



2016 Annual Report

Table of Contents

01	Vision, Mission and Core Values
02	Message from the Chairman
04	Report to Stockholders and Stakeholders
06	Financial Highlights
08	Operational Highlights
14	Award and Recognition: Sterling Bank of Asia gets BSP-PhilPaSS Award anew
16	CSR and Events: A Kind Heart That Gives Sterling Bank of Asia adopts innovative Guava Treasury Management System
19	Product Feature: Optima Business Banking Solutions
20	Corporate Governance
23	Risk Management
41	Audited Financial Statements
126	Board of Directors
129	President and EVPs
130	Senior Officers
136	Products and Services
138	Branch Network and Business Offices



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.

Our Core Values

We will manifest the Sterling Bank of Asia Philosophy through consistently demonstrating and living the following core values:

■ Service Excellence

The commitment to continuously challenge ourselves to exceed the expectations of our customers by having the 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.

Message from the Chairman

Resilient and Resolute

The year 2016 was a period of unexpected turns and extreme volatility. From the seemingly free-fall experienced by the Chinese market, to the United Kingdom's surprise decision to exit the European Union, to Donald Trump's unanticipated victory in the US Presidential elections, occurrences that made their mark on the year serve as reminders that very few things can be predicted with certainty and that life is full of surprises.

On the local front, positive outcomes prevailed. The Philippine economy grew by 6.8%, outpacing the growths experienced by neighbors China and Vietnam. This is attributed to a number of factors, including continued public investment in infrastructure, an increase in private consumption brought about by a rise in consumer confidence, and improvements in labor market conditions. The country also currently enjoys moderate inflation, a robust tourism industry, retail trade expansion, continued growth in remittances, as well as promising horizons for both the construction and IT-BPO industries.



Similarly, the local banking industry prevailed despite the volatile global backdrop. The Philippine banking industry bested its counterparts in the Asia Pacific, as Fitch Ratings gave it the only positive outlook in the region. Moody's also recognized the Philippine banking industry as the only one in ASEAN to have a stable outlook on all rating factors.

Sterling Bank of Asia, as an active player in the thrift banking sector, has kept pace with the growth of the industry given its commitment to deliver banking services that exceed customer expectations. In 2016, the bank embarked on major system upgrades, mindful that in today's banking world, a robust IT infrastructure is essential to support business growth. The bank acquired CCK Financial Solution's Guava Treasury Management System and likewise upgraded its core banking system. These will allow the bank to further improve fund management and customer servicing.

Sterling Bank of Asia promotes financial literacy through its various advocacy programs. The bank has been part of the Bangko Sentral ng Pilipinas' initiative to promote the value of saving money and spending wisely among school children. The bank's Neo Savings product was specifically designed to allow children to maintain their own savings account and develop good money habits. Another area of focus in terms of advocacy is the Overseas Filipino

Workers (OFWs) who are significant contributors to the country's economy. The bank supports OFWs via the financial literacy seminars conducted by the bank prior to their departure and deployment. The bank's Bayani OFW Savings account promotes saving so that part of the OFWs hard-earned income can be allocated to secure a stable financial future for them and their families. Meanwhile, in partnership with iRemit, the bank caters also to the OFW's remittance requirements.

As the Philippines moves into 2017, plans for even greater progress are underway. The government intends to usher in a "golden era of infrastructure" which will raise the GDP growth target range from 7% to 8% between 2017 to 2022. This, in turn, shall present Sterling Bank of Asia with avenues for more focused and responsible lending, higher demand for loans and financing requirements, more significant transactions, and more substantial contributions to the local banking industry and to the nation as a whole.

Sterling Bank of Asia is prepared to respond to the opportunities for the year ahead, while also rising to the challenges that the external environment may bring. Whether in times of stability or volatility, we, at Sterling Bank of Asia, remain steadfast and firmly committed to delivering the best banking experience to our customers, stakeholders and employees.

Ruben C. Tiu
Chairman of the Board



Report to Stockholders & Stakeholders

2016 proved to be a rewarding year for Sterling Bank of Asia. Anchored on sustained growth and more prudent balance sheet management, we are happy to present to you a stronger, more solid bank that you can be proud of. As we look back on this year of growth and progress for the bank, we extend our heartfelt gratitude to you – our stockholders, clients, business partners, providers and employees – for your unwavering support and trust. It is your steadfast confidence in the bank that fuels and propels Sterling Bank of Asia through both triumphs and difficulties.

We are pleased to announce that Sterling Bank of Asia posted a net income of PhP88.23 million in 2016, up by 183% from PhP31.13 million in the previous year. This is principally attributed to higher interest income on loans receivables as the bank built up its asset base by pursuing industries and areas where growth opportunities are strong. A good example is the success of our thrust to drive Consumer Loans, particularly Auto Loans. Sterling Bank of Asia strengthened its relationship with partner car dealers as the automotive industry consistently posted a double digit growth brought about by a steadily improving economy as well as the introduction of newer and more affordable models, especially compact cars.

The Consumer Lending Group accomplished a 300% net income versus prior year and expanded coverage in key provincial cities to take advantage of the substantial growth of consumer loans in the Philippines.

In keeping with the bank's initiative to fully comply with BSP Circular 855, which requires banks to make use of credit scoring in its consumer lending activities, the Consumer Lending Group also signed a service contract agreement with CRIF Corporation for the development of application scorecards for Sterling Bank of Asia's Consumer Lending activities. With this, we expect to streamline our credit procedures and further improve the quality of our loan portfolio.

The year also brought prestigious honor to Sterling Bank of Asia as the bank once again received the Award for Outstanding Philippine Payments and Settlements System (PhilPaSS)

Participant Servicing Customer ePayments – Thrift Bank Category. This is the fourth year in a row that the bank has been recognized by Bangko Sentral ng Pilipinas for its remarkable performance in contributing to the total value of remittances and customer electronic payment transactions sent to Philippine Payments and Settlements System (PhilPaSS) for processing and settlement.

While we experienced challenges brought on by a tightening competitive landscape and a shift in banking behavior and customer demands, the bank's various units, nevertheless, posted growths that contributed to the bank's overall success in 2016. The Retail Banking Group saw a double-digit growth in low-cost funds while intensifying its efforts to offer other bank products.

Deposit liabilities grew from PhP26.89 billion in 2015 to PhP29.48 billion in 2016 as the bank focused on low-cost deposit growth in order to effectively manage its weighted cost of funds.

Under the Commercial Lending Group, relationships with existing clients were strengthened by offering more competitive pricing while vigorously maintaining a high caliber of service. The goal is to provide our clients with financial flexibility and a range of product offerings that will help them compete and succeed in their business endeavors. The group has gained inroads in the acquisition of new clients as well. These strategies enabled the group's loan portfolio to reach PhP11.56 billion in 2016.

The Treasury Group, on the other hand, posted a PhP224 million increase in interest and realized trading income. The group also acquired CCK Financial Solution's Guava Treasury Management System, which covers the front office, middle office and back office of the bank's treasury operations. This new system improves treasury dealing, risk management and control, as well as the management of treasury processes. This acquisition placed Sterling Bank of Asia in a more competitive advantage with other banking institutions, particularly commercial banks in achieving better profitability and improved service delivery to clients.

And finally, the Trust Group increased its portfolio achieving a 29% growth as a result of the group's strategic partnership with their investment counterparts and utilization of distribution channels to reach high net worth clients and corporate accounts.

In 2017, Sterling Bank of Asia is set to mark a major milestone in the bank's history — its 10th year of operations. The bank will continue its aggressive expansion strategy to further improve delivery channels of financial products and services. Branches in Puerto Princesa, Palawan and Naga, Camarines Sur are scheduled to open in February, while a branch in Legazpi, Albay will begin operations in March. Boracay, Aklan and Calocan branches are also set to open in April.

Apart from physical branches, Sterling Bank of Asia will continue to cement its position as an innovative bank by implementing new systems as well as upgrading various system applications aimed at improving customer experience and enhancing our capabilities to adapt and compete with our peers.

2017 is also expected to be a challenging year for fixed income instruments as the market anticipates further US rate hikes and inflations. In response to this, Treasury Group will concentrate on trading more liquid bonds, while also capitalizing on the swings in the market to book trading income. The increase in corporate bond issuances will also give more alternatives for Treasury's investing clients, while the BSP's move to further liberalize the foreign exchange rules will give the bank opportunities to capture client demands previously serviced by the non-bank sector.

This year, our Trust Group will focus on achieving PhP8 billion in Asset Under Management (AUM), while Commercial Lending Group will concentrate on generating new accounts and strengthening its relationship with existing clients through high quality service and competitive pricing. Our Consumer Lending Group will continue to capitalize on the robust economy and finance qualified borrowers in need of housing, car, salary or personal loans. We are bullish about the auto industry which is projected to post double-digit growths beyond 2020 and, likewise, with the real estate property sector.

As one year closes and another begins, we at Sterling Bank of Asia wish to acknowledge the regulators, clients, stockholders, board of directors, management and staff, who have all shared our vision of excellence and integrity in banking. You have played an essential role in the progress we have made thus far. And as we move into our 10th year of banking excellence, we look forward to facing the future, still hand in hand with all of you.


Ruben C. Tiu
Chairman of the Board


Cecilio D. San Pedro
President & CEO

Financial Highlights

2016 vs. 2015

Financial Position

Sterling Bank of Asia closed the year 2016 with total resources of PhP33.904 billion, up by PhP3.003 billion from PhP30.901 billion as of December 31, 2015. This was driven primarily by the growth in the bank's core lending activities with a notable 22.06% or PhP4.111 billion increase in total loans and receivables from PhP18.635 billion in 2015 to PhP22.746 billion by end of 2016. Leading the loan asset expansion is the Consumer Lending Group with auto and home financing as its flagship products. Interbank Loans Receivable likewise increased by PhP1.208 billion or 105.24%.

Total liabilities went up by PhP2.787 billion or 9.82% from PhP28.392 billion in 2015 to PhP31.179 billion in 2016, of which, 93% is attributed to the growth in the deposit base in support of asset expansion. Deposit liabilities comprised of time deposit placements, demand and savings deposits grew from PhP26.889 billion to PhP29.483 billion in 2016. Given the significant jump in the bank's bottom line, income tax payable consequently increased from PhP2.9 million in 2015 to PhP26.2 million in 2016.

Stockholders' equity increased by PhP216.226 million or 8.62% to PhP2.725 billion due to the PhP88.230 million net income in 2016 and PhP122.844 million favorable market value of Available for Sale Securities.

The return on average equity went up from 1.24% in 2015 to 3.27% in 2016. The bank's Basel 1 Capital Adequacy Ratio stood at 12.37% in 2016.

Results of Operations

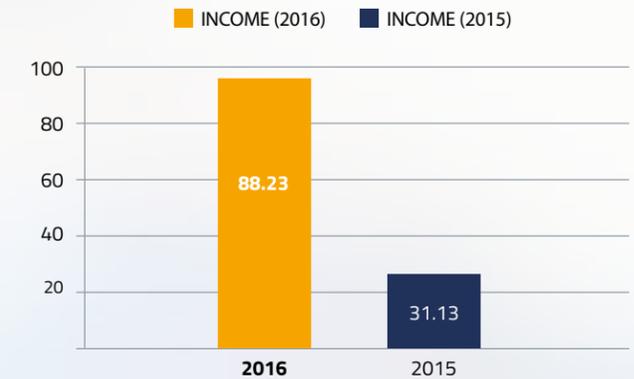
The bank posted a net income of PhP88.230 million in 2016, an increase of 183% or PhP57.102 million compared to the PhP31.128 million in 2015. Net revenue from funds increased from PhP1.194 billion to PhP1.313 billion, basically due to higher interest income on loans and receivables by PhP198.757 million or 14.24% as a result of portfolio growth.

Meanwhile, fee based income of PhP186.240 million was higher by PhP55 million or 42.28% from PhP131 million in 2015 due to trading gains on securities, service fees on branch transactions and loan-related fees.

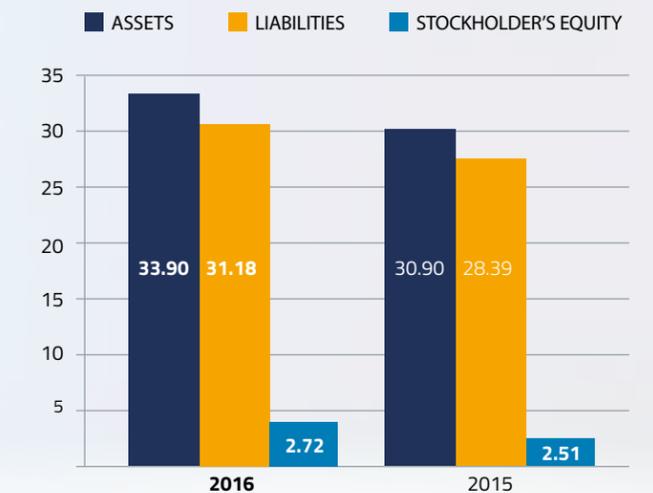
Interest expense on Deposit Liabilities decreased by PhP87 million or 16.63% due to lower interest rates.

As the bank has endeavored to beef up capacity and strengthen its operations for the delivery of financial services to its clients, total operating expenses increased by 8.58% or PhP100 million from PhP1.163 billion in 2015 to PhP1.263 billion in 2016.

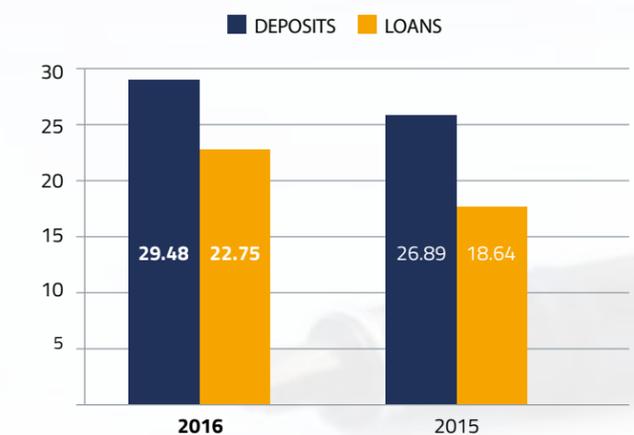
NET INCOME (in Million PhP)



BALANCE SHEET MAIN ITEMS (in Billion PhP)



TOTAL DEPOSITS & LOANS (in Billion PhP)



Operational Highlights

Consistent exemplary performance determines the success of the bank. While the different groups diligently display competence in their respective fields, the pressure of materializing their emerging goals per year also rises amidst inevitable internal and external circumstances. It is good to note, however, that these groups draw strength from each other, and together, they stand unwaveringly.

Retail Banking

In 2016, the Retail Banking Group grew its low-cost funds by 14%. Optima Business Banking Solutions, the bank's unique account that comes with cash management facilities to support Sterling Bank of Asia's business clients, continued to be the group's flagship offering, reaching over 300 SME's and large corporations by the end of the year.

In keeping with the financial sector's mission to promote financial literacy, the Retail Banking Group launched the "Saving For Your Future" campaign in collaboration with schools and learning centers in key cities. The campaign's aim is to educate children on the value of money and the benefits of saving. This initiative promoted the Neo Savings Account and provided nearly 2,000 schoolchildren with their very first bank accounts.

The Retail Banking Group aims to expand the bank's branch network in 2017. In the first half of the year, four branches are scheduled to open in the Southern Luzon and Visayas areas, and another one is set to operate in Metro Manila.

Commercial Lending

2016 was another good year for Commercial Lending Group as evidenced by loan portfolio reaching PHP11.560 billion level. The portfolio was achieved through active solicitation of new accounts and continuous growth from its existing client base. And to strengthen operations and support the expansion of the bank, the group created another department, Commercial Lending 3.

The group provides both working capital and expansion financing requirements for clients which are mostly SME's. These credit facilities are from short term to long term loans. Aside from these, trade financing facilities are also available, such as import and domestic letters of credit, trust receipts, trade check discounting, receivable purchase, among others.

The group will continue to focus on new accounts generation in 2017 and, more importantly, to maintain and deliver high quality service standard. Lastly, the group will further develop its strong relationship with existing clients.



Consumer Lending

2016 proved to be a banner year for the Consumer Lending Group. The group's bottom line breached the PHP100 million mark, ending with a net income three times that of 2015.

The growth was spurred primarily by Auto Loans, as it doubled its portfolio performance. Real Estate Loans, likewise, experienced growth in portfolio as it grew its developer accounts. Personal and Salary Loans, on the other hand, continued to post modest gains.

The Consumer Lending Group further expanded its coverage areas to include 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.

Furthermore, the group introduced new consumer loan products, namely the Truck Loan and High End Motorcycle Financing.

With the continued growth in the domestic economy resulting in increased consumer spending, the group is positioned to meet the demands for retail financing in 2017 with its various product offerings.

Treasury

2016 was the year of the unpredictable. From the Philippine elections to Brexit to the US election results, anti-establishment sentiments prevailed, which went against market expectations. Rising US interest rates and the bottoming out of inflation in the Philippines led to higher bond yields. The Treasury Group lightened up on its bond holdings in response to the unfavorable conditions. While awaiting opportunities to reposition in the bond market, the group focused on funding core banking products by tapping its institutional clients, resulting in PHP1.205 billion in deposits. Despite the odds, the group still managed to post PHP224 million in both interest and realized trading income.

The introduction of the Interest Rate Corridor by the Bangko Sentral ng Pilipinas in mid-2016 allowed the Treasury Group to manage its liquidity position more efficiently, thus improving its net interest income by 105.66%. To further the bank's growth, the group continued to provide competitive prices and excellent service in the money, bond and foreign exchange markets. The group also purchased CCK Financial Solution's Guava system to further improve deal capture and position analysis.

2017 will continue to be a challenging year for bonds, as the market anticipates further US rate hikes and higher inflation. Treasury Group will concentrate on trading liquid bonds and take advantage of swings in the market to book trading income. The increase in corporate bond issuances will also give more alternatives for the group's investing clients. BSP's move to further liberalize the foreign exchange rules will give the bank the opportunity to service client demand previously serviced by the non-bank sector.



Trust

2016 proved to be a fruitful year for the Trust Group. By focusing on strengthening strategic alliances with investment counterparts and distribution channels as a means to effectively service clients' needs, the Trust Group was able to increase its Assets Under Management (AUM) by PhP1.4 billion. With a total of PhP6.1 billion in AUM at year-end, the group achieved a 29% year-on-year growth compared to 2015.

Aside from the continued growth of the trust portfolio, the Trust Group also posted an increase of 450% in Net Income.

These accomplishments enabled the Trust Group to contribute to the bank's overall profitability, as the year-end revenue not only posted a 48% growth compared to the previous year, but also exceeded forecast by 20%.

Despite major challenges brought about by high volatility in the market, the Trust Group was able to manage clients' exposure to risk and loss by maintaining diverse investments. The group also ensured flexibility by keeping investments in short term funds and liquid assets.

The Trust Group looks forward to using this positive momentum to propel Sterling Bank of Asia even further in 2017, with a projection of reaching PhP8 billion in AUM or a 33% growth in the coming year.

Human Resources

2016 proved to be an interesting and challenging year for the Human Resources Group.

In its commitment to build a strong and formidable workforce, the Human Resources Group (HRG) implemented various programs designed to support the growth and development of its employees, mindful that the people who run the bank contribute most to its success.

HRG's Center for Learning (CFL) continued to be a strategic partner across all units, providing relevant and cost-effective development and training programs aligned with the bank's succession plan, talent management and retention program.

The bank's Training Programs focus on four (4) areas, namely Banking Know-How, Technical Know-How, Leadership, and Service Excellence. These programs are reviewed on a regular basis to ensure that they are responsive to the changing banking landscape. New regulatory requirements and industry best practices are integrated into all customer service, sales and technical training programs.

In 2016, the bank successfully unveiled its Management Training Program and New Leadership Program. The former was designed to address the bank's need to recruit, develop and retain high-potential individuals who will occupy mid-management posts while the latter was launched to hone the

various aspects of supervisory competencies of employees with the aim of developing the bank's future leaders.

Specific development programs for sales officers, service heads, branch heads, marketing associates and credit personnel were also provided to continually enhance employees' technical proficiency. Aside from these, sales competence of employees is reinforced through the annual Sales Rally where sales strategies for different products vis-à-vis market segments are presented.

The bank conducts its annual Sales Rally, which is a gathering of Sterling Bankers nationwide to support the bank's initiatives and emphasize the importance of each employee's role in the achievement of the bank's goals. Renowned speakers and acknowledged marketing and leadership experts are invited to provide inspirational and motivational talks on how to encourage growth in the organization.

Human Resources Group continues to take the lead in promoting employee well-being thru various initiatives in the areas of compensation and benefits, physical and mental health, and various employee engagement activities, mindful that people are the bank's biggest resource and that a healthy and engaged workforce translates to better productivity. The employee welfare program includes annual bloodletting activity, immunization program, various sports fests and weekly wellness activities year round.

The bank's vision is to be the industry leader in the area of service efficiency. HRG ensures that all employees are properly trained, not only in customer service skills, but also in technical competencies. This is propelled by the employee engagement culture we have built and inculcated among Sterling Bankers over the past 10 years.

Information Technology

The Information Technology Group is committed to provide excellent technological products and services in the most cost-effective and timely manner, deliver value to the business and optimize IT resources to support evolving customer needs and dynamic market trends.

After detailed preparation and discussions with the various stakeholders, the Information Technology Group successfully upgraded Sterling Bank of Asia's core banking system in late 2016, bringing about increased operational efficiency and productivity. The bank invested heavily on this upgrade in view of the business growth and requirements. In conjunction with the upgrade, new systems will be implemented, while existing systems are scheduled for upgrade or replacement. These include the AMLA System, Retail Internet Banking, Corporate Internet Banking, Retail Mobile Banking, Corporate Mobile Banking, Loans Origination, Debt Collection, Litigation, Business Analysis and Agency Portal.



The Check Image Clearing System (CICS) facility is ready for implementation, awaiting the go-live date in 2017 set by the Philippine Clearing House Corporation (PCHC), placing Sterling Bank of Asia among the first banks ready to comply with PCHC's requirement.

IT security continues to be a top priority. Increased efforts to fully implement Europay Mastercard Visa (EMV) technology and to obtain the Payment Card Industry-Data Security Standards (PCI-DSS) certification for the bank are on track. In the first half of 2016, the compliance of the bank's network security with global security standards was validated when it passed the vulnerability scan and penetration test conducted by a PCI-Approved Scanning Vendor (PCI-ASV).

Plans for 2017 include the implementation of the new Treasury System, Mail System and Human Resource Information System (HRIS).

True to its commitment, the Information Technology Group will continue to be an enabler and a significant partner of business units in gaining competitive advantage for the bank.

Business Support Services

In 2016, the Business Support and Services Group continued to reinforce process and system enhancements initiated in the previous year. Integrating various departments and aligning bank-wide processes enabled the group to boost efficiency and productivity, thus ably supporting the frontline units' increased production.

A number of initiatives, including employee training programs administered in coordination with the bank's Center For Learning, equipped the Business Support Services Group with the technical skills and leadership capabilities. These are needed to provide quality customer service, address various risk and internal control objectives, and achieve cost-efficient operations.

As a testament to the group's drive for excellence, Bangko Sentral ng Pilipinas (BSP) presented Sterling Bank of Asia with the Outstanding PhilPaSS Participant Servicing Customer ePayments-Thrift Bank Category Award for the fourth consecutive year. This is in recognition of the bank's performance in terms of volume, frequency and value of transactions sent to PhilPaSS for processing and settlement.

Award & Recognition

Sterling Bank of Asia gets BSP-PhilPaSS Award anew

NOT TWICE, not thrice, but four times in a row.

Last July 13, 2016, the Bangko Sentral ng Pilipinas (BSP) awarded the Outstanding PhilPaSS Participant Servicing Customer ePayments-Thrift Bank Category Award to perennial winner Sterling Bank of Asia at the annual Awards Ceremony and Appreciation Lunch for BSP Stakeholders at the BSP Complex in Manila.

For four straight years since 2013, Sterling Bank of Asia is a consistent recipient of this prestigious PhilPaSS Award.

The event, which carried the theme "Sustained Partnership, Sustained Economic Growth," also celebrated BSP's thirteen years of honoring banking and financial institutions for their exemplary products and services.



Cecilio D. San Pedro (3rd from left), President and CEO of Sterling Bank of Asia, and Luisito S. Mayor (2nd from left), First Vice-President and Head of Business Support Services Group of Sterling Bank of Asia, are joined by BSP Governor Amando M. Tetangco, Jr. (rightmost) and Valentin A. Araneta (leftmost), Monetary Board member and Chairman of the Board of Judges, during the awarding ceremonies.

"I am overwhelmed because Sterling Bank of Asia is on a roll," the bank's President and CEO Cecilio D. San Pedro said after personally accepting the award from BSP Governor Amando Tetangco, Jr., members of the Monetary Board, and other BSP key officials.

"We are truly grateful for this recognition. It is another honor I share with the rest of the Sterling Bank of Asia family as our bank continues to perform excellently through the years," he added.

The award recognizes the bank's remarkable performance in terms of volume, frequency and value of remittances and customer electronic payment transactions sent to PhilPaSS for processing and settlement.

PhilPaSS is the real time gross settlement system implemented on December 12, 2002 and is operated by the state-run BSP with the overall aim of improving financial market efficiency.

The process involves the real-time transfer and handling of high-value payments among banks through their BSP accounts. In the first quarter of 2015 alone, PhilPaSS had more than 340,000 transactions totaling over PhP70 trillion.

"As always, Sterling Bank of Asia assures our customers of products and services they can rely on, as well as the best security measures for all transactions," San Pedro added. "We're grateful that these assurances have been validated (through this award)."

Mr. San Pedro also vowed to continuously update the bank's technology and to put a premium on excellent customer experience.



Sterling Bank of Asia has been the consistent recipient of the prestigious Philippine Payments and Settlements System (PhilPaSS) Award - Thrift Bank Category since 2013.

CSR and Events



San Juan City Mayor Guia Gomez and Sterling Bank of Asia President & CEO Cecilio D. San Pedro during the turnover ceremony at St. Martin de Porres Charity Hospital

A Kind Heart That Gives Sterling Bank of Asia donates again to St. Martin de Porres Charity Hospital

Last December 2, 2016, Sterling Bank of Asia once more donated much needed medical tools and equipment to St. Martin de Porres Charity Hospital (SMPCH). The donation is a continuation of the bank's Kind Heart Gives advocacy, which aims to give back to the community.

"We profoundly thank everyone at St. Martin de Porres Charity Hospital for giving us the opportunity to be of service to the community," said Cecilio D. San Pedro, President and CEO of Sterling Bank of Asia. "When we came up with our CSR project, we wanted it to be within the community. Why look outside when we can help a lot of people within our area?"

"When you give, you give with your heart," added San Pedro. "Sterling Bank of Asia is the 'Bank with a Heart'. We exemplify this through our advocacy, which is now on its second year."

The ceremony, which included a mass and a shared meal, was graced by San Juan City Mayor Guia Gomez, who welcomed the bank's officers and staff.

"On behalf of the people of San Juan, I would like to thank Sterling Bank of Asia for their generosity and kindness to SMPCH," said Mayor Gomez.

SMPCH is a charity hospital, which started as a one-room clinic at the old convent of Santuario Del Santo Cristo Church. Since then, the clinic has grown into a

121-bed, full-fledged tertiary hospital accredited by the Department of Health.

The hospital caters to about 2,500 patients each month, most of whom are charity cases. Only 3 out of 10 patients in SMPCH are paying patients. It is operated by volunteers comprised of over 100 doctors and 200 medical staff.

The hospital attends to an average of four surgeries a day, excluding obstetrics-related procedures. Hence, most of the instruments donated by Sterling Bank of Asia are those often used for these services, including surgical tools, suction machines, stethoscopes, sphygmomanometer, laryngoscopes, otoscopes, oximeters and hysterometers.

"We are very happy because they gave all the things we had on our wishlist," said Dra. Mercedita J. Macabulos, Medical Director of St. Martin de Porres Charity Hospital.

"This is the second year they have donated to our hospital, and I know they will continue to help because charity is borderless. It will be a very good Christmas for us indeed," she added.

Referring to the donation the bank made in 2015, Dra. Macabulos adds, "We were able to attend to more patients after that. Their donation went a long way in helping a lot of people in need."

"When you give, you give with your heart," added San Pedro. "Sterling Bank of Asia is the 'Bank with a Heart'. We exemplify this through our advocacy, which is now on its second year."





L-R: Clayton T. Lee (EVP and Treasurer – Sterling Bank of Asia), Helen Glastras (Chief Operating Officer – CCK Financial Solutions Pty Ltd), Cecilio D. San Pedro (President and CEO - Sterling Bank of Asia), William L. Chua (Director - Sterling Bank of Asia)

Sterling Bank of Asia adopts innovative Guava Treasury Management System

“This significant partnership (with CCK Financial Solutions) further bolsters our pledge of quality and efficiency to our valued clients”

Sterling Bank of Asia adopted the renowned Guava Treasury Management System of CCK Financial Solutions (CCK) to further improve the bank’s funds management and customer servicing.

CCK, an Australian-based company, inked a contract with Sterling Bank of Asia for the use of Guava, a third-generation system designed to handle the challenges facing financial institutions in Asia.

Cecilio D. San Pedro, President and CEO of Sterling Bank of Asia, said that the Guava Treasury Management System is an addition to Sterling Bank of Asia’s innovative business solutions.

“(Guava) is a complete technology that complies with the requirements set by the Bangko Sentral ng Pilipinas with regard to utilizing up-to-date systems and software to meet the changing needs of the banking and finance industry,” San Pedro explained.

“This significant partnership (with CCK) further bolsters our pledge of quality and efficiency to our valued clients,” San Pedro said, adding that this award-

winning treasury solution will cover all of Sterling Bank of Asia’s requirements in this age of modern treasury.

Guava is a system which handles the full life cycle of treasury, from deal capture (whether directly or through third party dealing systems), risk management and monitoring, settlements, accounting, all the way to internal and regulatory reporting.

Moreover, it covers the different classes of financial instruments traded in modern treasury, including money market, fixed income and foreign exchange. The new system is also capable of providing solutions related to other products such as equities, derivatives and structured instruments.

CCK has over 35 years of specialization in treasury and capital markets, with extensive expertise in treasury system design. It is comprised of highly skilled financial and software professionals with in-depth and diverse knowledge of the global financial markets, covering dealing, risk management, operations, accounting and data technology.

Product Feature

Optima Business Banking Solutions

Optima Business Banking Solutions is a unique business account that comes with cash management facilities to help you minimize overhead expenses, streamline operations, and most importantly, improve the bottom line.

With Optima, you can optimize the management of cash and liquid funds. One single account can now take care of the disbursements, collections and investments of your company’s financial resources. Its key facilities are as follows:

Financial System

Optima delivers a stand-alone financial system that provides you easier and more convenient processing and monitoring of sales and purchases, inventory, and other financial reports (including government reports).

Aside from the creation, modification, viewing and printing of financial statements, you can also perform reconciliation on your bank account/s and receive timely updates regarding your account transactions.

Payroll System

Optima offers Human Resource Information System (HRIS) that allows you to manage personnel records, payroll computation and standard payroll report generation including government reports (SSS, Philhealth, HDMF, BIR).

Payroll Crediting

Securely credit salaries to your employees’ ATM payroll accounts with Optima. Moreover, with this facility, your employees are able to access their funds using various electronic channels with their ShopNPay Visa Cards without the need to maintain an Average Daily Balance (ADB).

Check Writer System

Optima offers a system that provides you with a flexible and secure way to easily prepare your check disbursements, as well as encode, upload and generate reports with GL entries, all while having the basic printing function of a check writing system. In addition, printing of BIR form 2307 is made available.

Optima Online

This is an internet-based banking facility intended to help you enhance business operational efficiency through borderless and on-demand access to your Sterling Bank of Asia accounts.

On-demand access are the following:

- Balance inquiry
- Transaction history
- Bills payment
- Intrabank fund transfer

Check Warehousing

Free yourself from the tedious task of safekeeping and managing your post-dated checks (PDCs) by letting the bank do it for you. You are assured of automated PDC deposit, on-time crediting and check monitoring. Review the outstanding balance of your accounts through generation of detailed reports available on a regular basis.



Corporate Governance

Sterling Bank of Asia believes in upholding corporate governance as a key in creating a strong and sound corporate culture that continually pursue transparency, integrity, fairness, excellence and accountability with the primary objective of safeguarding stakeholders' interest on a sustainable basis.

The corporate governance structure is designed to provide direction, control mechanism and evaluation system on board and management's performance. The board ensures the successful continuation of business by providing strategic direction to the management and monitoring the implementation of strategic objectives. The management team promotes the good governance practices within the bank and ensures that activities and operations are consistent with the bank's strategic objectives, risk strategy, corporate values and policies as approved by the board of directors.

Independent check and balance or control mechanisms are embedded in the bank's structure and processes to mitigate conflicts of interest and facilitate the achievement of bank's strategic goals. The bank endeavors to strike a balance between economic and social goals with commitment to achieve optimal use of resources while conducting its business in accordance with law and delivering professional banking services to customers.

Board of Directors

The responsibility for corporate governance lies primarily with the board of directors by setting the "tone at the top" and providing oversight to ensure that risks taken by the bank are within acceptable levels. In addition, the board approves corporate values to guide the board itself, senior management and employees in making decisions and carrying out their activities.

Powers of the Board of Directors

The board of directors exercises the corporate power of the bank, conducts its business and controls its property. The powers of the board of directors as conferred by law are original and cannot be revoked by the stockholders. Given such powers, the directors are cognizant of their duty to exercise sound and objective judgment for the best interest of the bank.

General Responsibilities of the Board of Directors

The board of directors 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 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 is also responsible for monitoring and overseeing the performance of senior management as the latter manages the day-to-day affairs of the institution.

Composition of the Board of Directors

The board is composed of thirteen (13) members. The directors, who were elected during the annual stockholders meeting, are qualified business professionals with integrity, competence, relevant education, diligence and experience in directing the bank's activities and policy directions. 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 all stakeholders of the bank. The directors are nominated and voted by the bank's stockholders annually, and each serves a one-year term until the election/re-election of a new set of directors. The chairman of the board is elected by the directors themselves.

Board Committees

The board of directors created the Corporate Governance, Audit and Risk Management Committees to facilitate efficiency and allow deeper focus in specific/specialized areas. These committees have their respective board-approved charters that describe their specific mandates and the duties and responsibilities of members. These committees are composed of members of the board of directors, each with at least two (2) independent directors.

■ Corporate Governance Committee

The committee assists the board in fulfilling its corporate governance responsibilities and ensures the board's effectiveness and due observance of corporate governance principles and guidelines. It is composed of five (5) 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 committee provides oversight over the institution's financial reporting policies, practices and control, and internal and external audit functions. It is composed of three (3) members of the board of directors, two (2) of whom are independent directors, including the chairperson. The members have sufficient understanding of the financial reporting process, operational structures and internal control system.

■ Risk Management Committee

The committee is responsible for the development and oversight of the risk management program of the bank. It 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
- Related Party Transactions Committee
- Loan Committee
- Information Technology Committee
- Bids and Awards Committee
- Compensation Committee

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.

Senior Management

Board of directors has conferred senior management with executive powers and responsibility in managing the day-to-day affairs of the bank. Senior management is composed of seasoned professional bankers, whose core competencies in banking operations were gained mostly from universal and commercial banks. Leading the bank's senior management is President and Chief Executive Officer Cecilio D. San Pedro, who has been key in the sustainable growth and development of the bank. Assisting him in creating value in the organization are the group heads, namely Clayton T. Lee, Executive Vice President & Treasurer; Ralph B. Cadiz, Executive Vice President & Retail Banking Head; Benson J. Hari-Ong, Executive Vice President & Commercial Lending Head; Dalisay N. Rubio, Senior Vice President & Controllership Group Head; Alex Luis M. Pesigan, Senior Vice President & Operations Group Head; and, Isabel Y. San Pablo, Senior Vice President & Consumer Lending Group Head.

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 administered by the Human Resources Group and the Discipline, Ethics and Values Committee (DEVCOM) providing the necessary oversight in its implementation.

Remuneration

Sterling Bank of Asia views remuneration as part of good corporate governance. In keeping this principle, the bank adopts remuneration policies which promote good

performance, convey acceptable risk-taking behaviour, reinforce the bank's operating and risk culture and encourage employees to act in the interest of the bank.

The Compensation Committee, a board committee tasked to uphold the bank's objective of utilizing its remuneration resources wisely and effectively, regularly reviews the remuneration policies, processes and outcomes to continuously attract, retain and motivate employees. All employees are measured and assessed based on their Key Result Areas and overall contribution to the achievement of the bank's performance targets.

In addition, 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 serve as 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 Transactions

In line with the bank's thrust to promote fairness and transparency, all related party transactions (RPT) are conducted on an arm's length basis in accordance with banking laws and regulations. These transactions are reviewed and vetted by the RPT Committee and further elevated to the board for independent review and final approval. To avoid conflict of interest, involved parties do not participate in deliberations.

Note: Refer to 2016 Audited Financial Statements for Related Party Transaction details.

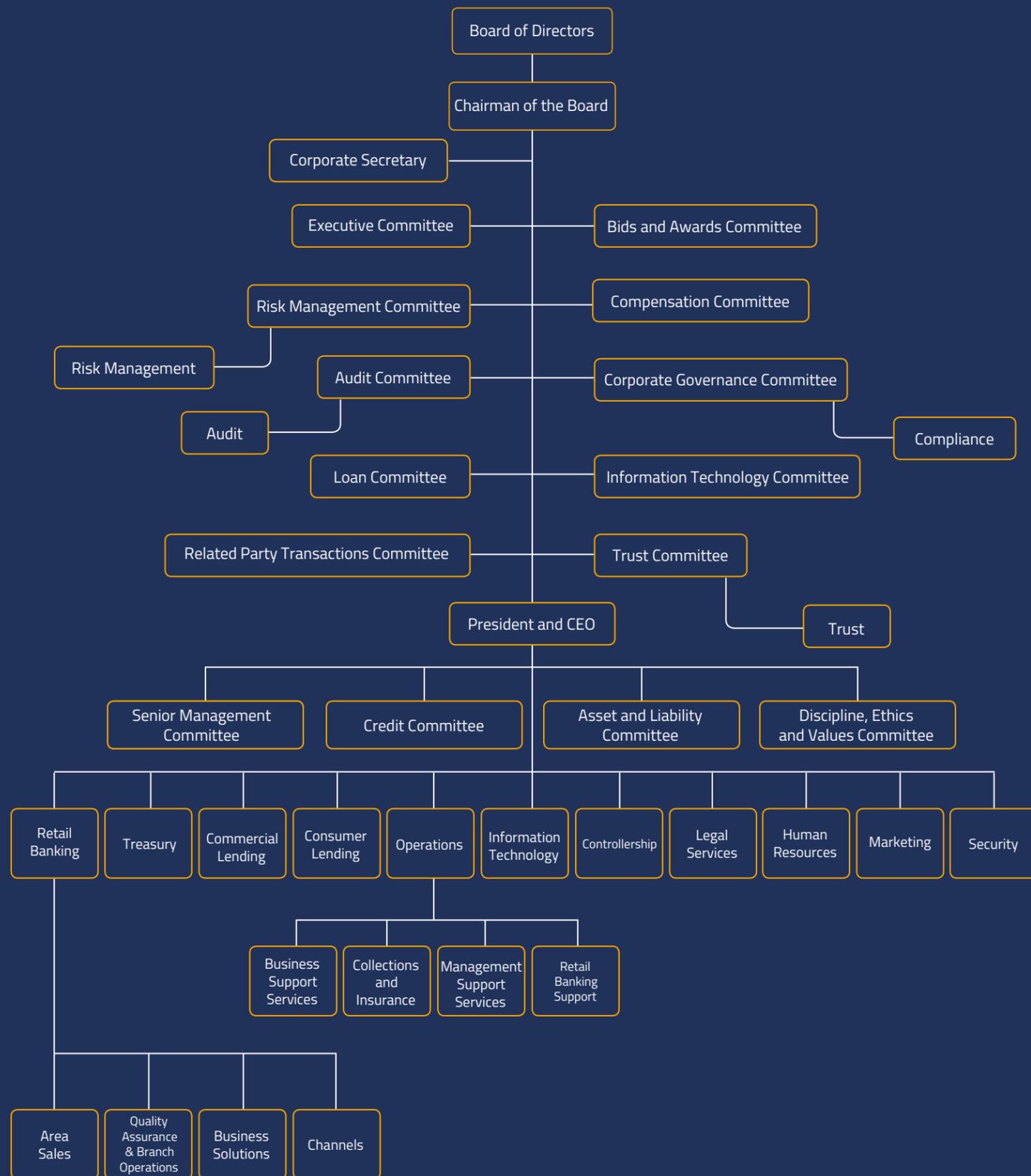
Consumer Protection

Sterling Bank of Asia recognizes the importance of consumer protection and is committed to protect customers' rights as consumer of financial products and services. As such, the bank's policies and procedures are designed to ensure fair banking practices by providing proper disclosure on the features, benefits and risks of the bank's products and services to enable clients to make informed decisions in availing financial services. The bank is likewise committed to deliver secure banking platform and activities to prevent fraud, protect customer information and promote legal enforceability of bank's agreements. The bank's Customer Service Management unit provides for a mechanism to handle client inquiries and concerns and ensures that these are properly addressed.

External Auditors

The bank, as an institution with fiduciary responsibility, is subject to external audits that provide independent assurance on financial and non-financial information to meet regulatory and other stakeholder requirements. The bank is audited annually by its external auditor, Reyes Tacandong & Co. (RT&Co.).

Organizational Structure



Risk Management

In 2016, the risk landscape highlights the speed of technological change with cyber risk concerns in focus and geo-political risks as a result of United Kingdom's decision to exit the European Union, as well as the turnout of the Philippine and US presidential elections. This is amplified by environmental risks due to disruptive weather events globally.

Evidently, the financial sector is not immune to these risks. Risk events have shown the financial sector being the target of various cyber-attacks. Shocks to the global financial markets were seen because of social and political incidents. In addition, weather-related events disrupt normal banking operations, especially in the case of the Philippines – being susceptible to climate change and being in the pathway of storms and typhoons.

Recognizing that this is the environment where the bank operates, Sterling Bank of Asia has committedly endeavored to subject its risk management system to a rigorous process of review and improvement in order to meet the demands of a constantly evolving risk and regulatory landscape.

Risk Management is a critical component of the business of banking as it guides all risk-taking activities in attaining strategic objectives within the board-set risk appetite and tolerance levels. At Sterling Bank of Asia, it is integrated in all five business segments, namely Retail Banking, Commercial Lending, Consumer Lending, Treasury and Trust Operations. Business units ensure that underlying risks are identified, mitigated and managed through control mechanisms embedded in their respective business processes, following the bank's Enterprise Risk Management Framework.

Over the past few years, the bank has focused on growing its core lending business, particularly on the side of the consumer lending segment given its growth and profit potentials. The focus on lending is supported by a two-pronged strategy, namely strengthening credit underwriting and intensifying collection efforts. This is to ensure that with loan portfolio growth, asset quality is preserved. With this two-pronged strategy, the bank has managed to grow its portfolio by 22% in 2016 hitting PhP22 billion in total loan portfolio and at the same time achieving lower non-performing loans with NPL ratios consistently better than peers.

Expanding the Consumer Lending business will continue to be the driving force for Sterling Bank of Asia in the coming years, coupled with expected modest growth in other business lines. Given these, Sterling Bank of Asia has intensified management of its credit risk exposures and in 2016, has successfully rolled out new consumer loan risk scorecards.

Risk Management Framework

Sterling Bank of Asia's Risk Management Framework is supported by 4 key pillars, namely Strategy, Organization and Governance, Models and Measures, and Infrastructure.

Strategy

Sterling Bank of Asia's philosophy places strategic value in integrating risk assessment in setting corporate objectives. Risk analysis covering a spectrum of economic, political, social, technological, legal and environmental aspects complemented by an assessment of the bank's strengths and core competencies, as well as the threats and vulnerabilities facing the institution, provide for a strong foundation in building key assumptions for strategic planning. A good understanding of the risk landscape, including the uncertainties and complexities of the business of banking, allows Sterling Bank of Asia to develop adaptive business plans and strategies to better manage the pace of growth. The bank likewise ensures that activities in pursuit of these business objectives are within acceptable risk boundaries.

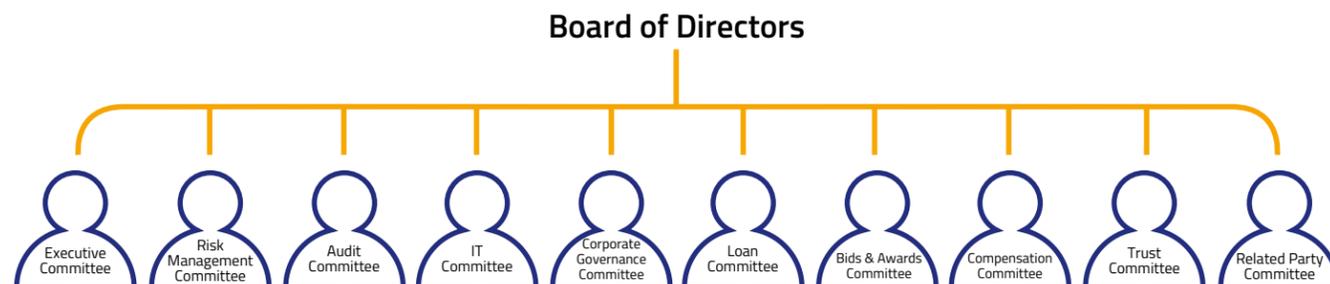


Any risk management system needs strong leadership to be able to achieve goals both under normal circumstances and challenging situations. Thus, the bank's board of directors sets the tone as it provides the bank's strategic directions. It has overall responsibility for risk as it approves and reviews the bank's business plans and strategies, ensuring that activities are within acceptable risk boundaries. It oversees the implementation of the bank's Enterprise Risk Management System that provides for a comprehensive framework for the identification, measurement, monitoring and control of bank 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, as well as recognizing early warning signals and devising appropriate risk responses to mitigate risks.

Risk Organization and Governance

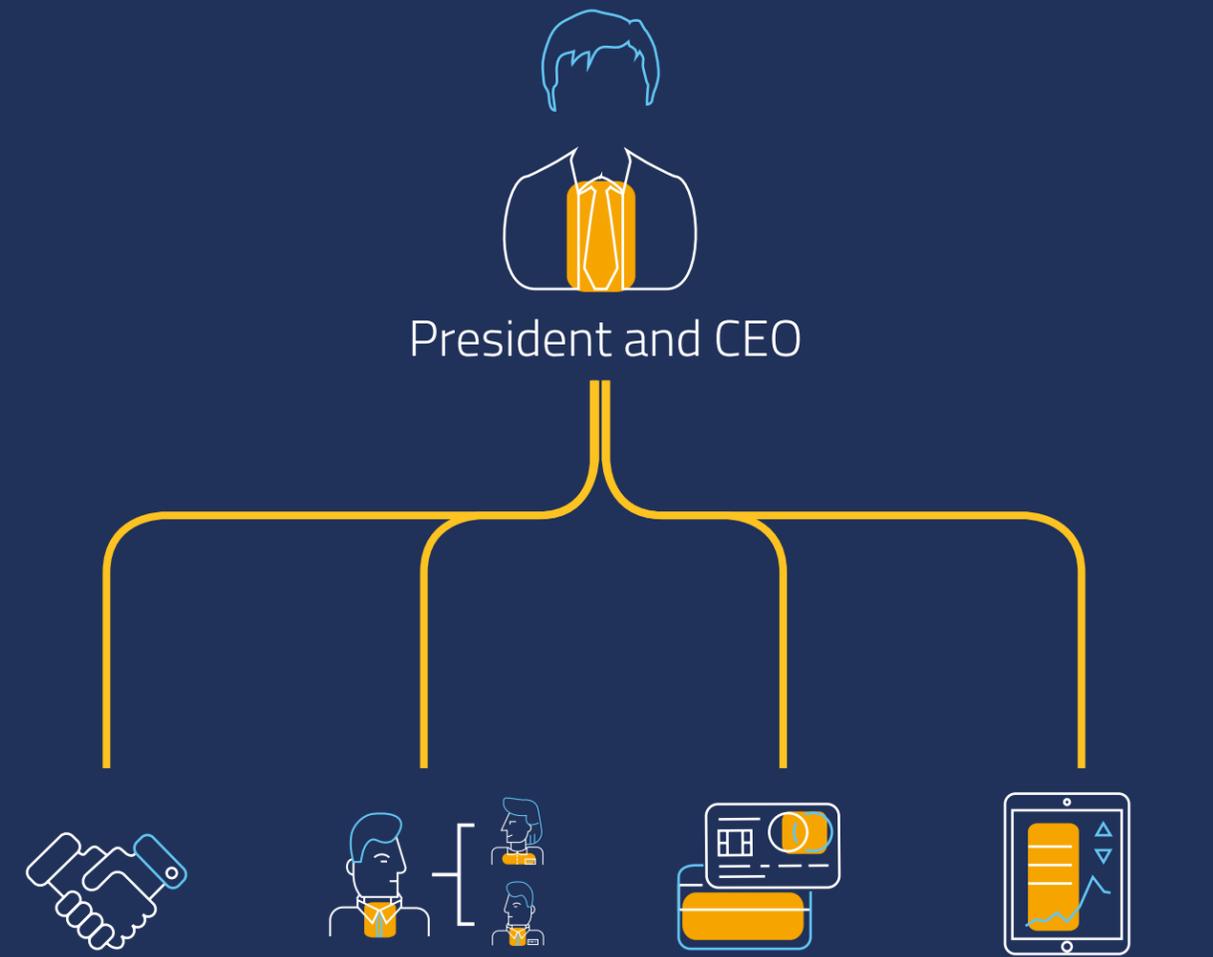
In Sterling Bank of Asia, the responsibility for risk spans across the organization. Following the four lines of defense structure which segregate duties between front, middle and back office functions, accountability for risk management is shared by all.

1. Front office units which enter into business transactions and thus take on risk exposures for the bank, identify specific risks inherent in their respective products and services. They ensure that risk-taking activities are well managed and within acceptable tolerance levels.
2. Back office units meanwhile implement transactions ensuring risk controls are in place.
3. The middle office function, meanwhile is performed mainly by Risk Management Group, a unit independent of the business line, that establishes the system of controls and the framework for risk management.
4. The fourth line of defense is the Internal Audit and Compliance functions that provide the assurance and validation mechanisms to assess the effectiveness of instituted risk management systems.



Board-Level Committees

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.	Chairman: Gregorio T. Yu Members: Ruben C. Tiu Bansan C. Choa Cecilio D. San Pedro John Y. Tiu, Jr. Ignatius F. Yenko Atty. Lamberto R. Villena Alternate Member: Harris Edsel D. Jacildo Atty. A. Bayani K. Tan Bernadette Cindy C. Tiu	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.	Chairman: Nilo L. Pacheco, Jr. 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
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.	Chairman: William L. Chua Members: Bansan C. Choa Juliet C. Go Alternate members: Bernadette Cindy C. Tiu Ignatius F. Yenko Gregorio T. Yu Atty. Lamberto R. Villena	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.	Chairman: William L. Chua Members: Bernadette Cindy C. Tiu Harris Edsel D. Jacildo Nilo L. Pacheco, Jr. Cecilio D. San Pedro
Corporate Governance Committee	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.	Chairman: Nilo L. Pacheco, Jr. Members: Bansan C. Choa William L. Chua Juliet C. Go Ruben C. Tiu	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.	Chairman: Bansan C. Choa Members: John Y. Tiu, Jr. Gregorio T. Yu Cecilio D. San Pedro Ignatius F. Yenko Atty. Lamberto R. Villena Alternate Member: Bernadette Cindy C. Tiu
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.	Chairman: John Y. Tiu, Jr. Members: Bansan C. Choa Cecilio D. San Pedro Nilo L. Pacheco, Jr. Atty. Lamberto R. Villena	Compensation Committee	The Compensation Committee is responsible for reviewing, screening, and approving management recommendations on compensation and other Human Resource-related matters.	Chairman: Ruben C. Tiu Members: Bansan C. Choa John Y. Tiu, Jr. Ignatius F. Yenko Dulce Yenko-Edillor
Trust Committee	The Trust Committee is responsible for overseeing the investment activities of the bank's Trust unit.	Chairman: Nilo L. Pacheco, Jr. Members: Ruben C. Tiu Cecilio D. San Pedro Harris Edsel D. Jacildo Hazel M. Navarro	Related Party Transactions Committee	The Related Party Transactions Committee is responsible for screening related party accounts for board approval.	Chairman: Juliet C. Go Members: William L. Chua Harris Edsel D. Jacildo



President and CEO

Discipline, Ethics and Values Committee (DEVCom)
 ensures that the bank standards and code of conduct are adhered to and exercises disciplinary powers on infringement of the rules governing banking activities. As part of the bank's operational and reputational risk management, the bank espouses all its personnel to adhere to the code of conduct and perform their fiduciary responsibility consistent with the bank's vision and core values.

Senior Management Committee (SMC)
 exercises general supervision, administration, and management of the bank's operations, and as such, oversees the operational and strategic risk management.

Credit Committee (CreCom)
 evaluates and screens all credit proposals requiring the approval of the president, LoanCom or board, and likewise monitors credit underwriting activities done at the management level; 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-Liability Committee (ALCo)
 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 requirements and comply with all regulatory requirements; responsible for building a stable funding structure by managing the long-term profiles of the bank's asset and liability maturities; 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.

Assisting the Sterling Bank of Asia's Board and Senior Management in its risk oversight function is the Risk Management Group, headed by the bank's Chief Risk Officer. The group is composed of four departments, namely the Operational Risk Department, Credit Risk and Control Department, Market and Liquidity Risk Department and the Information Security and IT Risk Department, which provide the support structure to develop frameworks and the system of risk controls to manage the bank's significant risk exposures.

- Operational Risk Department**
- Operational loss data tracking and reporting
 - Operational risk identification, quantification and assessment
 - Methodologies in the conduct of risk and control self-assessment (RCSA) across the institution
 - Comprehensive Business Continuity Program
 - Analysis of operational risk management processes within the bank
 - Monitoring of Risk Treatment Action Plans (RTAP)

- Credit Risk and Control Department**
- Credit portfolio risk management and analytics
 - Bank's Internal Credit Risk Rating System
 - Credit risk identification, quantification and assessment
 - Detection of credit concentrations and problem accounts
 - Establishment of credit limits and credit underwriting standards
 - Credit policy development

- Market and Liquidity Risk Department**
- Analytics on the bank's market, liquidity and interest rate risk
 - Risk identification and assessment affecting the bank's trust, treasury operations, and financial market activities
 - Market risk quantification and assessment
 - Contingency measures to address the impact of market shocks and liquidity stress scenarios

- Information Security (IS) and Information Technology (IT) Risk Department**
- Technology risk management
 - Information security program management
 - IT and IS risk identification, quantification and assessment
 - Access control reviews
 - IS incident management

Risk Models And Measurements

Risk measurements and monitoring activities provide for the necessary information on the bank's risk exposures. The bank makes use of a combination of industry-accepted quantitative and qualitative techniques, including Value at Risk and Earnings at Risk measures, gap analysis, loan loss estimation methodologies using probabilities of defaults and loss rates for credit risk, the use of internal credit rating systems and credit scorecards, and various key risk indicators and metrics within an established risk dashboard. These risk models are subjected to periodic back-testing, review and validation in order to determine its effectiveness in measuring levels of risk and to factor in the changing regulatory and risk environment that may challenge key assumptions from which models were built. Results of risk monitoring is reported on a periodic basis to the bank's Senior Management and the Risk Management Committee (RMC).

	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. Impairment Loss Estimation e. 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 (HHI) 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 AND 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. Exposure/position limits and duration limits on investment types/ products, countries, and issuer f. Monitoring of Off-Market transactions g. 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. Operational Risk and Control Self-Assessment d. Product risk assessments e. Business Continuity Management 	<ul style="list-style-type: none"> a. Regular Risk Control and Self-Assessment b. Loss Event Reporting c. Risk Mapping d. Business Continuity Planning e. Key Risk Indicator (KRI) Monitoring 	<ul style="list-style-type: none"> a. Incident Reports b. Corrective Action Tracking c. Operational Risk Management (ORM) reports to the RMC d. Close Coordination with Internal Audit and IT
COMPLIANCE	<ul style="list-style-type: none"> a. Compliance Program b. Review of bank contracts and transactions c. Know Your Customer (KYC) d. Know Your Employees (KYE) 	<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, Board/ ExCom and the Corporate Governance Committee (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
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 f. Financial Consumer Protection Program 	<ul style="list-style-type: none"> a. Media scanning b. Proactive solicitation of customer feedback c. Customer service management for complaints and client concerns 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 analyses are likewise performed in order to complement risk metrics that generally capture risk exposures under normal banking conditions. These stress tests are applied on material risk exposures both at the portfolio and sub-portfolio levels, measure the impact of varying degrees of shocks on the bank's income, cost and capital structure, using a combination of regulatory-driven and internally-developed scenarios. With these stress tests, the bank is able to gain strategic insights to better manage uncertainties and determine when contingency plans and exit strategies become necessary.

Infrastructure

People, processes, structures and technological capabilities comprise the pillars of Sterling Bank of Asia's risk infrastructure and serve as the backbone of the bank's Enterprise Risk Management (ERM) System. ERM provides for an integrated framework, driven by strategy, designed to add value, considering a multiple stakeholder perspective. It promotes a holistic outlook to managing risks, as opposed to the silo paradigm, as it establishes the critical linkages between the various business activities across the enterprise and their associated risks. With the integrated view provided by ERM framework, identification of critical risks amidst a changing landscape as well as the interdependencies of risks are achieved. This allows people from multiple disciplines to focus on risk concerns and the bank's senior management and the board to drive a consistent treatment of risk across the organization.

In any organization, the people factor is an integral component of its risk management system because of their role in handling risk and being a source of risk themselves. In Sterling Bank of Asia, accountability for risk is shared by all across the enterprise, with each employee made to understand their participation in the risk management process as they carry out their respective tasks. The bank's onboarding process puts emphasis on the role of the employees in addressing specific risks within their particular organizational area, given the mindset that identification, assessment and mitigation of risk should be part of the scope of work of all bank employees and not only of those in the risk management middle office function.

Various training programs spearheaded by the bank's Center for Learning (CFL) provide the support structure to promote the culture of risk awareness bank-wide. These include the institutionalized New Hires Orientation (NHO) Program, where employees are introduced to the bank's ERM framework, and supplemented by role-based risk management education that provide learning and development programs designed to meet specific risk management training needs of people outside the formal risk management function.

Know Your Employees principle is practiced in the bank as part of human resource management given that the banking sector operates on trust and confidence. Pre-employment checks are performed as part of the vetting process coupled with performance and routine checks during the period of employment as part of internal controls.

Business processes in the bank are established via a multiple stakeholder approach aimed at improving efficiencies, eliminating redundancies and providing for a shared understanding of risk and controls across the process value chain. These are supported by the bank's policies and procedures that define the governing standards to manage the key risks inherent in banking operations, namely credit, market, interest rate, liquidity, operational, strategic, compliance and reputational risks. Policies that define risks, risk tolerances, corporate governance and oversight, responsibilities, and accountabilities provide business units with guidance on their various risk-taking activities to ensure



alignment with board-set expectations. And to ensure that these policies remain relevant and responsive to changing risk and business environment, these are subjected to periodic review and updating.

The strength of any risk management system lies in its ability to capture and analyze data. This is where the value of information technology comes into play as it provides the infrastructure to capture, maintain and access data necessary for the organization to make risk-informed decisions. The bank's IT Group handles the data management facility to enable risk reporting and Management Information System (MIS) for performance

monitoring and decision-making. The IT Group, together with its key business partners comprised of a network of vendors and technology providers, likewise provides the necessary infrastructure to automate critical business activities with embedded control structures to support a common risk architecture across the organization.

In 2016, as part of strengthening IT infrastructure, the bank has embarked on major technological enhancements with the upgrade of the bank's core banking system and the acquisition of a new treasury system. These system upgrades covering both software and hardware components provide for a more robust support structure to manage risk across the bank.

Types of Risks

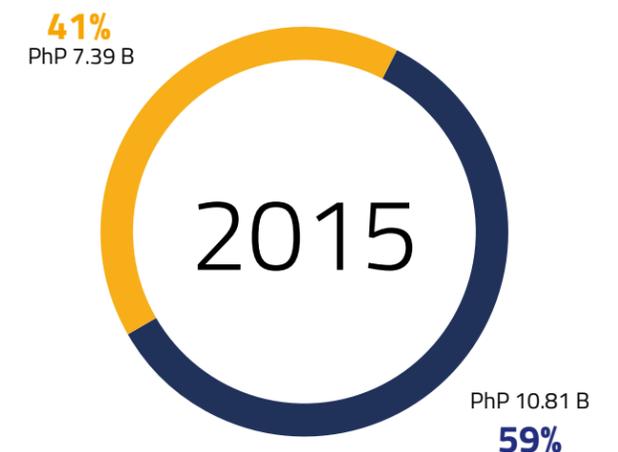
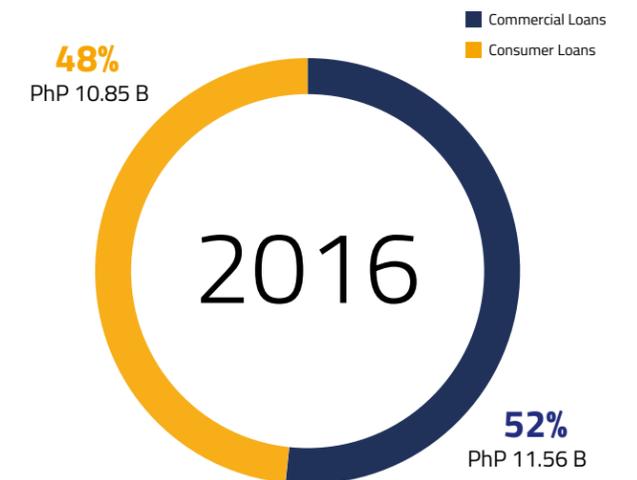
Credit Risk

Credit risk is the risk of financial loss to the bank if a borrower or counterparty is unable to meet its contractual obligations such as required payments. Credit risk is present in majority of the bank's business activities such as lending, trade finance and investment activities.

Credit risk is the bank's largest risk exposure contributing 90.57% of the bank's risk weighted assets for 2016. The bank uses the standardized approach to determine capital for credit risk.

Lending activities from the Commercial and Consumer Lending Groups comprise the majority of the bank's credit risk exposures. The combined loan portfolio of the two groups stood at PhP22 billion, exhibiting a 23.14% year-on-year growth. The auto loan segment has been the primary driver of growth for the lending units as demand for new car units and automotive financing have been on the rise. The consumer lending segment has outpaced the growth in the commercial lending portfolio. This is supportive of the bank's strategy of gradually shifting portfolio mix in favor of consumer lending. For 2016, Consumer and Commercial Loans mix registered at 48% and 52%, respectively, from 41% and 59% a year ago.

Combined Commercial and Consumer Lending Portfolio



IN BILLIONS (PhP)	2016	2015
COMMERCIAL LOANS	11.56	10.81
CONSUMER LOANS	10.85	7.39
TOTAL	22.41	18.20

CREDIT RISK-WEIGHTED ASSETS

	2016 (in Million PhP)		2015 (in Million PhP)	
	Net Carrying Amount	Risk Weighted Amount	Net Carrying Amount	Risk Weighted Amount
0% Risk Weight				
Cash On Hand	625		689	
Due From BSP	3,143		3,108	
Available For Sale Financial Assets	673		1,291	
Unquoted Debt Securities	614		714	
Loans Arising From Repurchase Agreements	1,085			
Loans To The Extent Covered By Hold-Out	236		234	
Loans To The Extent Covered By Marginal Deposits	4		2	
Loans To The Extent Guaranteed By HGC	1,408		1,535	
Total Subject To 0% Risk Weight	7,788	–	7,573	–
20% Risk Weight				
Claims Guaranteed By Foreign Incorporated Banks	972		992	
Interbank Call Loans	–		100	
Claims On Philippine Incorporated Private Enterprise	220		301	
Claims Guaranteed By Foreign Incorporated Private Enterprise	202		211	
Total Subject To 20% Risk Weight	1,394	279	1,604	321
50% Risk Weight				
Loans To Individual For Housing Purposes	875		602	
Foreign Currency Denominated Claims On Or Portions Of Claims	470		–	
Guaranteed By Or Collateralized By Foreign Currency Denominated Securities Issued By The Philippine National Government & the BSP	–		517	
Total Subject To 50% Risk Weight	1,345	673	1,119	560
75% Risk Weight				
Qualified MSME Loans	2,461		2,569	
Total Subject To 75% Risk Weight	2,461	1,845	2,569	1,927
100% Risk Weight				
NPL To Individuals For Housing Purposes	12		157	
Other Assets	19,223		14,956	
Total Subject To 100% Risk Weight	19,235	19,235	15,113	15,113
150% Risk Weight				
All NPL Except NPL Individual For Housing Purposes	925		888	
Real And Other Properties Acquired	168		88	
Total Subject To 150% Risk Weight	1,093	1,640	976	1,464
Risk-Weighted On Balance Sheet		23,671		19,384
Risk-Weighted Off Balance Sheet		13		10
Counterparty (Trading/Banking)		3		2
Total Credit Risk		23,687		19,396

The commercial lending portfolio stood at PhP11.560 billion. Majority of these loans are short-term working capital loans granted on clean basis as the bank practices risk-based lending which factors cash flow consideration in the credit structure. Repayment capacity is established through cash flow assessments with the acceptance of collateral being a secondary consideration as a risk mitigation technique. The fact that a substantial portion of the bank's commercial loan portfolio is unsecured is indicative of the implementation of risk-based lending standards over collateral-based lending.

Commercial credit structures are matched with borrower's business financing requirements. Credit facilities come in the form of loan lines for working capital requirements, receivables financing and factoring, medium term loans for capital expenditures, floor stock financing for automotive dealers, and international and domestic trade financing with credit terms matched with client's funding gap.

Commercial loans are subjected to the bank's Internal Credit Risk Rating System (ICRRS) wherein the bank uses a 10-scale rating system to profile commercial loans into High Grade, Standard Grade and Impaired categories.

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

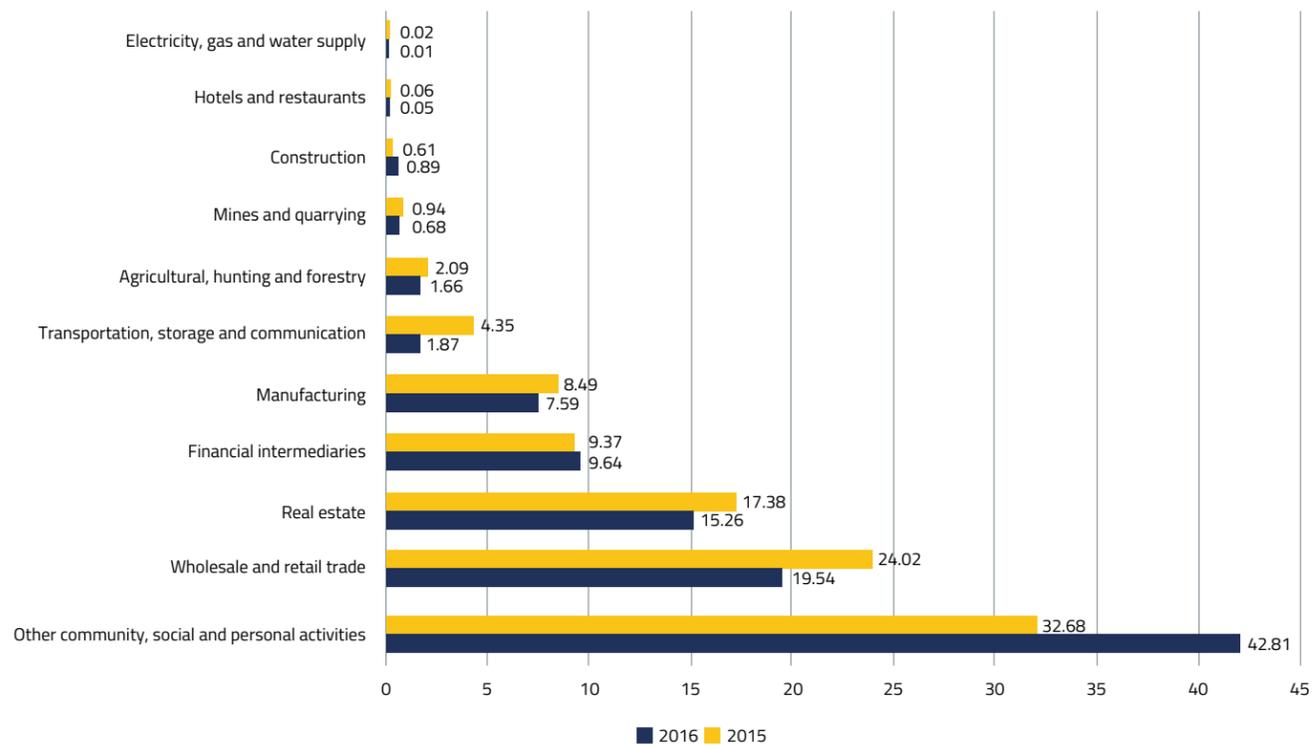
The rating system is divided into two parts: the borrower's risk rating (BRR), and the facility risk rating (FRR). The BRR uses a combination of financial indicators, management assessments and industry features which combine both quantitative and qualitative analyses as factors to measure credit risk. On the other hand, FRR takes into account the credit enhancements derived from the credit structure as well as risk mitigation mechanisms. Credit ratings are assigned during time of loan approval for large accounts, and post approval for management-level approvals. Credit ratings are being updated and re-evaluated annually or as necessary given that material changes to the borrower's credit worthiness.

As the Philippine economy continues to grow, opportunities abound for the consumer loans segment as consumer confidence and disposable income continue to improve. Consumer lending has seen double-digit growth in 2016. With the operationalization of the Credit Information Corporation (CIC), increased transparency in the system is expected to strengthen and boost retail lending.

Consumer loans are underwritten based on the bank's credit acceptance criteria built on a set of borrower attributes. In 2016, the bank rolled out new consumer credit scorecards to improve the current underwriting process and customer profiling mechanism. The bank takes a product-based and customer-centric approach in its retail lending operations. The consumer loans are divided between secured and unsecured product lines. Secured retail products include auto and real estate loans while personal, salary and employee loans make up unsecured retail products. These loans are designed to be used to finance the personal needs of the bank's customers as an alternative to credit card obligation as well as to finance SMEs.

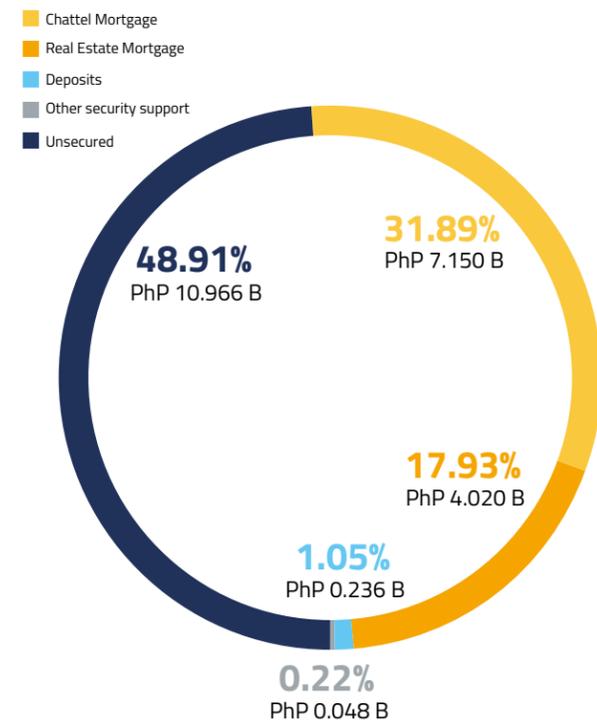
The bank manages concentration risk by spreading risk across various industry sectors. However, lending units have certain industries identified as their target market and strategic focus aligned with the risk appetite set by Sterling Bank of Asia's Board of Directors. Consumer lending is focused on the other community, social and personal activities sectors, as well as the real estate sector. Commercial lending, meanwhile, focuses on funding SMEs, which are primarily operating in the wholesale and retail trade sector. In 2016, the bank also introduced improvements in its industry risk rating framework, which takes into account cyclical and structural dimensions in the risk assessment.

Industry Sector Distribution of Loans and Receivables (%)



Sterling Bank of Asia's credit risk management system provides for a mechanism to manage risk both at the individual and portfolio levels. At the individual level, borrowers undergo a comprehensive assessment of creditworthiness as part of the bank's loan underwriting process. Cash flow is the primary basis of repayment capacity in the bank's evaluation process. For business loans, it is accompanied by a comprehensive evaluation of business fundamentals that factor in socio-economic, political, environmental, legal and technological aspects in order to provide for a more forward looking approach to ascertain cash flow generation potential. Assessments provide for safeguards against over indebtedness as part of the bank's commitment to uphold consumer protection standards. At the portfolio level, the bank has established a system of limit structures to avoid excessive credit concentration. These include limits for single and group of related borrowers, industry sector exposures, and country and cross-border risks, all of which are subject to annual reviews.

Portfolio Breakdown by Security (%)



In terms of the approval process, embedded controls include the adherence to the "Four Eyes Principle" following a system of delegated authorities as approved by the board.

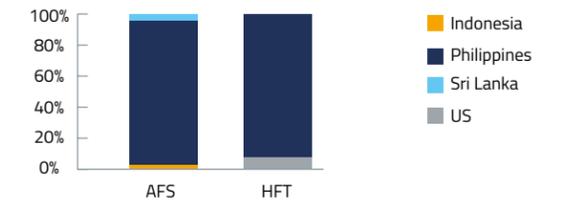
The Loan Committee (LoanCom) serves as the governance body overseeing the bank's credit risk management system. It reviews and approves the credit risk strategies employed by the business units which define their respective target markets and product offerings. Approval of credit policies which provide parameters for lending and credit risk-taking and the corresponding risk control framework is also done at the LoanCom level.

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 is within set limits and thresholds.

Credit risk exposures are monitored and reported regularly to the Credit, Loan and Risk Management Committees. The development of credit risk management mechanism is the responsibility of the Credit Risk and Control Department of the Risk Management Group, which serves as the support structure of the Risk Management Committee. Formulation and implementation of credit risk policy, risk measurements and monitoring mechanisms are also functions of the Credit Risk and Control Department.

As a testament to the bank's prudent credit risk underwriting procedures, the bank's overall credit risk profile has significantly improved. The bank has significantly closed the gap between the bank and the industry's NPL ratio during the 1st half of 2016, and has consistently outperformed the industry during the 2nd half of the year. As of December 2016, the bank's NPL ratio is at 3.96% which is significantly better than the industry average of 4.71%.

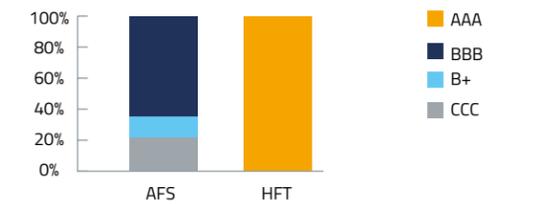
Credit exposures also reside in the bank's treasury trading and investment portfolios. Credit risk in the Treasury Portfolio is managed by monitoring the prices of securities which provide indications of credit risk premium priced by the market. Credit limit structures such as position limits, counterparty 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.



Securities	AFS	HFT	TOTAL	%
Indonesia	36		36	2%
Philippines	1,313	457	1,771	95%
Sri Lanka	25		25	1%
US		44	44	2%
Grand Total	1,374	501	1,875	100%

*Fcy Denominated converted @ USD/PhP 49.72
*Amount in PhP millions

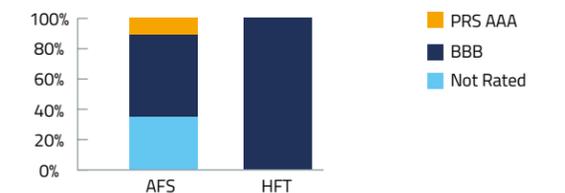
FCDU



RATINGS	AFS	HFT	TOTAL	%
AAA		44	44	21%
BBB	108		108	51%
B+	25		25	11%
CCC	36		36	17%
Total	169	44	213	100%

*Fcy Denominated converted @ USD/PhP 49.72
*Amount in PhP millions

RBV



RATINGS	AFS	HFT	TOTAL	%
PRS AAA	416		416	25%
BBB	672	457	1,129	68%
Not Rated	117		117	7%
Total	1,205	457	1,662	100%

*Amount in PhP millions
* HFT exclusive of FX derivatives amounting to PhP0.05 million
*AFS - Available for Sale
*HFT - Held for Trading

Source: Outstanding Investment Report as of December 2016 from Treasury Operations

Market and Interest Rate Risk

Market risk arises from uncertainty in market prices and changes in interest rates. Trading and non-trading portfolios are exposed to market and interest rate risk.

In order to address liquidity and statutory reserve requirements, RMC-approved limits are set, reviewed and recalibrated annually in order to guide treasury investment activities. Particular risk factors are captured in order to provide parameters by which the bank conducts its asset and liability management.

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 are determined using the standardized approach. For 2016, market risk weighted assets stood at PhP375.50 million, representing 1.42% of total risk weighted assets.

Liquidity Risk

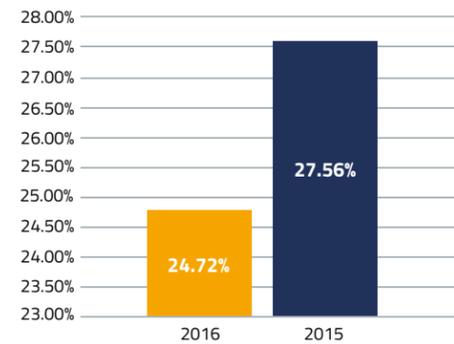
Liquidity risk arises from the potential inability to meet all of the bank's financial liabilities at a reasonable cost. Financial obligations include liabilities to depositors, liabilities arising from financial contracts, settlement of securities borrowing and repurchase transactions, and lending and investment commitments.

The business of banking is anchored upon trust and confidence. Hence, liquidity risk management is essential to ensure that the bank is capable of funding both expected and unexpected cash flows at reasonable costs.

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

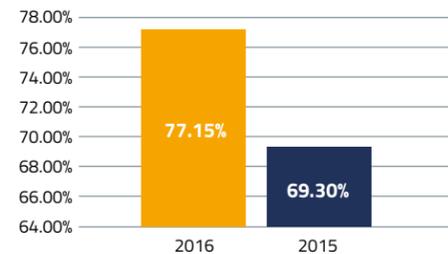
Liquid Assets to Total Assets



	2016	2015
Liquid Assets*	8,378,903,249	8,516,175,606
Total Assets	33,900,250,206	30,900,899,549

*Sum of Cash, COCI, DF BSP, DF Other Banks, Interbank Loans and Financial Assets at Fair Value through Profit or Loss

Loans to Deposit Ratio



	2016	2015
Loans and Receivables (Net)	22,746,095,981	18,635,289,930
Total Deposits	29,483,028,640	26,888,986,133

toward striking an optimal balance sheet structure that will maximize profitability and address liquidity risk concerns.

The Risk Management Group supports the committees by monitoring risk through regular analyses of usual funding requirements and the diversification of existing funding sources. Tactical liquidity management with the intraday level forecasting of cash flows is practiced by the Treasury Group which takes into account the bank's access to secured and unsecured funding sources and the actual fund deployment.

The bank has a diverse source of funds. Short-term deposits generated through the bank's network of domestic branches are the main funding source of the bank. The minimum level of core liquidity is preserved at all times with sufficient cushion in the form of highly liquid assets following the bank's liquidity risk management framework.

Liquidity risk metrics such as the Maximum Cumulative Outflow (MCO) and various liquidity ratios supplement the Treasury Group's intraday cash flow forecasting and weekly funding assessments in the ALCo. The bank's liquidity position is subject to a quarterly stress testing exercise that determines the impact of various stress scenarios as a complement to the cash flow based reporting system.

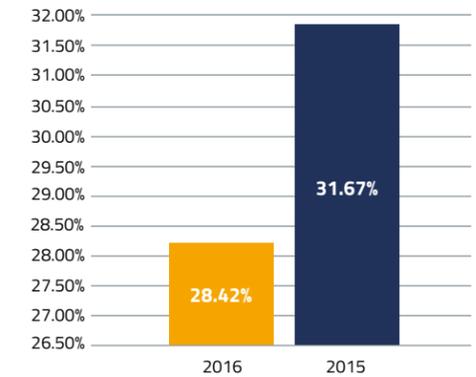
Operational Risk

Operational Risk is the risk of loss resulting from inadequate or failed internal processes or from external events which may be caused by 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 four lines of defense principle guides the bank's risk management framework. The business units serve as the first line of defense as day-to-day management of operational risk is actively managed by the risk controls embedded in their processes. The back office units are the second line of defense as additional controls and quality checks are integrated in the transaction flow. Operational risk monitoring is exercised by the Risk Management Group as the third line of defense in order to guarantee the correct and consistent application of the bank's operational risk management framework. Internal Audit and Compliance functions which independently review the effectiveness of risk management systems and controls serve as the fourth line of defense.

The bank's operational risk profile is evaluated through the Risk and Control Self-Assessment (RCSA) and the Operational Loss Database. The RCSA identifies risk concentrations and operational concerns, and define risk treatment action plans in line with bank's risk tolerance and threshold levels set by the RMC. It also maps out embedded risks in business process as well as evaluate the effectiveness of risk controls through the use of Key Risk Indicators. The Operational Loss Database captures information from the bank's operational loss experience, which can be leveraged through the analysis of risk trends and operational risk exposure. A loss tracking is also integrated in the system, which is regularly reported to the RMC.

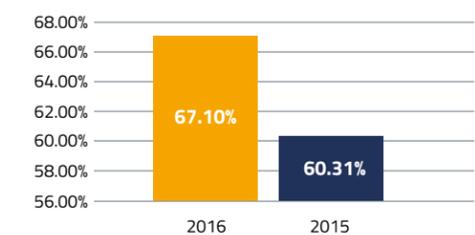
Liquidity Ratio



	2016	2015
Liquid Assets*	8,378,903,249	8,516,175,606
Total Deposits	29,483,028,640	26,888,986,133

*Sum of Cash, COCI, DF BSP, DF Other Banks, Interbank Loans and Financial Assets at Fair Value through Profit or Loss

Loans to Asset Ratio



	2016	2015
Loans and Receivables (Net)	22,746,095,981	18,635,289,930
Total Assets	33,903,849,408	30,900,899,549

The bank's Business Continuity Management Program (BCMP) ensures that the bank is resilient in the face of crises and business interruptions. Business Continuity Plans (BCPs) and Disaster Recovery Plans (DRP) are put in place to guarantee proactive responses and swift recovery from significant business disruptions. BCPs and the entire Business Continuity Management Program are subjected to an iterative cycle of improvement as part of the bank's commitment to deliver superior banking services to its clients. Mindful that the key to business resilience lies in the deep understanding of business processes, impact of disruption and customer expectations, the bank in 2016 enhanced its Business Impact Analysis framework to strengthen prioritized assessment of critical banking services and business processes.

Disaster preparedness is likewise part of the bank's BCMP. Regular fire and earthquake drills coordinated with local government agencies are conducted as part of this initiative.

The bank makes use of the Basic Indicator Approach (BIA) in determining the capital charge for operational risk. For 2016, Operational Risk Weighted Assets (ORWA) stood at PhP2.09 billion, accounting for 8.79% of risk weighted assets.

Compliance Risk

Compliance risk is defined as the risk of loss due to non-compliance to rules, regulations and laws.

With the banking sector operating in a highly complex regulatory environment, compliance risk management is considered as mission critical. Financial institutions for the past couple of years have seen a more stringent regulatory business environment with the frequent issuance of new regulations both from local and global front aimed at strengthening the financial system.

The bank's Compliance Program is the backbone of the compliance risk management system. It is composed of the bank's governance structure that ensures active board and senior management oversight, policies and procedures that ensure alignment with relevant laws and regulations and factors in the level of complexity of the bank's operations, compliance risk self-assessments, compliance testing and independent validation of controls.

The bank's Compliance Office (CO) takes charge of the compliance program, monitors regulatory changes, and assesses its operational and balance sheet implications. The CO reports to the Corporate Governance Committee, which provides the board with information pertaining to the status of compliance risks and controls. The CO also ensures that the relevant stakeholders are continuously educated and trained on new regulations.

One of the key compliance programs is the Anti-Money Laundering Program, which covers both personnel and structural elements. Know Your Customer (KYC) and Know Your Employees (KYE) processes provide for key supporting

structures to the AML program. These cover onboarding as well as constant monitoring throughout the customer and employee engagement period. The CO has allocated dedicated personnel to monitor AML compliance and conduct review of internal controls, independent testing and AML training.

Meanwhile, 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. Charges arising from compliance risk is incorporated in the operational risk capital charge.

Strategic Risk

Potential losses arising from inappropriate business decisions as well as inability to respond to a changing business environment is considered as strategic risk.

The board of directors together with senior management provide the general direction and the respective strategic thrusts of the bank, which is where the business plans of the respective business units are anchored upon. The institutionalized strategic planning process, which charts the bank's growth targets, take into account assessments of the risk and competitive landscape that integrate risk management strategies and capital plans into the respective business group's strategic plans.

Strategic risk is managed by the bank at all relevant levels. Periodic review of actual performance versus set objectives is conducted by the Senior Management Committee with the board of directors/ExCom.

Reputational Risk

Reputational risk is the risk of loss due to negative public perception of the bank. As banking is a business of trust, any business practice and association which may negatively affect the public's perception, decrease the bank's customer base, affect operations, and result to legal suits and costly remediation measures must be minimized and effectively managed. Reputational risk management is a strategic imperative that extends beyond the limits of the company and incorporates potential risk issues across the value chain with its strategic business partners.

As superior customer service is one of the bank's core competencies, reputational risk is strictly managed by a series of quality assurance mechanisms that ensure customer service standards are upheld or exceeded, and minimize operational lapses and concerns that hamper the bank's service delivery. Results from the active solicitation of customer feedback are incorporated in the evaluation of Service Level Agreements. A customer management hotline is also made available to address client concerns and customer complaints. For 2016, the bank received a total of 1,444 client concerns via Customer Service Department and branches. These concerns were handled and resolved in accordance with the bank's policies.

Capital Management

The bank remains in strong financial footing as its capital adequacy ratio stood well at 12.37%, above the 10% regulatory threshold.

The strategic thrusts of the bank are supported by the bank's capital management activities. Shareholder value maximization through asset growth and expansion and capital sufficiency is ensured by determining the most efficient level of capital given the bank's risk-taking activities.

Prudent capital management and allocation of sufficient buffers are practiced in order to ensure that capital ratios are maintained above minimum regulatory requirement despite shocks during periods of stress. A balance between risk and reward is maintained in order to ensure that shareholder wealth is maximized without taking in excessive risk to capital.

	2016	2015
Tier 1 Capital	2,259,580	2,139,584
Required Deductions	29,236	47,600
Net Tier 1 Capital	2,230,344	2,091,984
Tier 2 Capital	1,005,247	961,952
Required Deductions	–	–
Net Tier 2 Capital	1,005,247	961,952
Total Qualifying Capital	3,235,591	3,053,936
Credit Risk Weighted Assets	23,686,572	19,396,394
Market Risk Weighted Assets	375,501	1,606,421
Operational Risk Weighted Assets	2,091,337	2,024,693
Total Risk Weighted Assets	26,153,410	23,027,508
Tier 1 Capital Ratio	8.53%	9.08%
Total Capital Ratio	12.37%	13.26%

December 31 (in Millions)

	2016	2015
Total Tier 1 Capital	2,230	2,092
Paid-Up Common Stock	2,070	2,070
Additional Paid-In Capital		
Retained Earnings	120	59
Undivided Profits	75	21
Cumulative Foreign Currency Translation	(5)	(10)
Sub-Total	2,260	2,140
Less Deductions:		
Unsecured DOSRI Credit Accommodations	–	–
Deferred Tax Assets	29	48
Unbooked Valuation	–	–
Total Deductions From Tier 1 Capital	29	48
Total Qualifying Tier 1 Capital	2,230	2,092

December 31 (in Millions)

	2016	2015
Total Tier 2 Capital	1,005	962
Preferred Stock	300	300
General Loan Loss Provision	208	164
Unsecured Subordinated Debt	498	498
Total Qualifying Tier 2 Capital	1,005	962

	CREDIT RISK		MARKET RISK		OPERATIONAL RISK	
	2016	2015	2016	2015	2016	2015
On - Balance Sheet (Net Of Deductions)	23,671	19,384				
Off - Balance Sheet	13	10				
Counterparty (Trading/Banking)	3	2				
Interest Rate Exposure			305	1,516		
Foreign Exchange			71	90		
Operational Risk - Weighted Assets					2,091	2,025
Total	23,687	19,396	376	1,606	2,091	2,025



STERLING BANK OF ASIA INC.
(A Savings Bank)

Financial Statements
December 31, 2016 and 2015



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)
Sterling Bank Corporate Center
Greenhills, San Juan
Metro Manila

Report on the Financial Statements

Opinion

We have audited the accompanying financial statements of Sterling Bank of Asia Inc. (A Savings Bank) (the Bank), which comprise the statements of financial position as at December 31, 2016 and 2015, and the statements of comprehensive income, statement of changes in equity and statements of cash flows for the years that ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report for the year ended December 31, 2016, but does not include the financial statements and our auditor's report thereon. The Annual Report for the year ended December 31, 2016 are expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatements of the financial statements, whether due to fraud or errors, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatements resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention on our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on the Supplementary Information Required Under Revenue Regulation Nos. 15-2010 and 19-2011 of the Bureau of Internal Revenue

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on taxes and licenses and the schedule of taxable income and deductible expenses in Note 30 to financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Sterling Bank of Asia Inc. (A Savings Bank). The information has been subjected to the auditing procedures applied in our audits of the basic financial statements and in our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

REYES TACANDONG & CO.

- signed -

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. 08-005144-6-2017

Valid until January 13, 2020

PTR No. 5908527

Issued January 3, 2017, Makati City

March 21, 2017

Makati City, Metro Manila

STERLING BANK OF ASIA INC. (A Savings Bank)

STATEMENTS OF FINANCIAL POSITION

		December 31	
	Note	2016	2015
ASSETS			
Cash and Other Cash Items		P625,137,059	P688,754,312
Due from Bangko Sentral ng Pilipinas		3,142,341,082	3,107,652,243
Due from Other Banks		1,753,369,339	1,441,016,646
Interbank Loans Receivable	6	2,356,564,116	1,148,219,571
Financial Assets at Fair Value through Profit or Loss	7	501,491,653	2,130,532,834
Available-for-Sale Financial Assets	8	1,373,954,718	2,436,144,847
Held-to-Maturity Investments	9	351,441,287	340,029,282
Loans and Receivables	10	22,746,095,981	18,635,289,930
Property and Equipment	11	450,259,559	493,188,552
Assets Held for Sale	12	210,179,719	117,201,260
Intangible Assets	13	285,209,686	226,958,991
Deferred Tax Assets	24	17,054,774	44,207,985
Other Assets	14	90,750,435	91,703,096
TOTAL ASSETS		P33,903,849,408	P30,900,899,549
LIABILITIES AND EQUITY			
Liabilities			
Deposit Liabilities	15	P29,483,028,640	P26,888,986,133
Manager's Checks		230,306,123	136,967,809
Accrued Interest, Taxes and Other Expenses	17	120,504,002	120,585,865
Unsecured Subordinated Debt	18	500,000,000	500,000,000
Income Tax Payable		26,204,165	2,900,143
Retirement Liability	22	72,072,910	62,594,572
Bills Payable	16	-	36,781,584
Other Liabilities	19	746,667,892	643,243,527
Total Liabilities		31,178,783,732	28,392,059,633
Equity			
Common Stock	25	2,070,000,000	2,070,000,000
Perpetual Preferred Stock	25	300,000,000	300,000,000
Other Equity Reserves		(69,156,363)	(197,152,456)
Retained Earnings		424,222,039	335,992,372
Total Equity		2,725,065,676	2,508,839,916
TOTAL LIABILITIES AND EQUITY		P33,903,849,408	P30,900,899,549

See accompanying Notes to Financial Statements.

STERLING BANK OF ASIA INC. (A Savings Bank)

STATEMENTS OF INCOME

	Note	Years Ended December 31	
		2016	2015
INTEREST INCOME ON:			
Loans and receivables	10	₱1,594,667,588	₱1,395,910,412
Investment securities	7	151,640,681	305,835,633
Due from Bangko Sentral ng Pilipinas and other banks		17,571,509	44,186,356
Interbank loans receivable	6	14,316,872	5,420,113
		1,778,196,650	1,751,352,514
INTEREST EXPENSE ON DEPOSIT LIABILITIES, BILLS PAYABLE AND OTHERS			
	15	465,515,208	557,683,738
NET INTEREST INCOME		1,312,681,442	1,193,668,776
OTHER INCOME (CHARGES)			
Service charges, fees and commissions		208,631,504	172,615,607
Net losses from assets sold or acquired	12	(36,106,553)	(14,036,406)
Net foreign exchange gains		22,551,813	70,932,973
Net trading and securities losses from investment securities	7	(20,107,502)	(119,855,061)
Others - net		11,271,004	21,242,789
		186,240,266	130,899,902
OPERATING EXPENSES			
Compensation and fringe benefits		493,669,812	434,148,365
Taxes and licenses		178,080,231	183,421,750
Occupancy		104,148,174	108,399,288
Depreciation and amortization	11	81,817,477	84,162,180
Representation and entertainment		66,414,447	61,759,296
Insurance		56,955,844	59,281,918
Security, messengerial and janitorial		53,681,052	52,301,654
Others	23	227,875,187	179,440,234
		1,262,642,224	1,162,914,685
PROVISION FOR CREDIT AND IMPAIRMENT LOSSES	10	52,638,700	81,583,540
INCOME BEFORE INCOME TAX		183,640,784	80,070,453
INCOME TAX EXPENSE (BENEFIT)			
Current	24	110,929,498	76,397,997
Deferred		(15,518,381)	(27,455,127)
		95,411,117	48,942,870
NET INCOME		₱88,229,667	₱31,127,583

See accompanying Notes to Financial Statements.

STERLING BANK OF ASIA INC. (A Savings Bank)

STATEMENTS OF COMPREHENSIVE INCOME

	Note	Years Ended December 31	
		2016	2015
NET INCOME		₱88,229,667	₱31,127,583
OTHER COMPREHENSIVE INCOME (LOSS)			
<i>Items to be reclassified to profit or loss</i>			
Net unrealized gains (losses) on available-for-sale financial assets	8	122,844,008	(212,672,127)
Translation adjustment		5,266,173	13,010,846
<i>Item not to be reclassified to profit or loss</i>			
Remeasurement gains (losses) on retirement liability, net of deferred tax	22	(114,088)	1,695,758
		127,996,093	(197,965,523)
TOTAL COMPREHENSIVE INCOME (LOSS)		₱216,225,760	(₱166,837,940)

See accompanying Notes to Financial Statements.

STERLING BANK OF ASIA INC. (A Savings Bank)

STATEMENTS OF CHANGES IN EQUITY

	Note	Years Ended December 31	
		2016	2015
COMMON STOCK			
Balance at beginning of year	25	₱2,070,000,000	₱1,895,000,000
Issuance of shares		–	175,000,000
Balance at end of year		2,070,000,000	2,070,000,000
PERPETUAL PREFERRED STOCK			
Balance at beginning and end of year	25	300,000,000	300,000,000
OTHER EQUITY RESERVES			
Cumulative Unrealized Losses on Available-for-Sale Financial Assets			
Balance at beginning of year	8	(188,066,529)	24,605,598
Net unrealized gains (losses)		122,844,008	(212,672,127)
Balance at end of year		(65,222,521)	(188,066,529)
Cumulative Translation Adjustment			
Balance at beginning of year		(10,282,533)	(23,293,379)
Translation adjustment		5,266,173	13,010,846
Balance at end of year		(5,016,360)	(10,282,533)
Cumulative Remeasurement Gains (Losses) on Retirement Liability			
Balance at beginning of year		1,196,606	(499,152)
Remeasurement gain (loss), net of deferred tax	22	(114,088)	1,695,758
Balance at end of year		1,082,518	1,196,606
		(69,156,363)	(197,152,456)
RETAINED EARNINGS			
Balance at beginning of year		335,992,372	304,864,789
Net income		88,229,667	31,127,583
Balance at end of year		424,222,039	335,992,372
		₱2,725,065,676	₱2,508,839,916

See accompanying Notes to Financial Statements.

STERLING BANK OF ASIA INC. (A Savings Bank)

STATEMENTS OF CASH FLOWS

	Note	Years Ended December 31	
		2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		₱183,640,784	₱80,070,453
Adjustments for:			
Depreciation and amortization	11	81,817,477	84,162,180
Provision for credit and impairment losses on loans and receivables	10	52,638,700	81,583,540
Unrealized trading losses on financial assets at fair value through profit or loss	7	48,437,292	180,862,254
Net losses from assets sold or acquired	12	36,106,553	14,036,406
Retirement benefits	22	17,315,355	16,221,739
Net gain on sale of available-for-sale financial assets	8	(14,940,562)	(18,435,318)
Amortization of premium on held-to-maturity investments	9	2,685,995	7,021,777
Provision for impairment losses on assets held for sale	12	1,916,024	–
Operating income before working capital changes		409,617,618	445,523,031
Changes in operating assets and liabilities:			
Decrease (increase) in the amounts of:			
Financial assets at fair value through profit or loss		1,580,603,889	1,858,367,223
Loans and receivables		(4,368,661,590)	(1,946,008,627)
Other assets		952,661	15,299,080
Increase (decrease) in the amounts of:			
Deposit liabilities		2,594,042,507	(2,475,885,043)
Manager's checks		93,338,313	(14,100,588)
Accrued interest, taxes and other expenses		(81,863)	(47,255,077)
Other liabilities		82,373,419	(463,776,465)
Net cash generated from (used for) operations		392,184,954	(2,627,836,466)
Income tax paid		(44,904,988)	(73,497,854)
Retirement contributions paid	22	(8,000,000)	–
Retirement benefits paid	22	–	(15,896,167)
Net cash flows provided by (used in) operating activities		339,279,966	(2,717,230,487)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of:			
Available-for-sale financial assets		1,737,073,277	2,329,592,547
Assets held for sale		73,542,098	78,976,074
Property and equipment		1,997,935	5,839,971
Additions to:			
Available-for-sale financial assets		(537,098,578)	(1,000,330,954)
Computer software	13	(38,802,338)	(474,062)
Property and equipment	11	(38,610,125)	(59,230,552)
Net cash flows provided by investing activities		1,198,102,269	1,354,373,024

(Forward)

	Note	Years Ended December 31	
		2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of bills payable		(P36,781,584)	(P615,670,091)
Proceeds from:			
Availment of bills payable		–	364,777,400
Issuance of capital stock	25	–	175,000,000
Net cash flows used in financing activities		(36,781,584)	(75,892,691)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS			
		(8,831,827)	13,010,846
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
		1,491,768,824	(1,425,739,308)
CASH AND CASH EQUIVALENTS AT BEGINNING OF 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	6	1,148,219,571	625,686,821
		6,385,642,772	7,811,382,080
CASH AND CASH EQUIVALENTS AT END OF THE YEAR			
Cash and other cash items		625,137,059	688,754,312
Due from Bangko Sentral ng Pilipinas		3,142,341,082	3,107,652,243
Due from other banks		1,753,369,339	1,441,016,646
Interbank loans receivable	6	2,356,564,116	1,148,219,571
		P7,877,411,596	P6,385,642,772
OPERATING CASH FLOWS FROM INTEREST			
Interest received		P1,792,107,044	P1,435,555,243
Interest paid		479,121,511	569,918,094
NONCASH INFORMATION			
Reclassification of loans and receivables to assets held for sale	12	P224,332,862	P81,719,083

See accompanying Notes to Financial Statements.

STERLING BANK OF ASIA INC. (A Savings Bank)

NOTES TO FINANCIAL STATEMENTS

1. General 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). The Bank is primarily engaged 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, 2016 and 2015, the Bank operates a total of 42 branches.

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, 2016 and 2015, the ultimate parent of the Bank is JEI, through a direct interest of 40% and indirect interest of 30%, 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, 2016 and 2015 have been approved and authorized for issue by the Board of Directors (BOD) on March 21, 2017.

2. Summary of Significant Accounting Policies

Basis of Preparation and Compliance

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), Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC), and the SEC provisions.

Measurement Bases

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

- retirement liability, which is carried at the present value of defined benefit obligation less the fair value of plan assets.

Historical cost is generally based on the fair value of the consideration given in exchange for an asset. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the transaction date.

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 5, *Fair Value Measurement*.

Functional and Presentation Currency

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.

Adoption of New and Amended PFRS

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new and amended PFRS effective January 1, 2016.

- Amendment to PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal* – 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.
- Amendments to PAS 1, *Presentation of Financial Statements: Disclosure Initiative* – 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, these presumptions can be rebutted in certain limited circumstances.
- Amendment to PAS 19, *Employee Benefits - Discount Rate: Regional Market Issue* – The amendment clarifies that in determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important, and not the country where the liabilities arise. Thus, the assessment of whether there is a deep market in high quality corporate bonds is based on corporate bonds in that currency (not corporate bonds in a particular country), and in the absence of a deep market in high quality corporate bonds in that currency, government bond in the relevant currency should be used.

The adoption of the foregoing new and amended 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 Amended PFRS Not Yet Adopted

Relevant new and amended PFRS, which are not yet effective for the year ended December 31, 2016 and have not been applied in preparing the financial statements, are summarized below.

Effective for annual periods beginning on or after January 1, 2017:

- Amendments to PAS 7, *Statement of Cash Flows - Disclosure Initiative* – The amendments require entities to provide information that enable the users of financial statements to evaluate changes in liabilities arising from their financing activities.
- Amendments to PAS 12, *Income Taxes - Recognition of Deferred Tax Assets for Unrealized Losses* – The amendments clarify the accounting for deferred tax assets related to unrealized losses on debt instruments measured at fair value, to address diversity in practice.

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 these 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 no longer be necessary to have an 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.

Effective for annual periods beginning on or after January 1, 2019 -

- PFRS 16, *Leases* – Significant change introduced by the new standard is that almost all leases will be brought onto lessees' statement of financial position under a single model (except leases of less than 12 months and leases of low-value assets), eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance lease is retained.

Under prevailing circumstances, the adoption of the foregoing new and amended PFRS is not expected to have any material effect on the financial statements of the Bank, except for PFRS 9 and PFRS 16. Additional disclosures will be included in the financial statements of the Bank, as applicable.

The Bank anticipates that the application of PFRS 9 and PFRS 16 might have a significant effect on the amounts reported with respect to the Bank's financial assets, liabilities and leases. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

Financial Assets and Liabilities

Date of Recognition. The Bank recognizes a financial asset or liability 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 these 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 statement of financial position at fair value. Subsequent changes in fair value are recognized as "Net trading and securities gains (losses) from investment securities" 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, 2016 and 2015, investments in government securities and private bonds are included in this category (see Note 7).

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 (losses)" 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, 2016 and 2015, investments in government securities, private bonds and unquoted equity security are included in this category (see Note 8).

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, 2016 and 2015, investments in government debt securities are included in this category (see Note 9).

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, 2016 and 2015, 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 6, 10 and 14).

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, 2016 and 2015, 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 (see Notes 15, 16, 17, 18 and 19).

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 has expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. 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 statement 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 8).

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.

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 statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts without being contingent on a future event and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously in all of the following circumstances:

- the normal course of business,
- the event of default, and
- the event of insolvency or bankruptcy of the Bank and/or its counterparties.

Financial assets and liabilities with master netting agreements are only presented net when those satisfy the eligibility of netting for all of the above criteria and not just in the event of default.

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 are as follows:

Asset Category	Number of Years
Building and condominium units	20
Furniture, fixtures and equipment	3 to 5
Leasehold rights and improvements	10 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 statement of financial position and accounted for at the lower of cost and fair value less cost-to-sell. Foreclosed assets are classified as held for sale if the carrying amount will be recovered principally through a sale transaction rather than continuing use. 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.

Intangible Assets

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 assessment from indefinite to finite life will be accounted prospectively.

Computer Software. Computer software is measured on initial recognition at cost. Subsequently, computer software is measured at cost less accumulated amortization and any impairment losses. Internally-generated computer software, excluding capitalized development costs, is not capitalized and expenditures are recognized in profit or loss in the year in which the related expenditures are incurred.

Computer software is amortized using straight-line method over the useful life of five years and assessed for impairment whenever there is an indication that the computer software may be impaired. The amortization period and method used for computer software are reviewed annually. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimate. The amortization on computer software is recognized in profit or loss.

Gains or losses arising from the disposal of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in profit or loss when the asset is derecognized.

Other Assets

Other assets include prepaid expenses, refundable deposits, other investments, documentary stamp taxes, RCOCI, deferred lease and other miscellaneous items.

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

Impairment of Non-financial Assets

Property and equipment and computer software are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Branch licenses are assessed for impairment annually either individually or at the cash generating unit (CGU) level, as appropriate. 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.

Equity

Common Stock. Common stock is classified as equity and is measured at par value per share issued. Incremental costs directly attributable to the issuance of new shares are recognized as deduction from equity, net of tax. Otherwise, there are recognized as expense in profit or loss.

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), which is presented as "Other equity reserves," 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.

Gains (Losses) 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 fair value is determined.

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.

3. 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 5, *Fair Value Measurement*.

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 statement 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 requires the reclassification of the entire HTM portfolio to the AFS financial assets category and prohibits the Bank from using the HTM investments category during the reporting year and for the succeeding two full financial years, whenever it sells or reclassifies more than an insignificant amount of HTM investments before maturity, other than for permissible reasons.

Determining the Classification of Lease Agreements. The Bank, as a lessee, has various existing 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 P83.1 million and P84.9 million in 2016 and 2015, respectively (see Note 21).

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. 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 that the ultimate outcome of these proceedings will not have a material adverse effect on the Bank's financial position and performance (see Note 28).

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 ₱52.6 million and ₱81.6 million in 2016 and 2015, respectively (see Note 10). The allowance for credit and impairment losses on loans and receivables amounted to ₱489.0 million and ₱447.8 million as at December 31, 2016 and 2015, respectively (see Note 10).

The carrying amount of loans and receivables amounted to ₱22,746.1 million and ₱18,635.3 million as at December 31, 2016 and 2015, respectively (see Note 10).

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 2016 and 2015.

The carrying amount of AFS financial assets amounted to ₱1,374.0 million and ₱2,436.1 million as at December 31, 2016 and 2015, respectively (see Note 8).

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 2016 and 2015.

As at December 31, 2016 and 2015, the carrying amount of HTM investments is ₱351.4 million and ₱340.0 million, respectively (see Note 9).

Assessing Impairment on Branch License. Branch license is determined to be an intangible asset with an indefinite useful life because there is no foreseeable limit to the period on which the branch license is expected to generate net cash inflows for the Bank. The branch license 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.

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

When the branch license's fair value less cost of disposal is lower than its carrying amount, the recoverable amount 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.

No impairment losses were recognized in 2016 and 2015. As at December 31, 2016 and 2015, the carrying amount of the branch licenses amounted to ₱225.4 million (see Note 13).

Assessing Impairment on Property and Equipment and Computer Software. The Bank assesses impairment on property and equipment and computer software 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 property and equipment and computer software are impaired. Accordingly, no impairment losses were recognized in 2016 and 2015.

The carrying amounts of property and equipment and computer software are as follows:

	Note	2016	2015
Property and equipment	11	₱450,259,826	₱493,188,552
Computer software	13	59,819,419	1,568,724
		₱510,079,245	₱494,757,276

Estimating Useful Lives of Property and Equipment and Computer Software. The Bank estimates the useful lives of property and equipment and computer software and 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 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 and computer software would increase the recorded expenses and decrease assets.

There was no change in the estimated useful lives of the property and equipment and computer software in 2016 and 2015, except for leasehold improvements. The estimated useful life of leasehold improvements was changed from five to 10 years or lease term, whichever is shorter in 2016. The effect of the change resulted to additional depreciation amounting to ₱2.1 million in 2016.

The carrying amounts of property and equipment and computer software are as follows:

	Note	2016	2015
Property and equipment	11	₱450,259,826	₱493,188,552
Computer software	13	59,819,419	1,568,724
		₱510,079,245	₱494,757,276

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. The Bank is committed to sell and actively market the 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.

Provision for impairment loss on assets held for sale amounted to ₱1.9 million and nil in 2016 and 2015, respectively (see Note 12). Loss on foreclosure of assets held for sale amounted to ₱18.4 million and ₱8.3 million in 2016 and 2015, respectively (see Note 12). Assets held for sale amounted to ₱210.2 million and ₱117.2 million as at December 31, 2016 and 2015, respectively (see Note 12).

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 22 to financial statements.

Retirement liability amounted to ₱72.1 million and ₱62.6 million as at December 31, 2016 and 2015, respectively (see Note 22).

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, 2016 and 2015, net deferred tax assets amounted to ₱17.1 million and ₱44.2 million, respectively (see Note 24).

As at December 31, 2016 and 2015, the Bank did not recognize deferred tax assets on temporary differences totaling ₱413.6 million and ₱374.9 million, respectively (see Note 24). Management assessed that it is not probable that sufficient future taxable profit will be available to allow all or part of the deferred tax assets to be utilized.

4. 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.

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:

	2016				
	Loans and Receivables ¹	Loans and Advances to Banks ²	Investment Securities ³	Others ⁴	Total
Other community, social and personal activities	₱9,597,263,048	₱-	₱-	₱2,737,648	₱9,600,000,696
Wholesale and retail trade	4,380,871,771	-	-	26,990,317	4,407,862,088
Real estate	3,421,718,662	-	-	26,742,524	3,448,461,186
Financial intermediaries	2,160,986,415	7,252,274,537	572,372,419	-	9,985,633,371
Manufacturing	1,701,046,832	-	-	-	1,701,046,832
Transportation, storage and communication	419,461,458	-	-	-	419,461,458
Agricultural, hunting and forestry	371,914,617	-	-	-	371,914,617
Construction	199,774,219	-	-	3,135,000	202,909,219
Mining and quarrying	153,000,000	-	-	-	153,000,000
Hotel and restaurant	11,995,247	-	-	-	11,995,247
Electricity, gas and water supply	2,503,828	-	-	-	2,503,828
Philippine government	-	-	1,638,441,776	-	1,638,441,776
	22,420,536,097	7,252,274,537	2,210,814,195	59,605,489	31,943,230,318
Allowance for credit and impairment losses	489,015,012	-	-	-	489,015,012
	₱21,931,521,085	₱7,252,274,537	₱2,210,814,195	₱59,605,489	₱31,454,215,306

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 receivable.

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

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

	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 interest and net of allowance for credit and impairment losses.

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

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

⁴Comprised of RCOG, 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):

	2016					
	Neither Past Due nor Impaired			Past Due but not Individually Impaired	Individually Impaired	Total
	High Grade	Standard Grade	Total			
Financial assets at FVPL - Government securities	₱501,492	₱-	₱501,492	₱-	₱-	₱501,492
AFS financial assets: Government securities	724,710	60,799	785,509	-	-	785,509
Private debt securities	572,372	-	572,372	-	-	572,372
HTM investments - Government securities	351,441	-	351,441	-	-	351,441

(Forward)

	2016					
	Neither Past Due nor Impaired			Past Due but not Individually Impaired	Individually Impaired	Total
	High Grade	Standard Grade	Total			
Loans and receivables:						
Loans and discount:						
Corporate lending	P1,616,768	P9,628,084	P11,244,852	P-	P315,843	P11,560,695
Consumer lending	9,863,562	56,679	9,920,241	602,847	330,028	10,853,116
Unquoted debt securities	602,009	-	602,009	-	-	602,009
Bills purchased	6,725	-	6,725	-	-	6,725
Accrued interest income	145,864	-	145,864	-	-	145,864
Accounts receivable	49,467	-	49,467	-	-	49,467
Sales contracts receivable	24,305	-	24,305	-	-	24,305
Other assets:						
Refundable deposits	23,283	-	23,283	-	-	23,283
RCOCI	938	-	938	-	-	938
Loans and advances to banks:						
Due from BSP	3,142,341	-	3,142,341	-	-	3,142,341
Due from other banks	1,753,369	-	1,753,369	-	-	1,753,369
Interbank loans receivable	2,356,564	-	2,356,564	-	-	2,356,564
	P21,735,210	P9,745,562	P31,480,772	P602,847	P645,871	P32,729,490

	2015					
	Neither Past Due nor Impaired			Past Due but not Individually Impaired	Individually Impaired	Total
	High Grade	Standard Grade	Total			
Financial assets at PVPL - Government securities	P2,130,533	P-	P2,130,533	P-	P-	P2,130,533
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 lending	1,605,033	8,746,099	10,351,132	-	462,766	10,813,898
Consumer lending	6,636,450	85,557	6,722,007	558,784	107,575	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:						
Refundable deposits	23,003	-	23,003	-	-	23,003
RCOCI	146	-	146	-	-	146
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
	P19,696,171	P8,873,811	P28,569,982	P558,784	P570,342	P29,699,108

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

	2016					Total
	Less than 30 Days	31 to 60 Days	61 to 90 Days	91 to 180 Days	Over 180 Days	
Loans and discount - Consumer lending	P3,316	P5,080	P35,543	P62,338	P496,570	P602,847

	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 lending	P3,479	P6,137	P57,342	P67,689	P424,137	P558,784

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				Short-term
	Long-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				Short-term
	Long-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				Short-term
	Long-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				Short-term
	Long-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:

	2016	2015
Properties	₱12,513,199,985	₱8,106,363,559
Deposits	269,752,733	305,843,879
	₱12,782,952,718	₱8,412,207,438

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, 2016 and 2015:

	2016						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	₱-	₱796,624,293	₱50,144,045	₱102,134,758	₱102,144,940	₱-	₱509,047,140
AFS financial assets	-	5,414,195	24,038,544	30,464,961	11,154,245	1,295,902,759	1,366,974,674
HTM investments	-	-	4,496,414	4,622,406	-	351,441,267	360,560,107
COCI	625,102,259	-	-	-	-	-	625,102,259
Due from BSP	-	3,142,340,882	-	-	-	-	3,142,340,882
Due from other banks	-	1,753,369,339	-	-	-	-	1,753,369,339
Interbank loans receivable	-	2,356,564,114	-	-	-	-	2,356,564,114
Loans and receivables:							
Loans and discounts	-	7,148,093,436	2,025,353,516	4,105,884,564	2,523,875,364	17,849,370,823	33,512,577,205
Unquoted debt securities	-	-	11,694,450	-	-	602,008,930	613,693,380
Accrued interest income	-	27,835,320	9,077,048	21,105,716	15,290,934	68,497,205	143,805,923
Accounts receivable	-	25,587,890	1,245,390	2,898,056	3,800,407	16,046,533	49,578,276
Sales contracts receivable	-	173,527	173,527	694,106	1,041,159	34,920,804	37,003,123
Other assets	-	-	-	-	24,228,747	-	24,228,747
	₱625,102,259	₱14,796,002,970	₱2,126,132,536	₱4,327,864,567	₱2,433,626,905	₱20,218,188,341	₱44,466,917,580
Financial Liabilities							
Deposit liabilities:							
Demand	₱6,794,608,520	₱-	₱-	₱-	₱-	₱-	₱6,794,608,520
Savings	-	1,124,560,197	5,173,190	-	-	1,660,942,151	2,811,375,578
Time	-	13,313,806,532	2,713,216,575	2,350,094,480	623,172,425	1,157,179,840	20,157,472,261
	6,794,608,520	14,438,366,729	2,718,392,165	2,350,094,480	623,172,425	2,818,122,040	29,763,153,359
Manager's checks	-	230,933,735	-	-	-	-	230,933,735
Accrued interest expense	-	4,942,593	1,196,515	1,012,449	287,224	29,767,787	37,116,566
Unsecured subordinated debt	-	-	7,696,250	7,696,250	15,312,500	444,564,236	475,189,236
Other liabilities*	-	700,035,033	-	-	-	-	700,035,033
	₱6,794,608,520	₱15,374,678,088	₱2,727,154,930	₱2,358,793,179	₱638,772,149	₱3,312,456,063	₱31,206,430,929

* Composed of accounts payable, due to Philippine Deposit Insurance Corporation (PDIC), payment orders, bills purchased contra and marginal deposits

	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	₱-	₱756,201,001	₱534,420,534	₱757,226,921	₱106,514,032	₱-	₱2,154,362,488
AFS financial assets	-	9,855,788	1,124,125	43,089,989	8,898,216	2,374,420,412	2,437,368,520
HTM investments	-	-	4,250,858	6,375,109	-	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	-	1,448,216,646	-	-	-	-	1,448,216,646
Interbank loans receivable	-	1,148,219,571	-	-	-	-	1,148,219,571
Loans and receivables:							
Loans and discounts	-	5,048,737,682	2,074,541,028	3,815,154,508	1,462,653,977	18,872,251,251	24,274,338,123
Unquoted debt securities	-	-	11,604,450	-	-	645,703,884	657,308,334
Accrued interest income	-	29,036,424	12,753,030	22,126,123	8,010,925	71,745,407	143,671,961
Accounts receivable	-	13,115,538	4,436,700	7,412,403	1,646,128	17,492,253	44,110,962
Sales contracts receivable	-	441,250	441,250	1,764,920	2,647,380	102,177,402	107,672,162
Other assets	-	-	-	-	23,158,637	-	23,158,637
	₱688,699,312	₱11,555,290,133	₱2,643,579,514	₱4,651,149,983	₱1,613,489,345	₱15,424,019,921	₱36,576,228,508

	2015						Total
	On Demand	Within 30 Days	31 to 60 Days	61 to 180 Days	181 to 360 Days	Over 360 Days	
Financial Liabilities							
Deposit liabilities:							
Demand	₱5,007,736,808	₱--	₱--	₱--	₱--	₱--	₱5,007,736,808
Savings	--	1,231,842,785	5,095,824	--	--	1,282,855,276	2,522,793,885
Time	--	9,285,556,563	4,321,588,834	2,701,246,451	585,821,011	1,353,727,023	18,748,983,249
	5,007,736,808	11,028,412,616	4,326,696,727	2,701,246,451	585,821,011	2,636,582,299	27,277,519,912
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	444,564,256	475,189,256
Other liabilities*	--	646,022,496	--	--	--	--	646,022,496
	₱5,007,736,808	₱11,896,456,407	₱4,348,632,854	₱2,715,879,382	₱600,634,977	₱3,086,674,511	₱28,623,197,930

* Composed of accounts payable, due to PDC, payment orders, bills purchased-contra and margin 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):

	2016			
	Increase (Decrease) in Basis Points			
	50	100	(50)	(100)
Changes in net interest income:				
Loans and receivables	₱5.37	₱10.74	(₱5.37)	(₱10.74)
Deposit liabilities	(12.44)	(24.88)	12.44	24.88
As a percentage of the net interest income for the year	(1%)	(1%)	1%	1%
Changes in equity * -				
AFS financial assets	(44.92)	(87.20)	47.69	98.47

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

	2015			
	Increase (Decrease) in Basis Points			
	50	100	(50)	(100)
Changes in net interest income:				
Loans and receivables	₱4.74	₱9.48	(₱4.74)	(₱9.48)
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.

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, 2016 and 2015, 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, 2016 and 2015. Included in the table are assets and liabilities at carrying amounts in Philippine Peso equivalent, categorized by currency.

	2016			2015		
	USD	Others*	Total	USD	Others*	Total
Financial Assets						
Cash and cash equivalents	₱66,061,741	₱715	₱66,062,456	₱43,615,120	₱--	₱43,615,120
Due from other banks	2,575,130,465	53,229,659	2,628,360,124	2,227,122,704	141,068,191	2,368,190,895
Interbank loans	178,967,998	53,835,533	232,803,531	--	--	--
Loans and receivables	418,095,505	--	418,095,505	58,476,478	--	58,476,478
	3,238,255,709	107,065,907	3,345,321,616	2,329,214,302	141,068,191	2,470,282,493
Financial Liabilities						
Deposit liabilities	3,756,431,364	17,498,794	3,773,930,158	4,064,185,149	49,942,032	4,114,127,181
Net Exposure	₱518,175,655	(₱89,567,113)	₱428,608,542	₱1,734,970,847	₱91,126,159	₱1,643,844,686

*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):

	2016			
	Increase (Decrease) in Currency			
	5.0%	10.0%	(5.0%)	(10.0%)
USD	₱0.34	₱0.69	(₱0.34)	(₱0.69)

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

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, 2016 and 2015 (amounts in thousands):

	2016		2015	
	Foreign Exchange	Fixed Income	Foreign Exchange	Fixed Income
December 29	₱19	₱20,385	₱22	₱34,212
Average Daily	87	24,642	97	61,490
Highest	940	45,301	1,987	111,759
Lowest	2.83	4,403	0.11	33,305

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 the 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):

	2016	2015
Tier 1 capital	₱2,259,580	₱2,139,584
Required deductions	29,236	47,600
	2,230,344	2,091,984
Excess from Tier 2 deducted from Tier 1 Capital*	-	-
Net Tier 1 Capital	2,230,344	2,091,984
Tier 2 capital	1,005,247	961,952
Required deductions	-	-
	1,005,247	961,952
Excess of Tier 2 deducted from Tier 1 Capital*	-	-
Net Tier 2 Capital	1,005,247	961,952
Total Qualifying Capital	₱3,235,591	₱3,053,936

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

	2016	2015
Credit RWA	₱23,686,572	₱19,396,394
Market RWA	375,501	1,606,421
Operational RWA	2,091,337	2,024,693
Total RWA	₱26,153,410	₱23,027,508
Tier 1 capital ratio	8.53%	9.08%
Total capital ratio	12.37%	13.26%

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 2016 and 2015.

5. 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:

	2016			
	Carrying Amount	Fair Value		
		Quoted Prices in Active Market (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets Measured at Fair Value				
Financial assets at FVPL - Government securities	₱501,491,653	₱501,491,653	₱-	₱-
AFS financial assets:				
Government securities	785,508,836	785,508,836	-	-
Private bonds	572,372,419	55,625,683	516,746,736	-
	1,357,881,255	841,134,519	516,746,736	-
Assets for which Fair Values are Disclosed				
HTM investments - Government securities	351,441,287	409,326,562	-	-
Loans and receivables:				
Receivable from customers:				
Corporate lending	11,370,528,687	-	-	11,578,581,762
Consumer lending	10,547,197,660	-	-	10,965,654,690
Unquoted debt securities	602,008,930	-	-	610,304,877
	22,519,735,277	-	-	23,154,543,329
Assets held for sale	210,179,719	-	210,179,719	-
Refundable deposits	23,283,099	-	23,283,099	-
Total Assets	₱24,964,012,290	₱1,751,952,734	₱750,209,554	₱23,154,543,329
Liabilities for which Fair Values are Disclosed				
Time deposits	₱19,758,725,138	₱-	₱19,758,725,138	₱-
Unsecured subordinated debt	500,000,000	-	513,889,002	-
Total Liabilities	₱20,258,725,138	₱-	₱20,272,614,140	₱-

	2015			
	Carrying Amount	Fair Value		
		Quoted Prices in Active Market (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets Measured at Fair Value				
Financial assets at FVPL - Government securities	₱2,130,532,834	₱2,130,532,834	₱-	₱-
AFS financial assets:				
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 - Government securities	340,029,282	393,889,236	-	-
Loans and receivables:				
Receivable from customers:				
Corporate lending	10,639,708,100	-	-	10,629,472,857
Consumer lending	7,109,411,892	-	-	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	117,201,260	-	117,201,260	-
Refundable deposits	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	₱18,367,402,985	₱-	₱18,367,402,985	₱-
Unsecured subordinated debt	500,000,000	-	538,869,251	-
Total Liabilities	₱18,867,402,985	₱-	₱18,926,272,236	₱-

There were no transfers between levels/hierarchy of fair value measurements in 2016 and 2015.

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:

	2016		2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and other cash items	₱625,137,059	₱625,137,059	₱688,754,312	₱688,754,312
Due from BSP	3,142,341,082	3,142,341,082	3,107,652,243	3,107,652,243
Due from other banks	1,753,369,339	1,753,369,339	1,441,016,646	1,441,016,646
Interbank loans receivable	2,356,564,116	2,356,564,116	1,148,219,571	1,148,219,571
Loans and receivables:				
Receivables from customers:				
Corporate loans	11,373,563,639	11,373,563,639	10,604,623,029	10,604,623,029
Consumer loans	680,759,567	680,759,567	719,561,851	719,561,851
Bills purchased	6,724,959	6,724,959	4,771,727	4,771,727
Unquoted debt securities	25,671,873	25,671,873	8,527,061	8,527,061
Accrued interest income	145,864,214	145,864,214	159,774,608	159,774,608
Accounts receivable	49,466,659	49,466,659	44,110,060	44,110,060
RCOCI	937,648	937,648	145,823	145,823
	₱20,160,400,155	₱20,160,400,155	₱17,927,156,931	₱17,927,156,931
Financial Liabilities				
Deposit liabilities	₱9,724,303,502	₱9,724,303,502	₱8,521,583,148	₱8,521,583,148
Bills payable	—	—	36,781,584	36,781,584
Accrued interest	37,116,568	37,116,568	50,722,871	50,722,871
Other liabilities*	708,210,408	708,210,408	618,205,595	618,205,595
	₱10,469,630,478	₱10,469,630,478	₱9,227,293,198	₱9,227,293,198

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

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 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.

6. 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 ₱2,356.6 million and ₱1,148.2 million as at December 31, 2016 and 2015, respectively. Interest income on interbank loans receivable amounted to ₱14.3 million and ₱5.4 million in 2016 and 2015, respectively.

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

	2016	2015
Local banks	2.5% to 2.56%	2.50%
Foreign banks	0.05% to 0.25%	0.05% to 0.25%

7. Financial Assets at FVPL

This account consists of government securities amounting to ₱501.5 million and ₱2,130.5 million as at December 31, 2016 and 2015, respectively.

Financial assets at FVPL bear effective interest rates as follows:

	2016	2015
Philippine Peso-denominated	2.21% to 5.50%	1.20% to 6.00%
Foreign currency-denominated	1.65% to 27.84%	0.70% to 37.66%

Interest income from investment securities are as follows:

	Note	2016	2015
AFS financial assets	8	₱97,691,345	₱142,839,079
Financial assets at FVPL		36,165,513	145,529,361
HTM investments	9	17,783,823	17,467,193
		₱151,640,681	₱305,835,633

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

	Note	2016	2015
Financial assets at FVPL			
Unrealized trading gains (losses)		(₱48,437,292)	(₱180,862,254)
Realized gains		13,389,228	42,571,875
AFS financial assets	8	14,940,562	18,435,318
		(₱20,107,502)	(₱119,855,061)

Unrealized trading gains (losses) on financial assets at FVPL included under "Net trading and securities gains" in the statements of income amounted to P48.4 million and P180.9 million in 2016 and 2015, respectively.

8. AFS Financial Assets

This account consists of:

	2016	2015
Government securities	P785,508,836	P1,648,306,773
Private bonds	572,372,419	771,764,611
Unquoted equity security	16,073,463	16,073,463
	P1,373,954,718	P2,436,144,847

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 long-term.

AFS financial assets bear effective interest rates as follows:

	2016	2015
Philippine Peso-denominated	1.33% to 7.20%	1.83% to 7.18%
Foreign currency-denominated	1.53% to 4.62%	2.27% to 32.97%

Net gain on sale of AFS financial assets amounted to P14.9 million and P18.4 million in 2016 and 2015, respectively (see Note 7).

Interest income amounted to P97.7 million and P142.8 million in 2016 and 2015, respectively (see Note 7).

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

Note	2016	2015
Balance at beginning of year	(P188,066,529)	P24,605,598
Changes in fair value	137,180,665	(194,708,627)
Gain on sale of AFS financial asset taken to profit or loss	7 (14,940,562)	(18,435,318)
Amortization of unrealized losses on reclassified AFS financial assets	603,905	471,818
	122,844,008	(212,672,127)
Balance at end of year	(P65,222,521)	(P188,066,529)

Cumulative unrealized gains (losses) on AFS investments include unrealized losses on reclassified AFS financial assets amounting to P6.7 million and P6.3 million as at December 31, 2016 and 2015, 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 P133.6 million and P179.9 million, respectively, as at December 31, 2016, and P127.3 million and P171.0 million, respectively, as at December 31, 2015.

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 P9.7 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 P46.3 million and P43.7 million in 2016 and 2015, respectively. As at December 31, 2016 and 2015, the Bank expects to recover the entire cash flows of these reclassified financial assets.

9. HTM Investments

This account consists of:

	2016	2015
Government debt securities:		
Face value	P263,516,000	P249,418,000
Unamortized premium	87,925,287	90,611,282
	P351,441,287	P340,029,282

HTM investments amounting to P208.2 million will mature on March 16, 2025 and bear interest of 3.99%. The other HTM investments pertain to Republic of the Philippines bonds that will mature on February 2, 2030 and bear effective interest of 7.47%.

Interest income on HTM investments amounted to P17.8 million and P17.5 million in 2016 and 2015, respectively (see Note 7). Amortization of premium amounted to P2.7 million and P7.0 million in 2016 and 2015, respectively.

10. Loans and Receivables

This account consists of:

	2016	2015
Receivables from customers	P22,413,466,318	P18,201,735,800
Unquoted debt securities	602,008,930	649,948,266
Accrued interest income	145,864,214	159,774,608
Accounts receivable	49,466,659	44,110,060
Sales contracts receivable	24,304,872	27,565,777
	23,235,110,993	19,083,134,511
Allowance for credit and impairment losses	(489,015,012)	(447,844,581)
	P22,746,095,981	P18,635,289,930

Receivables from customers consist of:

	Note	2016	2015
Loans and discounts:			
Corporate lending		P11,560,694,641	P10,813,897,763
Consumer lending		10,853,116,497	7,388,367,405
Bills purchased	19	6,724,959	4,771,727
		22,420,536,097	18,207,036,895
Unearned discounts and capitalized interest		(7,069,779)	(5,301,095)
		P22,413,466,318	P18,201,735,800

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

	2016		2015	
	Amount	%	Amount	%
Secured by:				
Chattel mortgage	P7,150,040,270	31.89	P3,995,583,998	21.95
Real estate mortgage	4,020,414,743	17.93	3,679,736,065	20.21
Deposits	235,682,452	1.05	234,102,350	1.29
Others	48,592,971	0.22	50,007,681	0.27
	11,454,730,436	51.09	7,959,430,094	43.72
Unsecured	10,965,805,661	48.91	10,247,606,801	56.28
	P22,420,536,097	100.00	P18,207,036,895	100.00

As at December 31, 2016 and 2015, information on the concentration of credit (at gross amounts) as to industry follows:

	2016		2015	
	Amount	%	Amount	%
Other community, social and personal activities	P9,597,263,048	42.81	P5,950,504,776	32.68
Wholesale and retail trade	4,380,871,771	19.54	4,373,672,572	24.02
Real estate	3,421,718,662	15.26	3,163,840,356	17.38
Financial intermediaries	2,160,986,415	9.64	1,706,162,421	9.37
Manufacturing	1,701,046,832	7.59	1,545,759,825	8.49
Transportation, storage and communication	419,461,458	1.87	791,102,021	4.35
Agricultural, hunting and forestry	371,914,617	1.66	379,686,122	2.09
Construction	199,774,219	0.89	111,053,664	0.61
Mining and quarrying	153,000,000	0.68	171,000,000	0.94
Hotel and restaurants	11,995,247	0.05	11,159,813	0.06
Electricity, gas and water supply	2,503,828	0.01	3,095,325	0.02
	P22,420,536,097	100.00	P18,207,036,895	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, 2016 and 2015.

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

Non-performing loans (NPL), 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 NPL of the Bank as reported to the BSP amounted to P936.7 million and P507.6 million as at December 31, 2016, respectively, and P1,045.5 million and P639.0 million as at December 31, 2015, respectively. The gross and net NPL ratios of the Bank are 3.96% and 2.14% as at December 31, 2016, respectively, and 5.69% and 3.48% as at December 31, 2015, respectively.

As at December 31, 2016 and 2015, breakdown of the secured and unsecured NPL follows:

	2016	2015
Secured	P288,086,802	P403,970,798
Unsecured	648,613,229	641,513,687
	P936,700,031	P1,045,484,485

Restructured loans, which do not meet the requirements to be treated as performing receivables, are also considered as NPL. Restructured loans amounted to P101.6 million and P14.5 million as at December 31, 2016 and 2015, respectively. Interest income on restructured receivables amounted to P9.6 million and P6.0 million in 2016 and 2015, respectively.

Unquoted debt securities consist of:

	2016	2015
Private bonds:		
Face value	P601,827,876	P649,985,831
Unamortized discount	181,054	(37,565)
	P602,008,930	P649,948,266

Unquoted debt securities bear effective interest rates ranging from 3.14% to 6.75% in 2016 and 2015.

Accounts receivable include receivables from officers relating to the car lease amounting to P28.5 million and P26.2 million as at December 31, 2016 and 2015, respectively (see Note 26).

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

	2016	2015
Corporate loans	P677,926,513	P677,577,029
Consumer loans	830,979,843	633,502,598
Unquoted debt securities	38,053,940	41,969,073
Bills discounted	45,323,253	40,664,265
Sales contracts receivable	2,384,039	2,197,447
	P1,594,667,588	P1,395,910,412

Of the total loans and receivables as at December 31, 2016 and 2015, 61.48% and 65.93% respectively, are subject to periodic interest repricing. The remaining peso-denominated loans have annual fixed interest ranging from 3.00% to 18.90% in 2016 and 3.54% to 24.00% in 2015.

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

	2016		
	Corporate Lending	Consumer Lending	Total
Balance at beginning of year	P168,888,568	P278,956,013	P447,844,581
Provision	25,675,876	26,962,824	52,638,700
Write-off	(11,468,269)	-	(11,468,269)
Balance at end of year	P183,096,175	P305,918,837	P489,015,012
Specific impairment	P163,188,152	P85,399,189	P248,587,341
Collective impairment	19,908,023	220,519,648	240,427,671
	P183,096,175	P305,918,837	P489,015,012
Gross amount of loans individually determined to be impaired	P315,842,821	P330,027,618	P645,870,439

	2015		
	Corporate Lending	Consumer Lending	Total
Balance at beginning of year	P234,714,216	P286,021,668	P520,735,884
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	P168,888,568	P278,956,013	P447,844,581
Specific impairment	P154,537,469	P39,472,015	P194,009,484
Collective impairment	14,351,099	239,483,998	253,835,097
	P168,888,568	P278,956,013	P447,844,581
Gross amount of loans individually determined to be impaired	P462,765,654	P107,575,678	P570,341,332

11. Property and Equipment

The details and movements in this account are as follows:

	2016				Total
	Land	Building and Condominium Units	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	
Cost					
Balance at beginning of year	P164,344,500	P249,213,655	P333,373,500	P263,683,140	P1,010,614,795
Additions	-	85,000	38,295,655	309,376	38,690,031
Disposals	-	(123,456)	(8,067,775)	(360,944)	(8,552,175)
Reclassification	-	779,517	-	(779,517)	-
Balance at end of year	164,344,500	249,954,716	363,601,380	262,852,055	1,040,752,651
Accumulated Depreciation and Amortization					
Balance at beginning of year	-	80,645,752	253,373,456	180,739,818	514,759,026
Depreciation and amortization	-	12,463,347	29,878,028	37,953,419	80,294,794
Disposals	-	(34,092)	(6,909,028)	(284,825)	(7,227,945)
Reclassification	-	227,182	-	(227,182)	-
Balance at end of year	-	93,302,189	276,342,456	218,181,230	587,825,875
Accumulated Impairment					
Balance at beginning and end of year	-	2,667,217	-	-	2,667,217
Carrying Amount	P164,344,500	P153,985,310	P87,258,924	P44,670,825	P450,259,559

	2015				Total
	Land	Building and Condominium Units	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	
Cost					
Balance at beginning of year	P164,344,500	P247,399,440	P309,773,045	P249,970,301	P971,487,286
Additions	-	3,992,163	40,800,221	14,438,168	59,230,552
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	333,373,500	263,683,140	1,010,614,795
Accumulated Depreciation and Amortization					
Balance at beginning of year	-	68,820,940	215,392,349	158,730,174	442,943,463
Depreciation and amortization	-	11,780,040	49,576,639	22,502,207	83,858,886
Disposals	-	-	(11,965,124)	(78,199)	(12,043,323)
Reclassifications	-	44,772	369,592	(414,364)	-
Balance at end of year	-	80,645,752	253,373,456	180,739,818	514,759,026
Accumulated Impairment					
Balance at beginning and end of year	-	2,667,217	-	-	2,667,217
Carrying Amount	P164,344,500	P165,900,686	P80,000,044	P82,943,322	P493,188,552

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 P573,705 and (P2.2 million) in 2016 and 2015, respectively (see Note 12).

As at December 31, 2016 and 2015, the cost of fully-depreciated assets which are still used in operations amounted to P289.0 million and P296.9 million, respectively.

Details of depreciation and amortization are as follows:

	Note	2016	2015
Property and equipment		₱80,294,794	₱83,858,886
Computer software	13	1,522,683	303,294
		₱81,817,477	₱84,162,180

12. Assets Held for Sale

This account consists of properties acquired/foreclosed in settlement of loans and receivables aggregating to ₱210.2 million and ₱117.2 million as at December 31, 2016 and 2015, respectively.

Loans and receivables amounting to ₱224.3 million and ₱81.7 million were reclassified to assets held for sale in 2016 and 2015, respectively.

“Net losses from assets sold or acquired” in the statements of income consist of the following:

	Note	2016	2015
Assets held for sale:			
Loss on foreclosure		(₱18,442,256)	(₱8,320,148)
Loss on sale		(18,338,002)	(3,496,509)
Gain (loss) on sale of property and equipment	11	673,705	(2,219,749)
		(₱36,106,553)	(₱14,036,406)

As at December 31, 2016 and 2015, unrealized loss on foreclosure amounted to ₱7.3 million and ₱8.6 million, respectively. Provision for impairment loss on assets held for sale amounted to ₱1.9 million in 2016 (see Note 23).

13. Intangible Assets

This account consists of:

	2016	2015
Branch licenses	₱225,390,000	₱225,390,000
Computer software	59,819,686	1,568,991
	₱285,209,686	₱226,958,991

Branch licenses are 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, 2016 and 2015, the Bank has a total of 42 branches. Of the 42 branches, 18 are in restricted areas.

The impairment test on branch licenses, where fair value less cost-to-sell is lower than the carrying amount, is based on value-in-use calculations determined using a discounted cash flow model. The recoverable amount of the CGU has been determined based on cash flow projections from financial budgets approved by senior management covering a five-year period. The discount rate applied to cash flow projections is 5.38% in 2016 and 2015, and cash flows beyond the five year-period are extrapolated using a steady growth rate of 20% in 2016 and 2015, which does not exceed the long-term average growth rate for the industry.

The calculation of the value-in-use of the CGU is most sensitive to the following assumptions:

- Discount rate
- Steady growth rate used to extrapolate cash flows beyond the projection period
- Local inflation rate

With regard to the assessment of value-in-use of the CGU, management believes that no reasonably possible change in any of the foregoing key assumptions would cause the carrying value of the branch licenses to materially exceed its recoverable amount.

Movements of computer software are as follows:

	2016	2015
Cost		
Balance at beginning of year	₱203,751,561	₱203,277,499
Additions	59,773,378	474,062
Balance at end of year	263,524,939	203,751,561
Accumulated Amortization		
Balance at beginning of year	202,182,570	201,879,276
Amortization	1,522,683	303,294
Balance at end of year	203,705,253	202,182,570
Carrying Amount	₱59,819,686	₱1,568,991

14. Other Assets

This account consists of:

	Note	2016	2015
Prepaid expenses		₱49,053,686	₱47,821,142
Refundable deposits	21	23,283,099	23,002,814
Other investments		4,663,333	4,663,333
Documentary stamp taxes		2,276,393	5,233,249
RCOCI		937,648	145,823
Deferred lease		752,112	1,181,740
Others		9,784,164	9,654,995
		₱90,750,435	₱91,703,096

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 ₱752,112 and ₱1.2 million as at December 31, 2016 and 2015, respectively. Accretion recognized under "Interest income on due from BSP and other banks" amounted to ₱845,705 and ₱875,627 in 2016 and 2015, 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 21).

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

15. Deposit Liabilities

This account is consists of:

	2016	2015
Time	₱19,758,725,138	₱18,367,402,985
Demand	6,794,595,797	6,007,504,383
Savings	2,929,707,705	2,514,078,765
	₱29,483,028,640	₱26,888,986,133

BSP Circular 832, *Increase in Reserve Requirements*, 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*, 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, 2016 and 2015, the Bank is in compliance with the foregoing BSP regulations. The available reserves as at December 31, 2016 and 2015 are as follows:

	2016	2015
Due from BSP - demand deposit account	₱2,142,340,882	₱1,957,652,243

As at December 31, 2016 and 2015, 59.84% and 61.70% of the total deposit liabilities, respectively, are subject to periodic interest repricing. The remaining deposit liabilities bear annual fixed interest rate as follows:

	2016	2015
Peso-denominated	0.25% to 2.00%	0.50% to 2.50%
Dollar-denominated	0.25% to 1.73%	1.00% to 2.25%

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

	Note	2016	2015
Deposit liabilities:			
Time		₱408,205,981	₱497,444,055
Demand		15,082,237	13,384,390
Savings		11,361,030	10,499,435
		434,649,248	521,327,880
Unsecured subordinated debt	18	30,708,904	30,625,000
Bills payable	16	157,056	5,730,858
		₱465,515,208	₱557,683,738

16. Bills Payable

This account, which pertains to the BSP rediscounted loans with interest of 4.00%, amounted to ₱36.8 million as at December 31, 2015. The bills payable matured in 2016.

Interest expense on bills payable amounted to ₱157,056 and ₱5.7 million in 2016 and 2015, respectively (see Note 15).

17. Accrued Interest, Taxes and Other Expenses

This account consists of:

	2016	2015
Accrued expenses:		
Interest	₱37,116,568	₱50,722,871
Compensation and other benefits	31,130,579	26,285,416
Rent	16,238,428	23,251,812
Security, messengerial and janitorial	7,460,190	6,784,097
Utilities and leased line	4,888,241	1,607,891
ATM-related expenses	1,518,719	2,464,916
Others	14,937,512	4,638,228
	113,290,237	115,755,231
Accrued gross receipts tax	7,213,765	4,830,634
	₱120,504,002	₱120,585,865

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

18. 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 P500.0 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 P30.7 million and P30.6 million in 2016 and 2015, respectively (see Note 15).

19. Other Liabilities

This account consists of:

	Note	2016	2015
Accounts payable		P669,857,155	P577,409,294
Due to PDIC		27,322,517	27,102,067
Withholding taxes		17,622,150	14,168,496
Bills purchased - contra	10	6,724,959	4,771,727
Marginal deposits		3,778,605	2,097,812
Statutory obligations		2,428,117	2,155,761
Payment orders		527,172	6,824,695
Others		18,407,217	8,713,675
		P746,667,892	P643,243,527

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

20. Maturity Profile of Assets and Liabilities

The following tables present the assets and liabilities as at December 31, 2016 and 2015 analyzed according to whether these are expected to be recovered or settled within 12 months or over 12 months from the reporting date:

	Note	2016			2015		
		Within One Year	Over One Year	Total	Within One Year	Over One Year	Total
Financial Assets							
Cash and other cash items		P625,137,050	P-	P625,137,050	P689,754,312	P-	P689,754,312
Due from BSP		3,142,341,082	-	3,142,341,082	3,107,652,243	-	3,107,652,243
Due from other banks		1,753,369,330	-	1,753,369,330	1,441,016,646	-	1,441,016,646
Interbank loans receivable	6	2,356,564,116	-	2,356,564,116	1,148,219,571	-	1,148,219,571

(forward)

	Note	2016			2015		
		Within One Year	Over One Year	Total	Within One Year	Over One Year	Total
Financial assets at FVPI							
AFS financial assets	8	P1,974,406	1,311,976,222	1,313,950,628	61,724,435	2,374,420,482	2,436,144,917
HTM investments	9	-	353,441,287	353,441,287	-	340,029,282	340,029,282
Loans and receivables - gross	10	13,085,064,597	10,157,096,175	23,242,160,772	12,502,167,035	6,585,858,571	19,088,025,606
Other assets ¹	14	24,229,747	-	24,229,747	23,148,647	-	23,148,647
		21,550,167,089	11,820,513,664	33,370,700,773	21,101,615,713	9,300,318,295	30,401,934,008
Nonfinancial assets							
Property and equipment	11	-	1,040,732,651	1,040,732,651	-	1,214,366,356	1,214,366,356
Assets held for sale	12	210,179,719	-	210,179,719	117,201,260	-	117,201,260
Intangible assets	13	-	488,914,939	488,914,939	-	225,390,000	225,390,000
Deferred tax assets	24	-	17,954,774	17,954,774	-	44,207,985	44,207,985
Other assets	14	-	66,529,688	66,529,688	-	68,554,490	68,554,490
		210,179,719	1,613,252,052	1,623,431,771	117,201,260	1,552,518,830	1,669,720,091
		21,760,366,808	13,433,765,716	35,194,132,544	21,220,816,973	10,852,837,025	32,073,654,009
Less:							
Allowance for credit and impairment losses ²	10, 11	-	491,682,229	491,682,229	-	450,511,798	450,511,798
Accumulated depreciation and amortization	11, 13	-	791,531,128	791,531,128	-	716,941,596	716,941,596
Unearned discounts and capitalized interest	10	-	7,069,779	7,069,779	-	5,301,095	5,301,095
		-	1,290,283,136	1,290,283,136	-	1,172,754,490	1,172,754,490
		P21,760,366,808	P12,143,482,600	P33,903,849,408	P21,220,816,973	P9,680,082,526	P30,903,899,519
Financial liabilities							
Deposit liabilities	15	P27,164,864,325	P2,318,162,315	P29,483,026,640	P24,310,415,551	P2,578,570,582	P26,888,986,133
Manager's checks		230,306,123	-	230,306,123	136,967,809	-	136,967,809
Bill payable	16	-	-	-	35,781,584	-	35,781,584
Accrued interest, taxes and other expenses	17	109,866,995	3,323,332	113,290,327	110,027,256	5,727,975	115,755,231
Unsecured subordinated debt	18	-	500,000,000	500,000,000	-	500,000,000	500,000,000
Other liabilities	19	726,617,622	-	726,617,622	626,919,270	-	626,919,270
		28,231,754,075	2,821,485,647	31,053,242,622	25,221,111,470	3,084,298,557	28,305,410,027
Nonfinancial liabilities							
Accrued taxes and other expenses ³	17	7,213,765	-	7,213,765	4,890,634	-	4,890,634
Retirement liability		-	72,072,910	72,072,910	-	62,594,572	62,594,572
Income tax payable		26,204,165	-	26,204,165	2,900,143	-	2,900,143
Other liabilities ⁴	19	20,059,270	-	20,059,270	16,324,257	-	16,324,257
		53,487,200	72,072,910	125,559,110	24,095,034	62,594,572	86,614,606
		P28,285,221,175	P2,893,558,557	P31,178,783,732	P25,245,166,504	P3,146,893,129	P28,392,059,633

¹Other financial assets pertain to refundable deposits and ACDs (see Note 14).

²Allowance for credit and impairment losses includes allowance for credit and impairment losses of loans and receivables (see Note 10) and accumulated impairment of property and equipment (see Note 11).

³Accrued taxes and other expenses pertain to gross receipt tax (see Note 17).

⁴Other non-financial liabilities pertain to withholding tax payable and statutory liabilities (see Note 19).

21. 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 P83.1 million and P84.9 million in 2016 and 2015, 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 P23.3 million and P23.0 million in 2016 and 2015, respectively (see Note 14).

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

	2016	2015
Within one year	P16,710,853	P21,293,128
More than one year but not more than five years	14,178,194	30,889,046
	P30,889,047	P52,182,174

22. 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:

	2016	2015
Current service cost	₱14,160,589	₱13,088,485
Net interest cost	3,154,766	3,133,254
	₱17,315,355	₱16,221,739

Details of cumulative remeasurement loss follow:

	2016		
	Cumulative Remeasurement Gain (Loss)	Deferred Tax (see Note 24)	Net
Balance at beginning of year	₱1,709,437	₱512,831	₱1,196,606
Remeasurement loss	(162,983)	(48,895)	(114,088)
Balance at end of year	₱1,546,454	₱463,936	₱1,082,518

	2015		
	Cumulative Remeasurement Gain (Loss)	Deferred Tax (see Note 24)	Net
Balance at beginning of year	(₱713,074)	(₱213,922)	(₱927,000)
Remeasurement gain	2,422,511	726,753	1,695,758
Balance at end of year	₱1,709,437	₱512,831	₱1,196,606

Retirement liability is as follows:

	2016	2015
Present value of retirement obligation	₱85,211,757	₱67,642,011
Fair value of plan assets	(13,138,847)	(5,047,439)
	₱72,072,910	₱62,594,572

Movements in the present value of retirement liability follow:

	2016	2015
Balance at beginning of year	₱67,642,011	₱69,713,130
Current service cost	14,160,589	13,088,485
Interest cost	3,409,157	3,368,776
Remeasurement gain	-	(2,632,213)
Benefits paid	-	(15,896,167)
Balance at end of year	₱85,211,757	₱67,642,011

Movements in the fair value of the plan assets follow:

	2016	2015
Balance at beginning of year	₱5,047,439	₱5,021,619
Contributions paid	8,000,000	-
Interest income	254,391	235,522
Remeasurement loss (excluding amount included in net interest)	(162,983)	(209,702)
Balance at end of year	₱13,138,847	₱5,047,439

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.

The fair value of plan assets by class follow:

	2016	2015
Debt instruments:		
Government securities	15%	67%
Private bonds	7%	17%
Investments in Unit Investment Trust Funds	22%	84%
Equity instruments -		
Financial intermediaries	2%	6%
Fair value of plan assets	100%	100%

The principal actuarial assumptions used in determining the retirement liability as at December 31, 2016 and 2015 are shown below:

Discount rate	5.04%
Salary increase	3.00%
Average expected future years of service	14.00

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, 2016, assuming all other assumptions were held constant:

	Basis Points	Effect on Retirement Liability
Discount rate	+100 bps	(₱8,463,173)
	-100 bps	10,727,511
Salary increase rate	+100 bps	(9,615,820)
	-100 bps	9,340,857

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, 2016:

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
	₱618,621,531

23. Other Operating Expenses

Other expenses consist of:

	Note	2016	2015
Fees and commissions		₱61,951,602	₱49,055,622
Postage		40,200,552	32,327,614
Repairs and maintenance		38,664,492	37,118,706
Appraisal fees		17,465,485	11,466,458
Litigation cost		11,296,908	8,948,026
Management and other professional fees		10,806,262	2,607,080
Transportation and travel		10,576,095	10,354,948
Supervision fees		10,490,638	9,419,382
Stationery and supplies used		10,285,740	6,695,780
Promotions and advertising		3,010,073	3,472,842
Provision for impairment losses of assets held for sale	12	1,916,024	–
Others		11,211,316	7,973,776
		₱227,875,187	₱179,440,234

24. Income and Other Taxes

Current income tax expense consists of:

	2016	2015
Regular corporate income tax (RCIT)	₱85,498,546	₱–
Final tax	25,430,952	58,940,427
Minimum corporate income tax (MCIT)	–	17,457,570
	₱110,929,498	₱76,397,997

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:

	2016	2015
Statutory income tax	₱55,092,235	₱24,021,136
Tax effects of:		
Nondeductible expenses	124,466,763	134,487,503
Interest income subject to final tax	(54,170,501)	(83,262,484)
Non-taxable income	(45,172,009)	(52,479,767)
Changes in unrecognized deferred tax assets	11,595,429	(12,036,233)
Expired NOLCO	–	26,881,183
Expired MCIT	–	11,331,532
	₱91,811,917	₱48,942,870

Deferred tax assets and liabilities consist of:

	2016	2015
Deferred tax assets on:		
Allowance for credit and impairment losses	₱45,053,448	₱41,454,246
Accrued rent	4,871,528	6,975,544
Allowance for impairment losses on assets held for sale	4,023,436	3,448,629
Unrealized loss on foreclosure of acquired assets	2,184,220	2,594,201
Carry forward benefit of MCIT	–	28,862,118
	56,132,632	83,334,738
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	(677,858)	(726,753)
Net deferred tax assets	₱17,054,774	₱44,207,985

As at December 31, 2016 and 2015, the Bank has not recognized deferred tax assets relating to the following deductible temporary differences, NOLCO and carry-forward benefit of MCIT over RCIT.

	2016	2015
Allowance for credit and impairment losses	₱338,836,854	₱309,663,761
Retirement liability	72,072,910	62,594,572
Accumulated impairment of property and equipment	2,667,217	2,667,217
	₱413,576,981	₱374,925,550

Management assessed that it is not probable that sufficient future taxable profit will be available to allow all or part of the unrecognized deferred tax assets to be utilized.

Details of the MCIT follow:

Year Incurred	Amount	Applied	Balance	Expiry Year
2013	₱13,375,608	₱13,375,608	₱-	2016
2014	15,486,510	15,486,510	-	2017
2015	13,858,369	13,858,369	-	2018
	₱42,720,487	₱42,720,487	₱-	

25. Capital Stock

This account consists of:

	Number of Shares		Amount	
	2016	2015	2016	2015
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	207,000,000	189,500,000	₱2,070,000,000	₱1,895,000,000
Issuance	-	17,500,000	-	175,000,000
Balance at end of year	207,000,000	207,000,000	₱2,070,000,000	₱2,070,000,000
Perpetual preferred stock				
Balance at beginning and end of year	30,000,000	30,000,000	₱300,000,000	₱300,000,000

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.

The perpetual preferred stock, which has an annual dividend rate of 4.375%, is cumulative and has no voting rights. As at December 31, 2016 and 2015, cumulative preference dividends amounted to ₱33.7 million and ₱20.5 million, respectively.

26. 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.

BSP Circular No. 560, *Ceilings on loans, other credit accommodations and guarantees granted to subsidiaries and affiliates*, provides the rules and regulations that govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. Under the said circular, the total outstanding loans, 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.

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

	2016	2015
Total outstanding DOSRI loans	₱150,055,134	₱269,086,783
Percent of DOSRI accounts granted under BSP Circular No. 423	0.63%	1.46%
Percent of DOSRI accounts to total loans	0.63%	1.46%
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 ₱10.8 million and ₱2.5 million in 2016 and 2015, 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	2016		2015	
	Transactions during the Year	Outstanding Balances	Transactions during the Year	Outstanding Balances
Key Management Personnel				
Loans and receivables	₱338,000	₱3,340,014	₱6,242,000	₱6,865,088
Interest income	313,803	-	386,924	-
Deposit liabilities	266,793,062	38,294,267	252,169,879	35,735,221
Interest expense	810,957	-	995,363	-
Accounts receivables	11,589,152	28,524,599	14,694,753	26,217,159

(Forward)

Nature of Transactions	2016		2015	
	Transactions during the Year	Outstanding Balances	Transactions during the Year	Outstanding Balances
Subsidiaries of the Parent Company				
Loans and receivables	₱492,865,000	₱149,033,931	₱916,028,057	₱264,486,549
Accrued interest income	11,051,574	–	3,835,318	–
Deposit liabilities	183,415,469,232	634,318,583	163,296,294,085	385,958,393
Accrued interest expense	1,536,323	21,158	2,136,399	94,158
Trust fee	527,200	–	97,753	–
Rent expense	5,368,674	–	6,109,506	–
Parent Company				
Deposit liabilities	781,347,103	66,543,393	421,399,123	6,671,918
Interest expense	44,519	–	18,812	–
Stockholders				
Loans and receivables	2,000,000	1,021,204	2,000,000	2,100,234
Accrued interest income	82,636	–	62,888	–
Deposit liabilities	2,377,805,033	162,547,904	1,991,063,456	100,621,836
Accrued interest expense	969,889	55,029	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 18 years, and bear interest ranging from 3.00% to 12.00% in 2016 and 2015. As at December 31, 2016 and 2015, 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% for both 2016 and 2015.

Trust fees pertain to fees charged for trust operations. These are included under “Other expenses” in the statements 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:

	2016	2015
Short-term employee benefits	₱125,100,401	₱113,101,819
Post-employment retirement benefits	8,757,028	7,917,127
	₱133,857,429	₱121,018,946

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 22):

	2016	2015
Investments in UITF	₱9,940,772	₱488,855
Debt instruments	2,871,075	4,244,784
Equity instruments	327,000	313,800
	₱13,138,847	₱5,047,439

27. 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 ₱6.1 billion and ₱4.7 billion as at December 31, 2016 and 2015, 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 ₱62.0 million and ₱46.0 million as at December 31, 2016 and 2015, 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.

28. 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, 2016 and 2015, the Bank is 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. 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 that the ultimate outcome of these proceedings will not have a material adverse effect on the financial position and performance.

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

	2016	2015
Investment management account	₱5,960,234,242	₱4,501,265,052
Spot exchange	402,840,539	800,020,000
Trust group accounts	174,991,408	245,872,480
Sight/usance foreign LC	45,437,018	36,463,094
Domestic letters of credit (LC)	16,774,800	22,500,000
Sight/usance domestic LC	14,117,894	16,286,920
Inward bills for collection	6,567,199	8,905,499
Outstanding guarantees issued - others	8,966,848	5,750,269
Items held for safekeeping	122,110	158,128
Late payment deposit/payment received	945,970	58,300
Items held as collateral	6,819	2,345

29. Financial Performance

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

	2016	2015
Return on average equity	3.27%	1.24%
Return on average assets	0.27%	0.10%
Net interest margin on average earning assets	4.27%	3.88%

30. 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 2016 are as follows:

	GRT Tax Base	GRT
Interest income	₱1,648,948,587	₱81,799,042
Others	305,426,603	16,747,787
	₱1,954,375,190	₱98,546,829

Taxes and Licenses

This includes all other taxes, local and national, incurred in 2016 and lodged under the "Taxes and licenses" account in the statements of comprehensive income, as follows:

	Amount
GRT	₱98,546,829
Documentary stamp taxes	69,190,918
Real estate, municipal and other taxes	7,049,280
Fringe benefit taxes	3,139,814
Car registration	153,390
	₱178,080,231

Withholding Taxes

Details of total remittances in 2016 and balances in 2016 follow:

	Paid	Accrued
Final withholding taxes	₱65,094,332	₱6,404,329
Compensation taxes	73,722,217	9,795,149
Expanded withholding taxes	16,280,288	1,422,672
	₱155,096,837	₱17,622,150

Tax Assessments and Cases

As at December 31, 2016, 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 ₱1,477,992,900.

The difference between taxable interest income and the interest income presented in the statement of income is as follows:

Interest income already subjected to final tax	P164,507,718
Exempt interest income	135,696,032
	<u>P300,203,750</u>

Deductible Cost of Services and Itemized Deductions

Deductible cost of services of the Bank are as follows:

	RBU	FCDU	Total
Interest expense	P345,283,541	P-	P345,283,541
Compensation and fringe benefits	282,724,857	4,122,161	286,847,018
Insurance	41,867,294	2,371,454	44,238,748
Supervision	9,066,920	205,220	9,272,140
	<u>P678,942,612</u>	<u>P6,698,835</u>	<u>P685,641,447</u>

Itemized deductions of the Bank are as follows:

	RBU	FCDU	Total
Taxes and licenses	P159,625,023	P1,740,604	P161,365,627
Compensation and fringe benefits	138,388,985	1,966,697	140,355,683
Occupancy	98,144,430	1,332,779	99,477,209
Depreciation and amortization	72,503,196	1,054,540	73,557,736
Security, messengerial and janitorial	47,569,881	691,891	48,261,772
Fees and commissions	33,512,749	2,282,335	35,795,084
Repairs and maintenance	33,483,317	487,006	33,970,323
Loss on foreclosure	19,808,857	-	19,808,857
Loss on sale of acquired assets	18,338,002	-	18,338,002
Appraisal fees	15,477,175	225,111	15,702,286
Litigation	11,296,908	-	11,296,908
Management and professional fees	9,576,054	139,280	9,715,334
Stationery and supplies used	9,114,789	132,572	9,247,361
Transportation and travel	4,169,479	55,990	4,225,469
Fuel and oil	3,520,958	51,166	3,572,124
Insurance	3,090,956	44,957	3,135,913
Promotion and advertising	2,667,400	38,797	2,706,197
Fines and penalties	1,259,432	-	1,259,432
Membership fees and dues	1,132,763	16,476	1,149,239
Others	59,592,080	1,457,846	61,049,926
	<u>P742,272,435</u>	<u>P11,718,047</u>	<u>P753,990,482</u>

The difference between the deductible cost of services and itemized deductions shown above and the interest expense on deposit liabilities, bills payable and others, operating expenses and provision for credit and impairment losses presented in the statement of income includes loss on foreclosure amounting to P19,808,857 and loss on sale of acquired assets amounting to P18,338,002, which are previously presented under other income and charges, as well as the following:

Nondeductible interest expense	P120,231,667
Operating expenses allocated to exempt and transactions already subjected to final tax	116,781,516
Nondeductible expenses	77,498,074
Provision for credit and impairment losses	52,638,700
Retirement benefits	16,515,355
Accrued rent	(6,270,274)
Provision for impairment of assets held for sale	1,916,024
	<u>P379,311,062</u>

Other Taxable Income

	RBU	FCDU	Total
Service charges, fees and commissions	P183,498,306	P25,133,198	P208,631,504
Foreign exchange gains	16,284,427	-	16,284,427
Trading and securities gains	527,431	650,408	1,177,839
Others	8,158,610	99	8,158,709
	<u>P208,468,774</u>	<u>P25,783,705</u>	<u>P234,252,479</u>

The difference between other income and charges presented in statement of income and other taxable income is as follows:

Unrealized trading losses	(P48,437,292)
Net trading gains on exempt transactions	27,151,951
Unrealized foreign exchange gains	6,267,386
Dividend income	3,786,000
Loss on foreclosure	1,366,601
	<u>(P9,865,354)</u>

STERLING BANK OF ASIA INC. (A Savings Bank)
SUPPLEMENTARY SCHEDULE OF ADOPTION OF
EFFECTIVE ACCOUNTING STANDARDS AND INTERPRETATIONS
DECEMBER 31, 2016

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: Accounting for Contingent Consideration in a Business Combination			✓
	Amendment to PFRS 3: Scope Exceptions for Joint Ventures			✓
PFRS 4	Insurance Contracts			✓
	Amendments to PFRS 4: Financial Guarantee Contracts			✓

PFRS	Title	Adopted	Not Adopted	Not Applicable
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	✓		
	Amendment to PFRS 5: Changes in Methods of Disposal	✓		
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	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	✓		
	Amendment to PFRS 7: Servicing Contracts			✓
	Amendment to PFRS 7: Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements			✓
PFRS 8	Operating Segments			✓
	Amendments to PFRS 8: Aggregation of Operating Segments			✓
	Amendments to PFRS 8: Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets			✓
PFRS 10	Consolidated Financial Statements			✓
	Amendments to PFRS 10: Transition Guidance			✓
	Amendments to PFRS 10: Investment Entities			✓
	Amendments to PFRS 10: Investment Entities: Applying the Consolidation Exception			✓
PFRS 11	Joint Arrangements			✓
	Amendments to PFRS 11: Transition Guidance			✓
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			✓
PFRS 12	Disclosure of Interests in Other Entities			✓
	Amendments to PFRS 12: Transition Guidance			✓
	Amendments to PFRS 12: Investment Entities			✓

PFRS	Title	Adopted	Not Adopted	Not Applicable
	Amendments to PFRS 12: Investment Entities: Applying the Consolidation Exception			✓
PFRS 13	Fair Value Measurement	✓		
	Amendment to PFRS 13: Short-term receivables and Payables	✓		
	Amendment to PFRS 13: Portfolio Exception	✓		
PFRS 14	Regulatory Deferral Accounts			✓

Philippine Accounting Standards (PASs)

PAS	Title	Adopted	Not Adopted	Not Applicable
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendments to PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation		✓	
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendment to PAS 1: Clarification of the Requirements for Comparative Presentation	✓		
	Amendments to PAS 1: Disclosure Initiative	✓		
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: Classification of Servicing Equipment	✓		
	Amendment to PAS 16: Revaluation Method - Proportionate Restatement of Accumulated Depreciation	✓		
	Amendment to PAS 16: Property, Plant and Equipment - Clarification of Acceptable Methods of Depreciation and Amortization	✓		

PAS	Title	Adopted	Not Adopted	Not Applicable
	Amendment to PAS 16: Agriculture: Bearer Plants			✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Revised)	Employee Benefits	✓		
	Amendment to PAS 19: Defined Benefit Plans: Employee Contributions	✓		
	Amendment to PAS 19: Discount Rate: Regional Market Issue	✓		
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: Key Management Personnel	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans	✓		
PAS 27 (Amended)	Separate Financial Statements			✓
	Amendments to PAS 27: Investment Entities			✓
	Amendments to PAS 27: Equity Method in Separate Financial Statements			✓
PAS 28 (Amended)	Investments in Associates and Joint Ventures			✓
	Amendments to PAS 28: Investment Entities: Applying the Consolidation Exception			✓
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	✓		
	Amendments to PAS 32: Tax Effect of Distribution to Holders of Equity Instruments			✓

PAS	Title	Adopted	Not Adopted	Not Applicable
PAS 33	Earnings per Share			✓
PAS 34	Interim Financial Reporting			✓
	Amendment to PAS 34: Interim Financial Reporting and Segment Information for Total Assets and Liabilities			✓
	Amendment to PAS 34: Disclosure of Information 'Elsewhere in the Interim Financial Report'			✓
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: Revaluation Method - Proportionate Restatement of Accumulated Amortization			✓
	Amendment to PAS 38: Clarification of Acceptable Methods of Depreciation and 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			✓
	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: Clarifying the Interrelationship between PFRS 3 and PAS 40 when Classifying Property as Investment Property or Owner-occupied Property			✓
PAS 41	Agriculture			✓
	Amendment to PAS 41: Agriculture: Bearer Plants			✓

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	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement			✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
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			✓

Sterling Bank of Asia is prepared to respond to the opportunities for the year ahead, while also rising to the challenges that the external environment may bring. Whether in times of stability or volatility, we, at Sterling Bank of Asia, remain steadfast and firmly committed to delivering the best banking experience to our customers, stakeholders and employees.



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Chairman of the Board



Bansan C. Choa
Member



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Member (Independent Director)



Gregorio T. Yu
Vice Chairman of the Board



Cecilio D. San Pedro
Director, President and CEO



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Member (Independent Director)



Harris Edsel D. Jacildo
Member



Nilo L. Pacheco, Jr.
Member (Independent Director)

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Member and Corporate Secretary



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Member



Cecilio D. San Pedro
President and CEO



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Member



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Commercial Lending Group Head



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Executive Vice President,
Treasury Group Head and Treasurer

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RBG Area 1 Head



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Human Resources Group Head



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Risk Management Head



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Commercial Lending 1 Head



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Vice President,
VISMIN Consumer Lending Head



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Chief Security Officer



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Application Testing and
User Support Head



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Enrique D. Tan
Vice President,
Commercial Lending 2 Head



Joselito V. Ty
Vice President,
RBG Quality Assurance
and Branch Operations Head



Marilou B. Villanueva
Vice President,
Foreign Exchange Head

Products and Services

Personal Banking



**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.

Solo Yuan Savings Account

With an opening balance requirement of CNY 2,500.00 and a minimum ADB requirement of CNY 2,500.00, you can already get a competitive interest rate of 0.15% per annum credited monthly to your account.



Neo Savings Account
Neo is a special savings deposit account for kids ages 19 and below. Through Neo, your kids can already save and earn at the same time at an early age and grow their money for their own future.



Bayani OFW Savings Account
This account aims to help develop the habit of saving and improve 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 - a total hassle-free service right for you!

Electronic Banking

- Internet Banking
- ATM

Time Deposit Series

Prima Time Deposit
Short-term deposits should not equate to short-sighted investments. With Prima Time Deposit, 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

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 PHP25,000. Maxima 5 gives you competitive market rates fixed for 5 years.

Consumer Loans

Ultima Auto Loan
Driving home your own car should always be a rewarding experience. Start with low attractive rates, long repayment term, and convenient loan processing.

Persona Personal Loan

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 jump-start your own business venture, or simply to help you out in a financial emergency. Let Persona address your personal financial needs.

Discovery Home Loan

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 Loan

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.

Commercial Banking

Business Loans

As your dedicated business partner, we offer a wide range of Business Loan products to answer the demands and requirements of your business for growth or expansion. These 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

Optima Business Banking Solutions is a unique business account that comes with cash management facilities to help minimize overhead expenses, streamline operations, and most importantly, improve the bottom line.

With Optima, you get to optimize the management of cash and liquid funds. One single account can now take care of the disbursements, collections, and investments of your company's financial resources. Its key facilities are as follows:

- Payroll System
- Payroll Crediting System
- Financial System
- Check Writer System
- PDC Check Warehousing
- Optima Online

Wealth Management

Treasury Services

We offer 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 your dynamic investment requirements. 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

Get 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 Management Trust

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 you to access your funds in several easy and practical methods (online, POS and ATM). Plus, our debit and prepaid cards are the country's first Visa cards to have an embedded EMV chip so you can be sure of more secure transactions 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
Visa Prepaid Card

Branch Network and Business Offices

Metro Manila

Caloocan – Rizal Avenue

Rizal Ave. Extension,
Between 7th and 8th Ave.,
Grace Park, 1403 Caloocan City
T: (+632) 330-7398;
330-7399
F: (+632) 330-7397

Caloocan – MacArthur Highway*

624 MacArthur Highway,
Calaanan, 1403 Caloocan City

Las Piñas

Alabang-Zapote Road,
Pamplona II, 1740 Las Piñas City
T: (+632) 846-4473;
846-4474
F: (+632) 846-4317

Makati – Amorsolo

G/F Amorsolo Mansion,
Amorsolo cor. Herrera Sts.,
Legaspi Village,
1229 Makati City
T: (+632) 553-0033 to 34;
519-5764; 519-5772;
519-8158
F: (+632) 553-0034

Makati – Ayala Ave.

G/F SSS-Makati Bldg.,
Ayala Ave. cor. V.A. Rufino St.,
1250 Makati City
T: (+632) 892-1263;
864-0428; 864-0429
F: (+632) 864-0427

Makati – Gil Puyat

G/F Morning Star Bldg.,
Sen. Gil Puyat Ave.,
1220 Makati City
T: (+632) 895-5573;
899-2838
F: (+632) 897-4382

Makati – Leviste

G/F Liroville Condominium,
Leviste cor. Sedeño Sts.,
Salcedo Village,
1227 Makati City
T: (+632) 846-4168;
555-0942
F: (+632) 555-0944

Malabon

Francis Market,
Gov. Pascual Ave.
cor. M.H. del Pilar St.,
Tinajeros, 1470 Malabon City
T: (+632) 351-1007;
351-1006
F: (+632) 351-1002

Mandaluyong – Shaw Blvd.

G/F Shaw Residenza,
429 Shaw Boulevard,
1550 Mandaluyong City
T: (+632) 470-9367;
470-9405
F: (+632) 470-9420

Manila – Divisoria

630 New Divisoria Center
Condominium,
Sta. Elena St., San Nicolas,
Divisoria, 1006 Manila
T: (+632) 241-0179;
241-0180
F: (+632) 241-0181

Manila – Masangkay

Unit 963-965,
G/F Masagana Bldg.,
G. Masangkay St.,
Binondo, 1006 Manila
T: (+632) 243-1342;
243-1832
F: (+632) 243-1446

Manila – Ongpin

Unit-C, G/F 888 Neo Plaza,
Sabino Padilla cor.
Ongpin Sts.,
Binondo, 1006 Manila
T: (+632) 736-3113;
736-3208
F: (+632) 735-8321

Manila – Quintin Paredes

550 Quintin Paredes St.,
Binondo, 1006 Manila
T: (+632) 247-3841;
247-3992
F: (+632) 247-3954

Manila – San Fernando (Binondo)

Unit 493-495, G/F VISCO Bldg.,
San Fernando St.,
Binondo, 1006 Manila
T: (+632) 242-7849;
242-8697
F: (+632) 243-4144

Manila – U.N. Ave.

G/F Royal Bay Terrace
Condominium,
465 U.N. Ave. cor. Cortado St.,
Ermita, 1000 Manila
T: (+632) 523-6881;
523-8572
F: (+632) 523-7656

Marikina

G/F WRC Bldg.,
47 Gil Fernando Ave.,
Midtown Subd. II, San Roque,
1801 Marikina City
T: (+632) 681-2628;
681-2908
F: (+632) 681-4327

Muntinlupa – Alabang

G/F Autocentrum BMW Center,
Commerce Ave.
Madrigal Business Park,
Alabang, 1780 Muntinlupa City
T: (+632) 556-3180;
556-3493
F: (+632) 556-3492

Parañaque – BF Homes

President's Ave.
cor. Monserrat St.,
BF Homes Subd.,
1700 Parañaque City
T: (+632) 850-9184;
850-3468
F: (+632) 850-8959

Parañaque – Ninoy Aquino Ave. (NAIA)

Unit 707-4, G/F Columbia
Complex,
P 2B Ninoy Aquino Ave.,
Sto. Niño, 1704 Parañaque City
T: (+632) 852-0168;
853-9485
F: (+632) 853-9484

Pasig – Ortigas

G/F Prestige Tower,
F. Ortigas Jr. Road, Ortigas
Center, 1605 Pasig City
T: (+632) 706-3072;
706-3254
F: (+632) 706-3074

Quezon City – Banawe

705 Banawe St.,
1114 Quezon City
T: (+632) 781-7625;
781-7650
F: (+632) 740-8174

Quezon City – Congressional

Unit 31, G/F Barrington Place Bldg.,
Congressional Ave.,
1106 Quezon City
T: (+632) 928-5168; 929-8748
F: (+632) 929-9506

Quezon City – Quezon Ave.

G/F Ave Maria Bldg.,
1517 Quezon Ave.
(near cor. Examiner St.),
West Triangle, 1104 Quezon City
T: (+632) 376-6792; 376-6793
F: (+632) 376-6794

Quezon City – Timog

G/F SCT Bldg., 25 Timog Ave.,
1103 Quezon City
T: (+632) 374-0168; 441-8155
F: (+632) 441-8156

San Juan – Greenhills

G/F Sterling Bank Corporate Center,
Ortigas Ave., Greenhills,
1500 San Juan City
T: (+632) 727-8752; 726-6418
F: (+632) 727-8752

Taguig –

The Fort BGC, 1st Ave.

Unit-J, G/F Kensington Plaza,
1st Ave. cor. 29th St.,
Crescent Parkwest,
Bonifacio Global City,
1634 Taguig City
T: (+632) 586-5042; 856-5072
F: (+632) 856-5036

Taguig –

The Fort BGC, 31st St.

McKinley Park Residences,
31st St. cor. 3rd Ave.,
Bonifacio Global City,
1634 Taguig City
T: (+632) 801-6168, 6172, 6170

Valenzuela

JLB Enterprises Inc. Bldg,
54 Km.12, MacArthur Highway,
Marulas, 1440 Valenzuela City
T: (+632) 294-8301; 294-8379
F: (+632) 294-8466

Provincial

Bacolod

31 Lacson St.,
6100 Bacolod City
T: (+6334) 432-1381, 1490
F: (+6334) 432-1641

Baguio

1 Leonard Wood Road,
2600 Baguio City
T: (+6374) 445-2786
F: (+6374) 445-2788 to 89

Bicol – Legazpi*

First CQ Building,
B. Imperial St.,
4500 Legazpi City
T: (+6352) 284-3906;
284-3910; 284-3904

Bicol – Naga*

Centro Square,
#70 Penafrancia Ave.
cor. Colgante Bridge,
San Francisco, 4400 Naga City
T: (+6354) 871-6168;
871-3770; 880-0545

Boracay*

Boracay Tropics,
Balabag, Boracay Island,
Malay, 5608 Aklan
T: (+6336) 390-2577;
390-2583
F: (+6336) 390-2028

Cagayan de Oro (CDO)

G/F The VIP Hotel,
A. Velez cor. JR Borja Sts.,
9000 Cagayan de Oro City
T: (+6388) 852-8168
F: (+6388) 852-8172

Cavite – Imus

A&M Ramos Bldg.,
Aguinaldo Highway,
Bayan Luma IV,
Imus, 4103 Cavite
T: (+6346) 472-3168;
471-0644 to 45
F: (+6346) 474-0081

Cebu – Fuente Osmeña

Gen. Maxilom Ave. cor. F.
Ramos St., 6000 Cebu City
T: (+6332) 255-3198;
255-6157
F: (+6332) 254-0087

Cebu – Magallanes

Magallanes cor. Manalili Sts.,
6000 Cebu City
T: (+6332) 255-1203;
255-7935
F: (+6332) 256-2659

Dagupan

G/F Lenox Hotel,
Rizal St., Dagupan City,
2400 Pangasinan
T: (+6375) 523-1168;
522-0491; 522-3168

Davao – J.P. Laurel

J. P. Laurel Ave.,
Bajada, 8000 Davao City
T: (+6382) 221-7168;
222-0357, 58, 09
F: (+6382) 222-0196

Davao – Monteverde

Unit 72-74, G/F Sequoia Inn
Bldg., Monteverde St.,
8000 Davao City
T: (+6382) 222-4140;
224-0542
F: (+6382) 224-1924

General Santos

J. Catolico Sr. Ave.,
9500 General Santos City
T: (+6383) 553-5168

Iloilo

G/F GST Iloilo,
Corporate Center Quezon St.,
5000 Iloilo City
T: (+6333) 338-3795;
338-3797
F: (+6333) 338-3796

Laguna – Biñan

National Highway,
Brgy. Canlalay,
City of Biñan, 4024 Laguna
T: (+6349) 307-7595 to 97
F: (+6349) 307-7594

Laguna – Calamba

National Highway,
Brgy. Uno, Crossing,
Calamba, 4027 Laguna
T: (+6349) 547-7164,
7166, 7168

La Union

Quezon Ave.,
San Fernando City,
2500 La Union
T: (+6372) 888-0168

Palawan – Puerto Princesa*

National Highway,
Brgy. San Pedro,
5300 Puerto Princesa City
T: (+6348) 244-1476;
244-1497; 244-0660

Pampanga – San Fernando

G/F Queensland Commercial
Plaza,, Mc Arthur Highway,
Dolores, City of San Fernando,
2000 Pampanga
T: (+6345) 966-9168;
435-4463; 435-4462

**to be opened in 2017*

Business Offices

Business Development Unit
G/F Sterling Bank Corporate
Center, Ortigas Ave., Greenhills,
1500 San Juan City
T: (+632) 535-6168

Commercial Lending 1 & 3
1/F Sterling Bank Corporate
Center, Ortigas Ave., Greenhills,
1500 San Juan City
T: (+632) 535-6168

Treasury
3/F Sterling Bank Corporate
Center, Ortigas Ave., Greenhills,
1500 San Juan City
T: (+632) 535-6168

Trust
3/F Sterling Bank Corporate
Center, Ortigas Ave., Greenhills,
1500 San Juan City
T: (+632) 535-6168

Commercial Lending 2
550 Quintin Paredes St.,
Binondo, 1006 Manila
T: (+632) 247-0293;
243-0803 to 04

Consumer Loans

Greenhills Head Office
Sterling Bank Corporate
Center, Ortigas Ave., Greenhills
1500 San Juan City

Auto Loans
T: (+632) 535-6168 locs
2605, 2671, 2674,
2675, 2678, 4022
F: (+632) 982-9399

Ortigas Lending Center
2/F Prestige Tower,
F. Ortigas Jr. Road, Ortigas
Center, 1605 Pasig City
F: (632) 914-7038; 470-9130

Personal Loan
T: (+632) 470-8168 locals
2509, 2510, 2511, 2522,
2523, 2591, 4002

Salary Loan
T: (+632) 470-8168 locals
2506, 2551, 2553, 2554,
2556, 4003

Real Estate Loan
T: (+632) 470-8168 locals
2498, 2501, 2507, 2512,
2517, 2533, 2593, 4004

Calamba Lending Desk
National Highway
Brgy. Uno, Crossing
4027 Calamba, Laguna
T: (+6349) 547-7164;
(+632) 535-6168 local
4546

Pampanga Lending Center
2/F Queensland Commercial
Plaza, MacArthur Highway,
Dolores, San Fernando City,
2000 Pampanga
T: (+6345) 280-1561;
280-1554; 280-1564;
280-1560; 280-1571

La Union Lending Desk
Quezon Ave.,
San Fernando City
2500 La Union
T: (+6372) 888-0168;
(+632) 535-6168 local
4548

Dagupan Lending Desk
G/F Lenox Hotel
Rizal St., Dagupan City
2400 Pangasinan
T: (+6375) 523-1168;
(+632) 535-6168 local
4545

Naga Lending Desk
Centro Square, #70
Penafrancia Ave.
cor. Colgante Bridge,
San Francisco
4400 Naga City
T: (+6354) 871-6168;
(+632) 535-6168 local
4549

Cebu Lending Center
2/F Coast Pacific Bldg.
Gen. Maxilom Ave. cor.
F. Ramos St., 6000 Cebu City
T: (+6332) 239-0025 to 28,
239-0039
F: (+6332) 254-8291

Bacolod Lending Desk
31 Lacson St.
6100 Bacolod City
T: (+6334) 432-1641;
(+632) 535-6168 local
4561

Iloilo Lending Desk
G/F GST Iloilo
Corporate Center Quezon St.
5000 Iloilo City
T: (+6333) 338-3796;
(+632) 535-6168 local
4560

Cagayan De Oro Lending Desk
G/F The VIP Hotel
A. Velez cor. JR Borja Sts.
9000 Cagayan de Oro City
T: (+6388) 852-8171;
(+632) 535-6168 local
4581

General Santos Lending Desk
J. Catolico Sr. Ave.
9500 General Santos City
T: (+6383) 553-5172;
(+632) 535-6168 local
4583

Davao Lending Center
J.P. Laurel Ave., Bajada
8000 Davao City
T: (+6382) 222-0357;
(+632) 535-6168 local
4582





Banking to a different beat.

Head Office

Sterling Bank Corporate Center
Ortigas Avenue, Greenhills
1500, San Juan City, Philippines

Talk to us

tel. nos.: (+632) 535-6168, 721-6000
email: customer.service@sterlingbankasia.com
website: www.sterlingbankasia.com