)
Sterling Bank Corporate Center
Greenhills, San Juan
Metro Manila

We have audited in accordance with Philippine Standards on Auditing, the accompanying financial statements of the Sterling Bank of Asia Inc. (A Savings Bank) as at and for the year ended December 31, 2015, and have issued our report dated March 22, 2016. Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Adoption of Effective Accounting Standards and Interpretations is the responsibility of the management of Sterling Bank of Asia Inc. (A Savings Bank). This schedule is presented for purposes of complying with Securities Regulation Code Rule 68, as amended, and is not part of the basic financial statements. This information have been subjected to the auditing procedures applied in the audit of the financial statements, including comparing such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves. In our opinion, the information is fairly stated in all material respect in relation to the financial statements taken as a whole.

REYES TACANDONG & Co.

HAYDEE M. REYES

Partner

CPA Certificate No. 83522

Tax Identification No. 102-095-265-000

BOA Accreditation No. 4782; Valid until December 31, 2018

SEC Accreditation No. 0663-AR-2 Group A

Valid until April 14, 2017

BIR Accreditation No. 08-005144-6-2013

Valid until November 26, 2016

PTR No. 5321843

Issued January 5, 2016, Makati City

March 22, 2016

Makati City, Metro Manila

STERLING BANK OF ASIA INC. (A Savings Bank)
SUPPLEMENTARY SCHEDULE OF ADOPTION OF
EFFECTIVE ACCOUNTING STANDARDS AND INTERPRETATIONS
DECEMBER 31, 2015

Title	Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements	✓		
Conceptual Framework Phase A: Objectives and qualitative characteristics			
PFRSs Practice Statement Management Commentary		✓	

Philippine Financial Reporting Standards (PFRSs)

PFRS	Title	Adopted	Not Adopted	Not Applicable
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
PFRS 3 (Revised)	Business Combinations	✓		
	Amendment to PFRS 3: Scope Exceptions for Joint Ventures			✓
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	✓		

PFRS	Title	Adopted	Not Adopted	Not Applicable
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures		✓	
PFRS 8	Operating Segments			✓
	Amendments to PFRS 8: Operating Segments- Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets			✓
PFRS 9	Financial Instruments: Classification and Measurement of Financial Assets		✓	
	Financial Instruments: Classification and Measurement of Financial Liabilities		✓	
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures		✓	
PFRS 10	Consolidated Financial Statements			✓
	Amendments to PFRS 10: Transition Guidance			✓
	Amendments to PFRS 10: Investment Entities			✓
PFRS 11	Joint Arrangements			✓
	Amendments to PFRS 11: Transition Guidance			✓
PFRS 12	Disclosure of Interests in Other Entities			✓
	Amendments to PFRS 12: Transition Guidance			✓
	Amendments to PFRS 12: Investment Entities			✓
PFRS 13	Fair Value Measurement	✓		
	Amendment to PFRS 13: Portfolio Exception	✓		

Philippine Accounting Standards (PASs)

PAS	Title	Adopted	Not Adopted	Not Applicable
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendments to PAS 1 (Revised): Puttable Financial Instruments and Obligations Arising on Liquidation		✓	
	Amendments to PAS 1 (Revised): Presentation of Items of Other Comprehensive Income	✓		
PAS 2	Inventories			✓
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendments to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
PAS 16	Property, Plant and Equipment	✓		
	Amendment to PAS 16: Property Plant and Equipment - Revaluation Method - Proportionate Restatement of Accumulated Depreciation	✓		
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Revised)	Employee Benefits	✓		
	Amendment to PAS 19 (Revised): Defined Benefit Plans: Employee Contributions	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation	✓		
PAS 23 (Revised)	Borrowing Costs			✓
PAS 24 (Revised)	Related Party Disclosures	✓		
	Amendment to PAS 24: Related Party Disclosures - Key Management Personnel	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓

PAS	Title	Adopted	Not Adopted	Not Applicable
PAS 27 (Amended)	Separate Financial Statements			✓
	Amendments to PAS 27 (Amended): Investment Entities			✓
PAS 28 (Amended)	Investments in Associates and Joint Ventures			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Financial Instruments: Presentation	✓		
	Amendments to PAS 32: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendment to PAS 32: Classification of Rights Issues	✓		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
PAS 33	Earnings per Share			✓
PAS 34	Interim Financial Reporting			✓
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Amendment to PAS 38: Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Amortization			✓
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39: Financial Guarantee Contracts			✓
	Amendments to PAS 39: Reclassification of Financial Assets	✓		
	Amendments to PAS 39: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments PAS 39: Embedded Derivatives			✓

PAS	Title	Adopted	Not Adopted	Not Applicable
	Amendment to PAS 39: Eligible Hedged Items			✓
	Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓
PAS 40	Investment Property			✓
	Amendment to PAS 40: Investment Property - Clarifying the Interrelationship between PFRS 3, Business Combination and PAS 40 when Classifying Property as Investment Property or Owner-occupied Property			✓
PAS 41	Agriculture			✓

Philippine Interpretations

Interpretations	Title	Adopted	Not Adopted	Not Applicable
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC-9: Embedded Derivatives			✓
IFRIC 10	Interim Financial Reporting and Impairment			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement			✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓

Interpretations	Title	Adopted	Not Adopted	Not Applicable
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies			✓

PHILIPPINE INTERPRETATIONS - SIC

Interpretations	Title	Adopted	Not Adopted	Not Applicable
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-15	Operating Leases - Incentives	✓		
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures.			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓

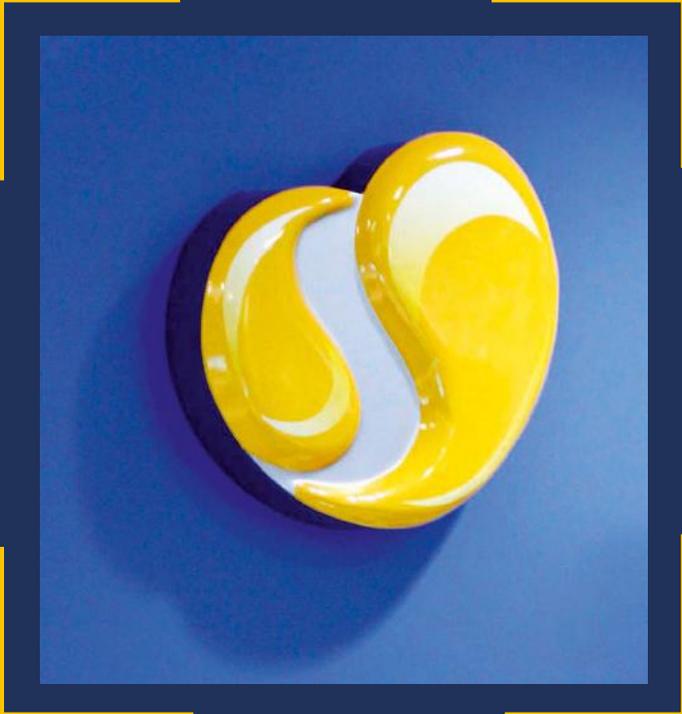




PHOTO GALLERY

THE BOARD OF DIRECTORS



Ruben C. Tiu
Chairman of the Board

Gregorio T. Yu
Vice Chairman

Cecilio D. San Pedro
President & CEO



Directors (L-R)

Bansan C. Choa – Member

William L. Chua – Member (Independent Director)

Juliet C. Go – Member (Independent Director)

Harris Edsel D. Jacildo – Member

Nilo L. Pacheco, Jr. – Member (Independent Director)



Directors (L-R)

Atty. A. Bayani K. Tan – Member

Bernadette Cindy C. Tiu – Member

John Y. Tiu, Jr. – Member

Atty. Lamberto R. Villena – Member and Senior Advisor to Management

Ignatius F. Yenko – Member



PRESIDENT AND EVPS

CECILIO D. SAN PEDRO
President and CEO

BENSON J. HARI-ONG
Head - Commercial Lending,
Marketing and
Human Resources Groups

CLAYTON T. LEE
Head - Treasury Group & Treasurer

RALPH B. CADIZ
Head - Retail Banking Group

SENIOR OFFICERS



ISABEL Y. SAN PABLO
Head – Consumer Lending Group



LUISITO S. MAYOR
Head – Business Support Services



ALFREDO S. VITANGCOL, JR.
Head – Information Technology Group



CHERIE C. BALLESTEROS
Head – Retail Banking, Area 1



WILFREDO PERRY B. MORALES
Chief Compliance Officer

ALEX LUIS M. PESIGAN
Head – Operations Group

DALISAY N. RUBIO
Head – Controllership Group

MA. DULCE Y. EDILLOR
Head – Human Resources Group

LILIA P. SANTOS
Head – Commercial Lending 1

SENIOR OFFICERS

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C. SORIANO**
Head – Legal Services

**MICHELLE OHRELLA
G. OIRA**
Chief Risk Officer

JOSEPH T. SULIT
Head – RBG Support

**MARY JOAN
T. GARCIA**
Head – MIS/
Budget

HONESTO M. ROQUE, JR.
Head – Auto Loans

**CANDICE
P. QUIANZON**
Head – Real Estate
Loans



ENRIQUE D. TAN
Head – Commercial
Lending 2

JOSELITO V. TY
Head – Internal Audit

RONALD C. SANTOS
Head – Treasury Marketing

**MARILOU
B. VILLANUEVA**
Head – Foreign Exchange
and Derivatives

JOSE S. ISON, JR.
Head – Commercial
Lending 3

**MA. MARGARITA
A. LEGARDA**
Head – Personal/Salary
Loans

SENIOR OFFICERS



HENRY G. HUNG
Head – Application Systems

RINALDI O. GONZALES
Head – Technology Operations

ARLENE N. SIONGCO
Head – Recruitment and Career Management/Compensation and Benefits

MARC CHRISTOPHER U. CARLOS
Head – Domestic Markets and Liquidity

CELIA A. GUTIERREZ
Branch Head – Caloocan



DAN C. GUEVARA
Head – Center for Learning

MARILOU B. LABAY
Head – Financial Market Sales

DAX C. ALBARECE
Head – VISMIN Consumer Lending

ETHEL L. PERALTA
Head – Management Support Services

GREGO S. CERVANTES, JR.
Head – Retail Banking, Area 2

PRODUCTS AND SERVICES



PERSONAL BANKING

CONSUMER LOANS

ULTIMA AUTO LOANS

Driving home your own car should always be a rewarding experience. Start with low attractive rates, long repayment terms, and convenient loan processing. It's no wonder we're driven to give you the ultimate deal possible!

PERSONA PERSONAL LOANS

Because you'll never know when you'll need a little extra - for tuition fees of your children, for your dream vacation, for home improvements, to jumpstart your own business venture, or simply to help you out in a financial emergency. Let Persona address your personal financial needs.

DISCOVERY HOME LOANS

The key to having your own dream home is to call us! It's that easy. Make your choice and let us handle the rest.

AVANCE SALARY LOANS

Probably the best perk for work... Unsecured loans made available to qualified employees of accredited companies.

LAYAG SEAFARER'S LOAN

We know the risks you take in providing for your family. With Layag Seafarer's Loan, you can be sure that your family's financial need is already taken care of.

THE SOLO SAVINGS SERIES

SOLO SAVINGS ACCOUNT

Our Peso Savings Account. Easy to access, even easier to maintain. Uncomplicated banking at its best.



SOLO DOLLAR SAVINGS ACCOUNT

Just like our Peso Savings Account, you can open a dollar savings account with much ease and at the comfort of your own time. Here's the deal - we'll count your pennies, you'll count the blessings!



SOLO YUAN SAVINGS ACCOUNT

With an opening balance requirement of CNY 2,500.00 and a minimum ADB requirement of CNY 2,500.00, clients can already get a competitive interest rate of 0.15% per annum credited monthly to their account.

NEO KIDDIE SAVINGS ACCOUNT

A fun, colorful future awaits! Paint their future bright with Neo Savings Account. Neo is a special savings deposit account for kids ages 17 and below. Through Neo, kids can already save and earn at the same time at an early age, to grow their money for their own future.



BAYANI OFW SAVINGS ACCOUNT

By offering this type of account, the Bank aims to help develop the habit of saving and improve financial literacy and financial management skills of OFWs and their families.



DUO CHECKING ACCOUNT

Experience the ease and earning potentials of a savings account, with an added convenience of issuing checks, along with a Visa Debit Card. Encash your checks at any Sterling Bank of Asia branch near you without any charges at all - a total hassle-free service right for you!



TIME DEPOSIT SERIES

PRIMA TIME DEPOSIT

Short term deposits should not equate to short-sighted investments. With Prima Time Deposits, substantial gains at variable terms await the prudent investor.

PRIMA DOLLAR TIME DEPOSIT

Time is on your side...and with your dollars earning prima interest, it will definitely grow in time.

MAXIMA 3

Three-year time deposit that gives you great ways to maximize your investment fixed for 3 years.

MAXIMA 5

Get rewarded with tax-free earnings on a five-year investment of as low as P25,000. Maxima 5 gives you competitive market rates fixed for 5 years.

COMMERCIAL BANKING

BUSINESS LOANS

As your dedicated business partner, Sterling Bank of Asia offers its wide range of Business Loans products to answer demands and requirements of businesses in their phases of growth or expansion. Our various loan products will give you the additional working capital requirements of your business:

- Trade Check Discounting
- Import / Domestic Letter of Credit (LC)
- Trust Receipt (TR)
- Standby Letter of Credit or Bank Guarantee
- Term Loan
- Developmental Loan
- Domestic Bills Purchase



OPTIMA BUSINESS BANKING SOLUTIONS

Sterling Bank of Asia's value-added solution to your business challenges.

Optima Business Solutions products provide a unique business checking account that comes with bundled cash management facilities to help minimize if not eliminate overhead expenses, streamline operation and most importantly, improve the bottomline.

With Optima, you get to optimize management of cash/liquid funds. One single account can now easily maintain and take care of disbursements, collections, investment of your whole company's financial resources.

Optima Business Solutions products are:

- Payroll System
- Payroll Crediting System
- Financial System
- Check Writer System
- PDC Check Warehousing
- Optima Online

WEALTH MANAGEMENT

TREASURY SERVICES

Sterling Bank of Asia offers a range of treasury products and services from sale of fixed income securities (government securities and corporate bonds) to the more sophisticated products to meet the dynamic

requirements of its clients. Managed by a team of dedicated officers, you can be assured that your investment will be handled in a prudent manner.

- Government Securities
 - Treasury Bills
 - Treasury Bonds
 - Retail Treasury Bonds (RTB)
 - Fixed Rate Treasury Notes (FXTNs)
- Peso Corporate Bonds
- USD Sovereign Bonds
- USD Corporate Bonds
- Foreign Exchange

TRUST SERVICES

Sterling Bank of Asia offers customized wealth management services to address different investment needs.

Unit Investment Trust Funds (UITFs)

- Sterling Money Market Fund (Peso)
- Sterling Balanced Fund (Peso)

Personal Wealth Management

- Investment Management Accounts (IMA)
- Personal Living Trust
- Personal Retirement Fund

Corporate Trust

- Employee Benefit Plan
- Investment Management Accounts (IMA)

Auxiliary Trust

- Escrow
- Safekeeping

STERLING BANK VISA CARDS

Enjoy the convenience and privileges of shopping and dining without having to worry about your monthly bills. Both powered by Visa and BancNet, our debit and prepaid cards provide an alternative payment method to consumers worldwide. It is the ultimate medium for cashless convenience allowing cardholders to access their funds in several easy and practical methods (online, POS and ATMs). Plus, our debit and prepaid cards are the country's first Visa cards to have embedded EMV chip so you can be sure of a more secure payment whenever, wherever.



ShopNPay Visa Debit Card



ShopNPay Visa Prepaid Regular Card



iRemit-ShopNPay Visa Prepaid Card



ShopNPay US Dollar Visa Debit Card



ShopNPay Visa Prepaid Loan Card



ShopNPay Visa Prepaid Gift Card



Neo Savings Visa Debit Card



Bayani OFW Savings Visa Debit Card



ShopNPay US Dollar Prepaid Card

METRO MANILA

CALOOCAN

Rizal Ave. Extension,
Between 7th and 8th Ave.,
Grace Park, Caloocan City
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F: 330-7397

LAS PIÑAS

Alabang-Zapote Road,
Pamplona II, Las Piñas City
T: 846-4473; 846-4474
F: 846-4317

MAKATI - AMORSOLO

G/F Amorsolo Mansion,
Amorsolo cor. Herrera Sts.,
Legaspi Village,
Makati City
T: 553-0033 to 34; 519-5764;
519-5772; 519-8158
F: 553-0034

MAKATI - AYALA AVE.

G/F SSS-Makati Bldg.,
Ayala Ave. cor. V.A. Rufino St.,
Makati City
T: 892-1263; 864-0428; 864-0429
F: 864-0427

MAKATI - GIL PUYAT

G/F Morning Star Bldg.,
Sen. Gil Puyat Ave.,
Makati City
T: 895-5573; 899-2838
F: 897-4382

MAKATI - LEVISTE

G/F Liroville Condominium,
Leviste cor. Sedeño Sts.,
Salcedo Village,
Makati City
T: 846-4168; 555-0942
F: 555-0944

MALABON

Francis Market,
Gov. Pascual Ave.
cor. M.H. del Pilar St.,
Tinajeros, Malabon City
T: 351-1007; 351-1006
F: 351-1002

MANDALUYONG - SHAW BLVD.

G/F Shaw Residenza,
429 Shaw Boulevard,
Mandaluyong City
T: 470-9367; 470-9405
F: 470-9420

MANILA - DIVISORIA

630 New Divisoria Center
Condominium,
Sta. Elena St., San Nicolas,
Divisoria, Manila
T: 241-0179; 241-0180
F: 241-0181

MANILA - MASANGKAY

Unit 963-965 G/F Masagana Bldg.,
G. Masangkay St.,
Binondo, Manila
T: 243-1342; 243-1832
F: 243-1446

MANILA - ONGPIN

Unit-C, G/F 888 Neo Plaza,
Sabino Padilla cor. Ongpin Sts.,
Binondo, Manila
T: 736-3113; 736-3208
F: 735-8321

MANILA - QUINTIN PAREDES

550 Quintin Paredes St.,
Binondo, Manila
T: 247-3841; 247-3992
F: 247-3954

MANILA - SAN FERNANDO (BINONDO)

Unit 493-495, G/F VISCO Bldg.,
San Fernando St.,
Binondo, Manila
T: 242-7849; 242-8697
F: 243-4144

MANILA - U.N. AVE.

G/F Royal Bay Terrace
Condominium,
465 U.N. Ave. cor. Cortado St.,
Ermita, Manila
T: 523-6881; 523-8572
F: 523-7656

MARIKINA

G/F WRC Bldg.,
47 Gil Fernando Ave.,
Midtown Subd. II,
San Roque, Marikina City
T: 681-2628; 681-2908
F: 681-4327

MUNTINLUPA - ALABANG

G/F Autocentrum BMW Center,
Commerce Ave.
Madrigal Business Park,
Alabang, Muntinlupa City
T: 556-3180; 556-3493
F: 556-3492

PARAÑAQUE - BF HOMES

President's Ave. cor. Monserrat St.,
BF Homes Subd.,
Parañaque City
T: 850-9184; 850-3468
F: 850-8959

PARAÑAQUE - NINYO AQUINO AVE. (NAIA)

Unit 707-4, G/F Columbia Complex,
P 2B Ninoy Aquino Ave.,
Sto. Niño, Parañaque City
T: 852-0168; 853-9485
F: 853-9484

PASIG - ORTIGAS

G/F Prestige Tower,
F. Ortigas Jr. Road, Ortigas Center,
Pasig City
T: 706-3072; 706-3254
F: 706-3074

QUEZON CITY - BANAWE

705 Banawe St.,
Quezon City
T: 781-7625; 781-7650
F: 740-8174

QUEZON CITY - CONGRESSIONAL

Unit 31, G/F Barrington Place Bldg.,
Congressional Ave.,
Quezon City
T: 928-5168; 929-8748
F: 929-9506

QUEZON CITY - QUEZON AVE.

G/F Ave Maria Bldg.,
1517 Quezon Ave.
(near cor. Examiner St.),
West Triangle, Quezon City
T: 376-6792; 376-6793
F: 376-6794

QUEZON CITY - TIMOG

G/F SCT Bldg., 25 Timog Ave.,
Quezon City
T: 374-0168; 441-8155
F: 441-8156

SAN JUAN - GREENHILLS

G/F Sterling Bank Corporate Center,
Ortigas Ave., Greenhills,
San Juan City
T: 727-8752; 726-6418
F: 727-8752

TAGUIG - THE FORT BGC, 1ST AVE.

Unit-J, G/F Kensington Plaza,
1st Ave. cor. 29th St.,
Crescent Parkwest,
Bonifacio Global City, Taguig City
T: (02) 586-5042; 856-5072
F: (02) 856-5036

TAGUIG - THE FORT BGC, 31ST ST.

McKinley Park Residences,
31st St. cor. 3rd Ave.,
Bonifacio Global City, Taguig City
T: (02) 801-6168 / 6172 / 6170

VALENZUELA

JLB Enterprises Inc. Bldg,
54 Km.12, McArthur Highway,
Marulas, Valenzuela City
T: 294-8301; 294-8379
F: 294-8466

PROVINCIAL

BACOLOD

31 Lacson St.,
Bacolod City
T: (034) 432-1381 / 1490
F: (034) 432-1641

BAGUIO

1 Leonard Wood Road,
Baguio City
T: (074) 445-2786
F: (074) 445-2788 to 89

CAGAYAN DE ORO (CDO)

G/F The VIP Hotel,
A. Velez cor. JR Borja Sts.,
Cagayan de Oro City
T: (088) 852-8168
F: (088) 852-8172

CAVITE

A&M Ramos Bldg.,
Aguinaldo Highway,
Bayan Luma IV,
Imus, Cavite
T: (046) 472-3168;
471-0644 to 45
F: (046) 474-0081

CEBU - FUENTE OSMEÑA

Gen. Maxilom Ave. cor. F. Ramos St.,
Cebu City
T: (032) 255-3198; 255-6157
F: (032) 254-0087

CEBU - MAGALLANES

Magallanes cor. Manalili Sts.,
Cebu City
T: (032) 255-1203; 255-7935
F: (032) 256-2659

DAGUPAN

G/F Lenox Hotel,
Rizal St.,
Dagupan City, Pangasinan
T: (075) 523-1168; 522-0491;
522-3168

DAVAO - J.P. LAUREL

J. P. Laurel Ave.,
Bajada, Davao City
T: (082) 221-7168;
222-0357 / 58 / 09
F: (082) 222-0196

DAVAO - MONTEVERDE

Unit 72-74, G/F Sequoia Inn Bldg.,
Monteverde St.,
Davao City
T: (082) 222-4140; 224-0542
F: (082) 224-1924

GENERAL SANTOS

J. Catolico Sr. Ave.,
General Santos City
T: (083) 553-5168

ILOILO

G/F GST Iloilo, Corporate Center
Quezon St., Iloilo City
T: (033) 338-3797; 338-3795
F: (033) 338-3796

LAGUNA - BIÑAN

National Highway,
Brgy. Canlalay,
Biñan, Laguna
T: (049) 307-7595 /
7596 / 7597
F: (049) 307-7594

LAGUNA - CALAMBA

National Highway,
Brgy. Uno, Crossing,
Calamba, Laguna
T: (049) 547-7168 / 7166 / 7164

LA UNION

Quezon Ave.,
San Fernando City, La Union
T: (072) 888-0168

PAMPANGA – SAN FERNANDO

G/F Queensland Commercial Plaza,,
Mc Arthur Highway, Dolores,
San Fernando City, Pampanga
T: (045) 966-9168;
(045) 435-4463,
(045) 435-4462

OTHER DEPARTMENTS

BUSINESS DEVELOPMENT UNIT

G/F Sterling Bank Corporate Center,
Ortigas Ave., Greenhills,
San Juan City
T: (02) 535-6168

COMMERCIAL LENDING 1 AND 3

1/F Sterling Bank Corporate Center,
Ortigas Ave., Greenhills,
San Juan City
T: (02) 535-6168

COMMERCIAL LENDING 2

550 Quintin Paredes St.,
Binondo, Manila
T: (02) 247-0293; 243-0803 to 04

CONSUMER LOANS – ORTIGAS

2/F Prestige Tower,
F. Ortigas Jr. Road,
Ortigas Center, Pasig City
F: (02) 914-7038; 470-9130

Personal Loans
T: (02) 470-8168 locs 4002 /
2522 / 2523 / 2511 / 2509 /
2510 / 2591

Salary Loans
T: (02) 470-8168 locs 4003 /
2554 / 2551 / 2506 / 2556 /
2553

Real Estate Loans
T: (02) 470-8168 locs 4004 /
2498 / 2507 / 2593 / 2512 /
2533 / 2501 / 2517

CONSUMER LOANS – GREENHILLS HEAD OFFICE

Sterling Bank Corporate Center,
Ortigas Ave., Greenhills,
San Juan City

Auto Loans
T: (02) 535-6168 locs 4022 /
2674 / 2675 / 2605 / 2671 /
2678
F: (02) 982-9399

CONSUMER LOANS – VISMIN AREA

2/F Coast Pacific Bldg.,
Gen. Maxilom Ave cor.
F. Ramos St., Cebu City
T: (032) 239-0025 to 28,
239-0039
F: (032) 254-8291

CONSUMER LOANS – SAN FERNANDO, PAMPANGA

2/F Queensland Commercial
Plaza, McArthur Highway,
Dolores, San Fernando City,
Pampanga
T: (045) 280-1561; 280-1554; 280-
1564; 280-1560; 280-1571

TREASURY

3/F Sterling Bank Corporate Center,
Ortigas Ave., Greenhills,
San Juan City
T: (02) 535-6168

TRUST

3/F Sterling Bank Corporate Center,
Ortigas Ave., Greenhills,
San Juan City
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