

STERLING BANK OF ASIA INC.
(A Savings Bank)

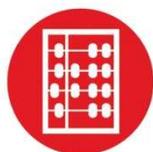
Financial Statements
December 31, 2014
(With Comparative Figures for 2013 and 2012)

With independent auditor's report provided by



REYES TACANDONG & CO.

FIRM PRINCIPLES. WISE SOLUTIONS.



INDEPENDENT AUDITOR'S REPORT

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

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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



Opinion

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

Other Matter

The financial statements of Sterling Bank of Asia Inc. (A Savings Bank) as at and for the years ended December 31, 2013 and 2012 were audited by another auditor, whose report dated March 25, 2014 expressed an unmodified opinion on those statements. The opinion of such other auditor, however, excludes the restatements discussed in Note 6 to financial statements.

REYES TACANDONG & Co.


HAYDEE M. REYES

Partner

CPA Certificate No. 83522

Tax Identification No. 102-095-265-000

BOA Accreditation No. 4782; Valid until December 31, 2015

SEC Accreditation No. 0663-AR-2 Group A

Valid until April 14, 2017

BIR Accreditation No. 08-005144-6-2013

Valid until November 26, 2016

PTR No. 4748326

Issued January 5, 2015, Makati City

March 26, 2015

Makati City, Metro Manila

STERLING BANK OF ASIA INC. (A Savings Bank)

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2014

(With Comparative Figures for 2013 and 2012)

	Note	2014	2013 (As Restated - Note 6)	2012 (As Restated - Note 6)
ASSETS				
Cash and Other Cash Items		₱903,508,869	₱607,079,022	₱633,646,640
Due from Bangko Sentral ng Pilipinas		3,964,969,282	2,737,379,105	2,029,551,219
Due from Other Banks		2,317,217,108	657,268,106	1,097,031,428
Interbank Loans Receivable	9	625,686,821	11,464,989	295,177,246
Financial Assets at Fair Value through Profit or Loss	10	4,169,762,311	1,593,725,996	393,154,823
Available-for-Sale Financial Assets	11	4,055,409,510	3,441,744,361	5,628,538,664
Held-to-Maturity Investments	12	329,794,376	121,203,117	112,624,394
Loans and Receivables	13	16,852,583,926	16,271,935,854	16,092,325,686
Property and Equipment	14	527,274,829	552,486,235	604,445,652
Assets Held for Sale	15	126,274,908	124,627,916	158,245,126
Branch Licenses	16	225,390,000	225,390,000	225,390,000
Deferred Tax Assets	27	17,479,611	–	–
Other Assets	17	107,002,176	98,951,726	98,098,438
TOTAL ASSETS		₱34,222,353,727	₱26,443,256,427	₱27,368,229,316
LIABILITIES AND EQUITY				
Liabilities				
Deposit Liabilities	18	₱29,364,871,176	₱22,778,385,143	₱23,370,201,718
Manager's Checks		151,068,397	117,380,937	60,842,543
Bills Payable	19	366,183,853	304,377,778	297,251,097
Accrued Interest, Taxes and Other Expenses	20	232,532,453	212,459,107	223,890,591
Unsecured Subordinated Debt	21	500,000,000	500,000,000	500,000,000
Deferred Tax Liabilities	27	–	7,951,611	16,945,754
Income Tax Payable		–	–	2,638,390
Other Liabilities	22	1,107,019,992	789,798,414	953,229,197
Total Liabilities		31,721,675,871	24,710,352,990	25,424,999,290
Equity				
Common Stock	28	1,895,000,000	1,625,000,000	1,625,000,000
Perpetual Preferred Stock	28	300,000,000	62,500,000	62,500,000
Other Equity Reserves		813,067	(149,048,531)	127,923,150
Retained Earnings		304,864,789	194,451,968	127,806,876
Total Equity		2,500,677,856	1,732,903,437	1,943,230,026
TOTAL LIABILITIES AND EQUITY		₱34,222,353,727	₱26,443,256,427	₱27,368,229,316

See accompanying Notes to Financial Statements.

STERLING BANK OF ASIA INC. (A Savings Bank)

STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2014
(With Comparative Figures for 2013)

	Note	2014	2013 (As Restated - Note 6)
INTEREST INCOME			
Loans and receivables	13	₱1,289,272,433	₱1,232,997,771
Investment securities	10	361,554,447	291,525,976
Deposits from Bangko Sentral ng Pilipinas and other banks		33,820,046	43,544,435
Interbank loans receivable	9	2,914,284	6,418,695
		1,687,561,210	1,574,486,877
INTEREST EXPENSE ON DEPOSIT LIABILITIES, BILLS PAYABLE AND OTHERS			
	18	623,466,925	757,480,103
NET INTEREST INCOME		1,064,094,285	817,006,774
OTHER INCOME (CHARGES)			
Net trading gains	10	326,869,278	581,559,097
Service charges, fees and commissions		166,037,491	132,978,480
Net foreign exchange gains		34,918,407	18,047,047
Net profit (loss) from assets sold or acquired	15	14,391,449	(16,182,085)
Others - net		12,783,291	5,657,922
		554,999,916	722,060,461
OPERATING EXPENSES			
Compensation and fringe benefits		472,461,973	453,936,762
Taxes and licenses		201,666,228	205,541,701
Occupancy		110,703,381	109,225,227
Depreciation and amortization	14	78,674,048	131,664,285
Entertainment, amusement and representation		66,359,809	71,065,409
Insurance		57,809,384	49,060,285
Security, messengerial and janitorial		49,093,926	64,304,485
Others	26	197,679,657	216,423,487
		1,234,448,406	1,301,221,641
PROVISION FOR CREDIT AND IMPAIRMENT LOSSES		13	218,599,245
			110,153,315
INCOME BEFORE INCOME TAX		166,046,550	127,692,279
INCOME TAX EXPENSE (BENEFIT)		27	
Current		81,064,951	70,041,330
Deferred		(25,431,222)	(8,994,143)
		55,633,729	61,047,187
NET INCOME		₱110,412,821	₱66,645,092

STERLING BANK OF ASIA INC. (A Savings Bank)
STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2014
(With Comparative Figures for 2013)

	Note	2014	2013 (As Restated - Note 6)
NET INCOME		₱110,412,821	₱66,645,092
OTHER COMPREHENSIVE INCOME (LOSS)			
<i>Items to be reclassified to profit or loss</i>			
Net unrealized gains (losses) on			
available-for-sale financial assets	11	159,050,930	(290,420,887)
Translation adjustment		(9,189,332)	6,838,526
<i>Item not to be reclassified to profit or loss</i>			
Remeasurement gains on retirement liability, net of deferred tax	25	-	6,610,680
		149,861,598	(276,971,681)
TOTAL COMPREHENSIVE INCOME (LOSS)		₱260,274,419	(₱210,326,589)

See accompanying Notes to Financial Statements.

STERLING BANK OF ASIA INC. (A Savings Bank)

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2014
(With Comparative Figures for 2013)**

	Note	2014	2013 (As Restated - Note 6)
COMMON STOCK			
	28		
Balance at beginning of year		P1,625,000,000	P1,625,000,000
Issuance of shares		270,000,000	-
Balance at end of year		1,895,000,000	1,625,000,000
PERPETUAL PREFERRED STOCK			
	28		
Balance at beginning of year		62,500,000	62,500,000
Issuance of shares		237,500,000	-
Balance at end of year		300,000,000	62,500,000
OTHER EQUITY RESERVES			
Net Unrealized Gains (Losses) on Available-for-Sale Financial Assets			
	11		
Balance at beginning of year:			
As previously reported		(182,974,269)	155,975,555
Prior period adjustments	6	48,528,937	-
As restated		(134,445,332)	155,975,555
Unrealized gains (losses)		159,050,930	(290,420,887)
Balance at end of year		24,605,598	(134,445,332)
Cumulative Translation Adjustment			
Balance at beginning of year		(14,104,047)	(20,942,573)
Translation adjustment		(9,189,332)	6,838,526
Balance at end of year		(23,293,379)	(14,104,047)
Cumulative Remeasurement Losses on Retirement Liability			
	25		
Balance at beginning of year		(499,152)	(7,109,832)
Remeasurement gain, net of deferred tax		-	6,610,680
Balance at end of year		(499,152)	(499,152)
		813,067	(149,048,531)
RETAINED EARNINGS			
Balance at beginning of year:			
As previously reported		150,532,925	111,962,747
Prior period adjustments	6	43,919,043	15,844,129
As restated		194,451,968	127,806,876
Net income		110,412,821	66,645,092
Balance at end of year		304,864,789	194,451,968
		P2,500,677,856	P1,732,903,437

See accompanying Notes to Financial Statements.

STERLING BANK OF ASIA INC. (A Savings Bank)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2014
(With Comparative Figures for 2013)

	Note	2014	2013 (As Restated - Note 6)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		₱166,046,550	₱127,692,279
Adjustments for:			
Provision for credit and impairment losses	13	218,599,247	110,153,315
Depreciation and amortization	14	78,674,048	131,664,285
Mark-to-market losses (gains) on financial assets at fair value through profit or loss	10	(56,799,583)	49,891,672
Gain on sale of available-for-sale financial assets	11	(45,677,439)	(225,931,172)
Retirement benefits	25	16,477,610	15,488,243
Net loss (profit) from assets sold or acquired	15	(14,391,449)	16,182,085
Provision for impairment losses of assets held for sale	26	5,464,517	23,994,291
Amortization of premium on held to maturity investments	12	3,290,541	1,226,502
Operating income before working capital changes		371,684,042	250,361,500
Changes in operating assets and liabilities:			
Decrease (increase) in the amounts of:			
Financial assets at fair value through profit or loss		(2,519,236,732)	(1,250,462,845)
Loans and receivables		(869,392,686)	(419,776,872)
Other assets		(9,061,204)	314,676
Increase (decrease) in the amounts of:			
Deposit liabilities		6,586,486,033	(591,816,575)
Manager's checks		33,687,460	56,538,394
Accrued interest, taxes and other expenses		3,595,736	(33,530,407)
Other liabilities		317,221,578	(163,430,784)
Net cash generated from (used for) operations		3,914,984,227	(2,151,802,913)
Income tax paid		(80,054,197)	(59,729,479)
Net cash flows provided by (used in) operating activities		3,834,930,030	(2,211,532,392)
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to:			
Available-for-sale financial assets	11	(3,100,847,163)	(8,339,197,571)
Held-to-maturity investments	12	(211,881,800)	-
Property and equipment	14	(56,574,621)	(95,139,793)
Proceeds from sale of:			
Available-for-sale financial assets	11	2,691,910,383	10,459,049,156
Assets held for sale	15	77,042,823	114,797,070
Property and equipment	14	3,494,463	15,843,013
Net cash flows provided by (used in) investing activities		(596,855,915)	2,155,351,875

(Forward)

	Note	2014	2013 (As Restated - Note 6)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from:			
Availment of bills payable		₱1,063,537,712	₱694,923,581
Issuance of capital stock	28	507,500,000	–
Payments of bills payable		(1,001,731,637)	(687,796,900)
Net cash flows provided by financing activities		569,306,075	7,126,681
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS			
		(9,189,332)	6,838,526
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
		3,798,190,858	(42,215,311)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Cash and other cash items		607,079,022	633,646,640
Due from Bangko Sentral ng Pilipinas		2,737,379,105	2,029,551,219
Due from other banks		657,268,106	1,097,031,428
Interbank loans receivable	9	11,464,989	295,177,246
		4,013,191,222	4,055,406,533
CASH AND CASH EQUIVALENTS AT END OF THE YEAR			
Cash and other cash items		903,508,869	607,079,022
Due from Bangko Sentral ng Pilipinas		3,964,969,282	2,737,379,105
Due from other banks		2,317,217,108	657,268,106
Interbank loans receivable	9	625,686,821	11,464,989
		₱7,811,382,080	₱4,013,191,222
OPERATING CASH FLOWS FROM INTEREST			
Interest received		₱1,385,841,653	₱1,509,853,649
Interest paid		633,331,063	760,515,510
NONCASH OPERATING INFORMATION			
Reclassification of loans and receivables to assets held for sale		₱70,145,367	₱130,013,389

See accompanying Notes to Financial Statements.

STERLING BANK OF ASIA INC. (A Savings Bank)

NOTES TO FINANCIAL STATEMENTS

(With Comparative Information for 2013)

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) to engage primarily in the general business of savings and mortgage banking. The Bank offers a wide range of products and services such as deposit products, loans, treasury, and trust functions. The Bank was granted authority to engage in trust operations in 2008 and to issue foreign letters of credit in 2010.

As at December 31, 2014 and 2013, the Bank operates a total of 41 and 38 branches, respectively.

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

In 2006, JTKC Equities, Inc. (JTKC), Surewell Equities, Inc. (SEI), and Star Equities, Inc. acquired all the outstanding shares of stock of FESB from 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 Bangko Sentral ng Pilipinas (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, 2014 and 2013, the ultimate parent of the Bank is JTKC, through a direct interest of 44% and 35.29%, respectively, and indirect interest of 26% and 26.35%, respectively, through Star Equities, Inc., a wholly owned subsidiary of JTKC.

The registered office address of the Bank is at the Sterling Bank Corporate Center, Ortigas Ave., Greenhills, San Juan City.

The financial statements of the Bank as at and for the year ended December 31, 2014 (with comparative figures for 2013 and 2012) have been approved and authorized for issue by the Bank's Board of Directors (BOD) on March 26, 2015.

2. Basis of Preparation and Statement of Compliance

The financial statements have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss (FVPL), available-for-sale (AFS) financial assets and assets held for sale, which are carried at fair value. The financial statements are presented in Philippine Peso, which is the functional and presentation currency of the Bank. All amounts are in absolute values, unless otherwise indicated.

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

Committee (IFRIC).

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

3. Summary of Changes in Accounting Standards

Adoption of New and Revised PFRS

The Bank adopted the following new and revised PFRS effective January 1, 2014. These are summarized below.

- Amendments to PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*, address inconsistencies in current practice when applying the offsetting criteria in PAS 32. The amendments clarify (1) the meaning of “currently has a legally enforceable right of set-off”; and (2) that some gross settlement systems may be considered equivalent to net settlement.
- Amendments to PAS 36, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets*, remove the unintended consequences of PFRS 13, *Fair Value Measurement*, on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units for which impairment loss has been recognized or reversed during the period.

Amendments to PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting*, provide an exception to the requirement to discontinue hedge accounting in certain circumstances in which there is a change in counterparty to a hedging instrument in order to achieve clearing for that instrument.

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

New and Revised PFRS Not Yet Adopted

Relevant new and revised PFRS, which are not yet effective for the year ended December 31, 2014 and have not been applied in preparing the financial statements, are summarized below.

Effective for annual periods beginning on or after July 1, 2014 -

- Amendments to PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions*, apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions from current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service.

Contributions that are discretionary shall be accounted for as reductions from current service cost upon payment of these contributions to the plans.

Annual Improvements to PFRS (2010 to 2012 cycle):

- Amendments to PFRS 13, *Fair Value Measurement - Short-term Receivables and Payables*, clarify that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial.
- Amendments to PAS 24, *Related Party Disclosures - Key Management Personnel*, clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity.

Annual Improvements to PFRS (2011 to 2013 cycle) –

- Amendments to PFRS 13, *Fair Value Measurement - Portfolio Exception*, clarify that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts.

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

- Amendments to PAS 16, *Property, Plant and Equipment* and PAS 38, *Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization*, clarify that a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets.

Annual Improvements to PFRS (2012 to 2014 cycle):

- Amendments to PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal*, clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should be considered as a continuation of the original plan of disposal rather than a new plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.
- Amendments to PFRS 7, *Financial Instruments; Disclosures - Servicing Contracts*, requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance in PFRS 7 in order to assess whether the disclosures are required.

- Amendments to PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Financial Statements*, clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.
- Amendments to PAS 19, *Employee Benefits - Regional Marketing Issue Regarding Discount Rate*, clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

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

- PFRS 9, *Financial Instruments*, reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

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

4. Summary of Significant Accounting Policies

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

Financial Instruments

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

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

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

Classification of Financial Instruments. 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 at amortized cost. The classification depends on the purpose for which the financial instruments are acquired or incurred and whether they are quoted in an active market.

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

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

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

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

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

As at December 31, 2014 and 2013, investments in government securities and private bonds are included in this category (see Note 10).

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

As at December 31, 2014 and 2013, investments in government securities, private bonds and unquoted equity security are included in this category (see Note 11).

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, 2014 and 2013, government debt securities are included in this category (see Note 12).

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, 2014 and 2013, cash and other cash items (COCI), due from BSP and other banks, interbank loans receivables and unquoted debt securities are included under this category (see Notes 13).

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 at Amortized Cost. Other financial liabilities at amortized cost 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, 2014 and 2013, deposit liabilities, manager's checks, bills payable, accrued interest and other expenses, unsecured subordinated debt and other liabilities (excluding statutory obligations and taxes payable) are included under this category.

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

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

When the Bank has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset

is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to pay.

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

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

Financial Guarantees. In the ordinary course of business, the Bank provides financial guarantees. Financial guarantees are initially recognized in the 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 11).

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

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

decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the excess of financial asset's carrying amount over its net realizable value, normally based on the present value of the estimated future cash flows from the financial asset. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. Time value is generally not considered when the effect of discounting is not material. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. Any impairment loss is recognized in profit or loss.

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

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

Restructured Loans. Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered as past due. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The restructured loan continues to be subject to an individual (calculated using the loan's original effective interest rate) or collective impairment. The difference between the recorded value of the original loan and present value of the restructured cash flows, discounted at the original effective interest rate is recognized as "Provision for credit and impairment losses" in profit or loss.

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

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

In the case of AFS equity investments, evidence of impairment would include a significant or prolonged decline in fair value of investments below its cost. Where there is evidence of impairment, the cumulative loss, which is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized, is removed from other comprehensive income and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss. Increases in fair value after impairment are recognized directly in other comprehensive income.

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

Fair Value Measurement

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

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

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

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

Information about the assumptions made in measuring fair values is included in Note 8.

Property and Equipment

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

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

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

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

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

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognized.

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

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

Assets Held for Sale

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

Branch Licenses

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

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

Other Assets

Other assets include prepaid expenses, refundable deposits, documentary stamp taxes, other investments, creditable withholding tax (CWT), deferred lease expenses, returned checks and other cash items (RCOCI), supplies on hand and other miscellaneous items.

CWT. CWT represents the amount withheld by the Bank's customers in relation to its income. CWT are deducted from income tax payable on the same year the revenue was recognized.

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

Impairment of Nonfinancial Assets

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

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

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

Equity

Capital Stock. Capital stock is measured at par value for all shares issued.

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

Other Comprehensive Income (Loss)

Other comprehensive income (loss) comprises items of income and expenses (including items previously presented under equity) that are not recognized in profit or loss for the year in accordance with PFRS. Other comprehensive income (loss) of the Bank pertains to 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 Gains (Losses). Trading 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.

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.

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 collectibility.

Profit (Loss) from Assets Sold or Acquired. Income or loss from sale of properties acquired is recognized upon completion of the earning process and the collectibility of the sales price is reasonably assured. Gain or loss on foreclosure of properties is determined as the difference between the fair value upon foreclosure and the carrying amount of the loan. Gain or loss on foreclosure of properties is recognized when the risks and rewards of the property has 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. The Bank has a funded, non-contributory, defined benefit plan covering all qualified employees of the Bank. Retirement benefit costs are actuarially determined using the projected unit credit method, which reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries.

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

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

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

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

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

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies: (a) there is a change in contractual terms, other than a renewal or extension of the arrangement; (b) renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term; (c) there is a change in the determination of whether the fulfillment is dependent on a specified asset; or (d) there is a substantial change to the asset.

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

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

Income Taxes

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

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

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

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

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

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

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

Fiduciary Activities

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

Foreign Currency Transactions

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

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

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

Related Party Relationship and Transactions

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

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

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

Provisions

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

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

Contingencies

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

Events after the Reporting Year

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

5. Significant Accounting Judgments and Estimates

The preparation of the financial statements requires management to exercise judgment, make estimates, and use assumptions that affect amounts of assets, liabilities, income and expenses reported in the financial statements and related notes. 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 judgment, 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.

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.

Determining the Classification of Lease Agreements. The Bank, as a lessee, has entered into various lease agreements as a lessee. 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 charged to operations amounted to ₱85.8 million and ₱83.0 million in 2014 and 2013, respectively (see Note 24).

Evaluating Contingencies. The Bank is currently involved in various legal proceedings pertaining to collectibility of its loans and receivables. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsels handling the Bank's defense in these matters and is based on an analysis of potential results. The Bank currently does not believe that these proceedings will have a material adverse effect on the financial statements (see Note 31).

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 ₱218.6 million and ₱110.2 million in 2014 and 2013, respectively. The allowance for credit and impairment losses on loans and receivables amounted to ₱520.7 million and ₱302.1 million as at December 31, 2014 and 2013, respectively (see Note 13).

The carrying amount of loans and receivables amounted to ₱16.9 billion and ₱16.3 billion as at December 31, 2014 and 2013, respectively (see Note 13).

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

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

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

No impairment losses were recognized in 2014 and 2013. As at December 31, 2014 and 2013, the carrying amount of the branch licenses amounted to ₱225.4 million (see Note 16).

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

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

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

No impairment losses were recognized in 2014 and 2013. The carrying amount of property and equipment subjected to impairment assessment amounted to ₱527.3 million and ₱552.5 million as at December 31, 2014 and 2013, respectively (see Note 14).

Estimating Useful Lives of Property and Equipment. The Bank estimates the useful lives of property and equipment for purposes of computing depreciation and amortization based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed annually and are updated, if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of property and equipment. However, it is possible that future results of operations could be materially affected by changes in factors mentioned in the foregoing. The amounts and timing of recorded expenses for any year would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the property and equipment would increase the recorded expenses and decrease assets.

There was no change in the estimated useful lives of the property and equipment in 2014 and 2013. The carrying amount of property and equipment amounted to ₱527.3 million and ₱552.5 million as at December 31, 2014 and 2013, respectively (see Note 14).

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

Assets held for sale amounted to ₱126.3 million and ₱124.6 million as at December 31, 2014 and 2013, respectively. Provision for impairment losses on assets held for sale amounting to ₱5.5 million and ₱24.0 million were recognized in 2014 and 2013, respectively (see Note 15).

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, expected rate of return on plan assets 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 25 to financial statements.

The retirement liability amounted to ₱64.7 million and ₱48.2 million as at December 31, 2014 and 2013, respectively (see Note 25).

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, 2014 and 2013, deferred tax assets (at gross) amounted to ₱55.9 million and ₱30.4 million, respectively (see Note 27).

As at December 31, 2014 and 2013, the Bank did not recognize deferred tax assets on temporary differences totaling ₱540.7 million and ₱533.6 million, respectively (see Note 27).

6. Prior Period Adjustments and Reclassifications

The 2013 and 2012 financial statements have been restated to reflect the following:

- Correction on the fair value adjustments on financial assets at FVPL and AFS financial assets amounting to ₱36.5 million and ₱48.5 million, respectively, in 2013.
- Reversal of over-accrual of interest income on loans and receivables amounting to ₱22.0 million in 2013.
- Reclassification of real and other properties acquired amounting to ₱124.6 million and ₱158.2 million in 2013 and 2012, respectively, from “Investment properties” and “Other assets” to “Assets held for sale” in the statement of financial position.

Accordingly, the following adjustments were also effected in the 2013 and 2012 financial statements resulting from the reclassification of real and other properties acquired:

- Reversal of depreciation previously recognized on real and other properties acquired amounting to ₱19.6 million and ₱20.5 million in 2013 and 2012, respectively.
- Recognition of impairment loss on real and other properties acquired classified as “Assets held for sale” amounting to ₱11.4 million in 2013.
- Recognition of additional loss on foreclosure of real and other properties acquired amounting to ₱10.3 million in 2013 and reversal of unrealized gain on foreclosure of real and other properties acquired amounting to ₱6.6 million in 2012.
- Adjustment in gain on sale of real and other properties acquired amounting to ₱21.0 million in 2013.
- Recognition of deferred tax assets on unrealized loss on foreclosure of and impairment loss on real and other properties acquired amounting to ₱9.0 million in 2013.

The following is the summary of the financial impact of the restatement and reclassification adjustments to the 2013 and 2012 financial statements.

	December 31, 2013			
	Assets	Liabilities	Equity	Net Income
Balances as Previously Reported	₱26,389,513,297	₱24,727,024,669	₱1,662,488,628	₱60,603,349
Prior Period Adjustments				
Correction on the fair value adjustments of financial assets at FVPL and AFS financial assets	85,029,664	-	85,029,664	36,500,727
Reversal of over-accrual of interest income on loans and receivables	(22,033,170)	-	(22,033,170)	(22,033,170)
Reversal of depreciation on real and other properties acquired	40,061,455	-	40,061,455	19,601,232
Recognition of impairment loss on real and other properties acquired	(11,401,327)	-	(11,401,327)	(11,401,327)

(Forward)

	December 31, 2013			
	Assets	Liabilities	Equity	Net Income
Recognition of additional loss and reversal of unrealized gain on foreclosure of real and other properties acquired	(₱16,863,664)	(₱7,677,536)	(₱9,186,128)	(₱4,570,034)
Adjustment in gain on sale of real and other properties acquired	(21,049,828)	–	(21,049,828)	(21,049,828)
Recognition of deferred tax asset on unrealized loss on foreclosure and impairment loss on real and other properties acquired	–	(8,994,143)	8,994,143	8,994,143
	53,743,130	(16,671,679)	70,414,809	6,041,743
As Restated	₱26,443,256,427	₱24,710,352,990	₱1,732,903,437	₱66,645,092

	January 1, 2013			
	Assets	Liabilities	Equity	Net Income
Balances as Previously Reported	₱27,354,363,513	₱25,426,977,616	₱1,927,385,897	₱50,460,062
Prior Period Adjustments				
Reversal of depreciation on real and other properties acquired	20,460,223	–	20,460,223	20,460,223
Reversal of unrealized gain on foreclosure of real and other properties acquired	(6,594,420)	(1,978,326)	(4,616,094)	(4,616,094)
	13,865,803	(1,978,326)	15,844,129	15,844,129
As Restated	₱27,368,229,316	₱25,424,999,290	₱1,943,230,026	₱66,304,191

7. Financial Risk Management Objectives and Policies

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

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

Risk Governance

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

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

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

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

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

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

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

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

Credit Risk

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

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

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

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

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

Management of Credit Risk

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

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

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

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

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

	2013			
	Carrying Amount	Fair Value of Collaterals or Credit Enhancements	Maximum Exposure to Credit Risk	Financial Effects of Collaterals or Credit Enhancements
Loans and receivables:				
Receivables from customers:				
Corporate loans	₱10,916,738,457	₱4,004,108,897	₱8,515,676,607	₱2,401,061,850
Consumer loans	3,994,511,755	3,744,484,517	728,748,286	3,265,763,469
	14,911,250,212	7,748,593,414	9,244,424,893	5,666,825,319
Sales contracts receivable	16,399,178	16,107,240	3,513,386	12,885,792
	₱14,927,649,390	₱7,764,700,654	₱9,247,938,279	₱5,679,711,111

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:

	2014				
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Others***	Total
Other community, social and personal activities	₱5,377,330,799	₱-	₱-	₱778,309	₱5,378,109,108
Wholesale and retail trade	3,435,857,631	-	-	51,018,871	3,486,876,502
Real estate, renting and business activities	2,787,812,354	-	-	34,526,893	2,822,339,247
Manufacturing	₱1,873,924,676	₱-	₱-	₱4,257,165	₱1,878,181,841
Financial intermediaries	1,509,251,366	6,907,873,211	1,267,240,158	-	9,684,364,735
Philippine government	-	-	7,271,652,576	-	7,271,652,576
Agricultural, hunting and forestry	415,903,451	-	-	-	415,903,451
Transportation, storage and communication	683,252,404	-	-	-	683,252,404
Construction	117,731,160	-	-	4,046,390	121,777,550

(Forward)

2014					
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Others***	Total
Mining and quarrying	₱21,000,000	₱-	₱-	₱-	₱21,000,000
Hotel and restaurant	25,804,738	-	-	-	25,804,738
Electricity, gas and water supply	425,000	-	-	-	425,000
	16,248,293,579	6,907,873,211	8,538,892,734	94,627,628	31,789,687,152
Allowance for credit and impairment losses	520,735,885	-	-	-	520,735,885
	₱15,727,557,694	₱6,907,873,211	₱8,538,892,734	₱94,627,628	₱31,268,951,267

2013					
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Others***	Total
Other community, social and personal activities	₱3,611,066,364	₱-	₱-	₱1,446,432	₱3,612,512,796
Wholesale and retail trade	3,638,902,449	-	-	-	3,638,902,449
Real estate, renting and business activities	3,482,682,609	-	-	20,379,674	3,503,062,283
Manufacturing	1,987,025,510	-	-	-	1,987,025,510
Financial intermediaries	1,482,632,384	3,406,112,200	1,755,084,163	89,065,377	6,732,894,124
Philippine government	-	-	3,385,515,848	-	3,385,515,848
Agricultural, hunting and forestry	454,709,850	-	-	-	454,709,850
Transportation, storage and communication	375,181,642	-	-	-	375,181,642
Construction	321,641,892	-	-	-	321,641,892
Mining and quarrying	21,391,738	-	-	-	21,391,738
Hotel and restaurant	85,060,264	-	-	-	85,060,264
Electricity, gas and water supply	500,000	-	-	-	500,000
	15,460,794,702	3,406,112,200	5,140,600,011	110,891,483	24,118,398,396
Allowance for credit and impairment losses	302,136,639	-	-	-	302,136,639
	₱15,158,658,063	₱3,406,112,200	₱5,140,600,011	₱110,891,483	₱23,816,261,757

* Comprised of due from BSP, due from other banks, interbank loans receivables

** Comprised of financial assets at FVPL, AFS investments (excluding unquoted equity securities) and HTM investments

*** Comprised of returned checks and other cash items (RCOCI), refundable deposits and contingencies relating to outstanding guarantees and domestic LC.

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

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

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

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

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

Credit Quality per Class of Financial Assets

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

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

	2014					
	Neither Past Due nor Impaired			Past Due but not Individually Impaired		Total
	High Grade	Standard Grade	Total	Individually Impaired	Individually Impaired	
Financial assets at FVPL:						
Government securities	₱4,008,749	₱-	₱4,008,749	₱-	₱-	₱4,008,749
Private bonds	131,126	29,888	161,014	-	-	161,014
AFS financial assets:						
Government securities	2,933,110	-	2,933,110	-	-	2,933,110
Private debt securities	890,041	216,185	1,106,226	-	-	1,106,226
HTM investments -						
Government securities	329,794	-	329,794	-	-	329,794
Loans and receivables -						
Loans and discount:						
Corporate	1,227,422	8,394,234	9,621,656	-	377,361	9,999,017
Consumer	4,495,992	662,913	5,158,905	600,662	-	5,759,567
Unquoted debt securities	701,542	-	701,542	-	-	701,542
Bills purchased	489,710	-	489,710	-	-	489,710
Accrued interest receivable	199,419	-	199,419	-	-	199,419
Accounts receivable	197,838	-	197,838	-	-	197,838
Sales contracts receivable	31,100	-	31,100	-	-	31,100
Other assets:						
RCOCI	778	-	778	-	-	778
Refundable deposits	23,210	-	23,210	-	-	23,210
Loans and advances to banks:						
Due from BSP	3,964,969	-	3,964,969	-	-	3,964,969
Due from other banks	2,317,217	-	2,317,217	-	-	2,317,217
Interbank loans receivable	625,687	-	625,687	-	-	625,687
	₱22,567,704	₱9,303,220	₱31,870,924	₱600,662	₱377,361	₱32,848,947

	2013 (As restated - see Note 6)					
	Neither Past Due nor Impaired			Past Due but not Individually Impaired		Total
	High Grade	Standard Grade	Total	Individually Impaired	Individually Impaired	
Financial assets at FVPL:						
Government securities	₱1,309,168	₱-	₱1,309,168	₱-	₱-	₱1,309,168
Private bonds	220,262	64,296	284,558	-	-	284,558
AFS financial assets:						
Government securities	1,955,144	-	1,955,144	-	-	1,955,144
Private debt securities	233	1,470,294	1,470,527	-	-	1,470,527
HTM investments -						
Government securities	121,203	-	121,203	-	-	121,203
Loans and receivables -						
Loans and discount:						
Corporate	2,722,469	7,978,790	10,701,259	205,393	113,290	11,019,942
Consumer	3,117,229	620,529	3,737,758	460,429	-	4,198,187
Unquoted debt securities	760,596	-	760,596	-	-	760,596
Bills purchased	242,665	-	242,665	-	-	242,665
Accrued interest	295,989	-	295,989	-	-	295,989
Accounts receivable	45,036	-	45,036	-	-	45,036
Sales contracts receivable	16,399	-	16,399	-	-	16,399
Other assets:						
RCOCI	1,446	-	1,446	-	-	1,446
Refundable deposits	20,380	-	20,380	-	-	20,380
Loans and advances to banks:						
Due from BSP	2,737,379	-	2,737,379	-	-	2,737,379
Due from other banks	657,268	-	657,268	-	-	657,268
Interbank loans receivable	11,465	-	11,465	-	-	11,465
	₱14,234,331	₱10,133,909	₱24,368,240	₱665,822	₱113,290	₱25,147,352

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

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

	December 31, 2013					Total
	Less than 30 Days	31 to 60 Days	61 to 90 Days	91 to 180 Days	Over 180 Days	
Loans and discount:						
Corporate	₱-	₱-	₱-	₱-	₱205,393	₱205,393
Consumer	3,035	6,152	34,694	52,080	364,468	460,429
	₱3,035	₱6,152	₱34,694	₱52,080	₱569,861	₱665,822

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

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

A. Moody's Rating

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

B. S&P Rating

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

C. Fitch Rating

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

D. Philratings:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Past due there is an imminent possibility of foreclosure or acquisition of the collateral because of failure of all collection efforts;
- Past due loans to borrowers whose properties securing the loan have declined in value materially or have been found with defects as to ownership or other adverse information;

- Current loans to borrowers whose financial statements audited by the SEC-accredited external auditors show impaired/negative net worth, except for startup firms which should be evaluated on a case-to-case basis;
- Renewed loans of borrowers with declining trend in operations, illiquidity, or increasing leverage trend in the borrower's financial statements without at least 20.0% repayment of the principal before renewal or extension;
- Current loans of borrowers with unfavorable results of operations for two consecutive years or with impaired/negative net worth, except for startup firms which should be evaluated on a case-to-case basis;
- Loans under litigation; and
- Past due loans for more than 90 days.

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

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

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

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

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

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

- Past due clean loans, the interest of which has remained unpaid for a period of six months;
- Loans payable in installments where amortization applicable to interest is past due for a period of six months, unless the loan is fully secured;

- When the borrower's whereabouts are unknown, or he is insolvent, or his earning power is permanently impaired and his co-makers or guarantors are insolvent or that their guarantee is not financially supported;
- Where the collaterals securing the loans are considered worthless and the borrower and/or his co-makers are insolvent; and
- Loan considered as absolutely uncollectible.

Collateral and Other Credit Risk Mitigation.

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

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

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

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

	2014	2013
Properties	₱7,143,156,064	₱5,122,888,186
Deposits	605,050,709	1,645,607,801
	₱7,748,206,773	₱6,768,495,987

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 bidden 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, 2014 and 2013:

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

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

	2013 (As restated - see Note 6)						Total
	On Demand	Within 30 Days	31 to 60 Days	61 to 180 Days	181 to 360 Days	Over 360 Days	
Financial Assets							
Financial assets at FVPL	P-	P10,166,241	P1,974,473	P31,574,644	P43,715,357	P2,719,613,297	P2,807,044,012
AFS financial assets	-	2,335,009	278,250	98,111,350	100,724,609	5,854,193,101	6,055,642,319
HTM investments	-	4,014,849	-	4,740,904	4,740,904	252,360,247	265,856,904
COCI	607,079,022	-	-	-	-	-	607,079,022
Due from BSP	-	2,737,685,772	-	-	-	-	2,737,685,772
Due from other banks	-	657,268,106	-	3,041,065	-	-	660,309,171
Interbank loans receivable	-	11,464,989	-	-	-	-	11,464,989
Loans and receivables:							
Loans and discounts	-	2,274,311,274	1,640,495,449	3,725,588,601	2,394,466,993	10,080,114,591	20,114,976,908
Unquoted debt securities	-	4,907,273	23,106,004	25,766,052	81,893,970	821,169,557	956,842,856
Accrued interest income	-	39,188,811	27,828,792	63,415,845	46,172,670	141,415,711	318,021,829

(Forward)

	2013							Total
	On demand	Within 30 days	31 to 60 days	61 to 180 days	181 to 360 days	Over 360 days		
Accounts receivable	P-	P6,321,343	P6,466,515	P10,539,662	P8,152,458	P13,555,890	P45,035,868	
Sales contracts receivable	-	1,846,303	1,846,303	1,846,303	1,846,303	13,922,552	21,307,764	
	P607,079,022	P5,749,509,970	P1,701,995,786	P3,964,624,426	P2,681,713,264	P19,896,344,946	P34,601,267,414	
Financial Liabilities								
Deposit liabilities								
Demand	P5,283,860,801	P-	P-	P-	P-	P-	P5,283,860,801	
Savings	-	78,678,650	78,678,650	314,714,600	472,071,899	981,224,649	1,925,368,448	
Time	-	7,016,594,358	2,587,118,925	2,379,284,752	1,340,186,026	2,748,049,408	16,071,233,469	
	5,283,860,801	7,095,273,008	2,665,797,575	2,693,999,352	1,812,257,925	3,729,274,057	23,280,462,718	
Manager's checks	-	117,380,937	-	-	-	-	117,380,937	
Bills payable	-	304,377,778	-	-	-	-	304,377,778	
Accrued interest expense	-	25,892,675	11,014,237	12,885,121	9,665,800	13,363,532	72,821,365	
Unsecured subordinated debt	-	-	5,189,469	7,656,250	15,312,500	729,687,500	757,845,719	
Other liabilities*	-	762,783,164	-	-	-	-	762,783,164	
	P5,283,860,801	P8,305,707,562	P2,682,001,281	P2,714,540,723	P1,837,236,225	P4,472,325,089	P25,295,671,681	

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

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):

	2014			
	Increase (Decrease) in Basis Points			
	50	100	(50)	(100)
Changes in net interest income:				
Loans and receivables	₱4.30	₱8.61	(₱4.30)	(₱8.61)
Deposit liabilities	(12.45)	(24.89)	12.45	24.89
As a percentage of the net interest income for the year	(1%)	(2%)	1%	2%
Changes in equity -*				
AFS financial assets	(189.94)	(360.77)	194.46	410.86
	2013 (As restated - see Note 6)			
	Increase (Decrease) in Basis Points			
	50	100	(50)	(100)
Changes in net interest income:				
Loans and receivables	₱4.51	₱9.03	(₱4.51)	(₱9.03)
Deposit liabilities	(9.66)	(19.32)	9.66	19.32
As a percentage of the net interest income for the year	(1%)	(1%)	1%	1%
Changes in equity -*				
AFS financial assets	(114.20)	(253.43)	196.94	367.88

*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, 2014 and 2013, 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, 2014 and 2013.

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

	2014			2013		
	USD	Others*	Total	USD	Others*	Total
Financial Assets						
Cash and cash equivalents	₱90,879,150	₱40,791	₱90,919,941	₱63,348,523	₱40,196	₱63,388,719
Due from other banks	2,238,294,568	2,563,563	2,240,858,131	540,101,842	101,640,923	641,742,765
Loans and receivables	139,539,816	–	139,539,816	64,326,046	–	64,326,046
	2,468,713,534	2,604,354	2,471,317,888	667,776,411	101,681,119	769,457,530
Financial Liabilities						
Deposit liabilities	4,047,760,777	2,596,846	4,050,357,623	1,635,124,674	2,100,949	1,637,225,623
Net Exposure	₱1,579,047,243	₱7,508	₱1,579,039,735	₱967,348,263	₱99,580,170	₱867,768,093

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

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

	2014			
	Increase (Decrease) in Currency			
	5.0%	10.0%	(5.0%)	(10.0%)
USD	₱0.16	₱0.33	(₱0.16)	(₱0.33)
	2013			
	Increase (Decrease) in Currency			
	5.0%	10.0%	(5.0%)	(10.0%)
USD	₱0.25	₱0.95	(₱0.25)	(₱0.95)

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 VaR models are designed to measure market risk in a normal market environment. The Bank employs the use of parametric methodology or the variance-covariance method in calculating the VaR. This model assumes that any changes occurring in the risk factors affecting the normal market environment will follow a normal distribution. The use of VaR has limitations because it is based on historical correlations and volatilities in market prices and assumes that future price movements will follow a normal statistical distribution. Due to the fact that VaR relies heavily on historical data to provide information and may not clearly predict the future changes and modifications of the risk factors, the probability of large market movements may be underestimated if changes in risk

factors fail to align with the normal distribution assumption. VaR may also be under or overestimated due to the assumptions placed on risk factors and the relationship between such factors for specific instruments. Even though positions may change throughout the day, the VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the 99.00% confidence level.

The VaR figures are backtested to validate the robustness of the VaR model. The Bank performs both the hypothetical and actual backtesting procedures. Hypothetical backtesting is done using the Qrisk system while actual backtesting is done manually using. Likewise, to complement VaR measure, the Bank performs stress tests wherein the trading portfolios are valued under extreme market scenarios not covered by the confidence interval of the Bank's VaR model.

VaR Assumptions/Parameters

The VaR that the Bank measures is an estimate, using a confidence level of 99.00% of the potential loss that is not expected to be exceeded if the current market risk positions were to be held unchanged for one day. The use of a 99.00% confidence level means that, within a one day horizon, losses exceeding the VaR figure should occur, on average, not more than once every 100 days.

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, 2014 and 2013 (amounts in thousands):

	2014		2013	
	Foreign Exchange	Fixed Income	Foreign Exchange	Fixed Income
December 29	₱113	₱44,744	₱70	₱29,782
Average Daily	108	51,274	195	32,284
Highest	1,559	87,775	2,441	84,596
Lowest	1	17,125	–	5,048

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

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

Capital Management

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

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

Regulatory Qualifying Capital

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

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

The details of CAR as reported to 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):

	2014	2013
Tier 1 capital	₱1,927,869	₱1,716,200
Required deductions	75,992	23,190
	1,851,877	1,693,010
Excess from Tier 2 deducted from Tier 1 Capital*	-	-
Net Tier 1 Capital	1,851,877	1,693,010
Tier 2 capital	931,795	682,395
Required deductions	-	-
	931,795	682,395
Excess of Tier 2 deducted from Tier 1 Capital*	-	-
Net Tier 2 Capital	931,795	682,395
Total Qualifying Capital	₱2,783,672	₱2,375,405

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

	2014	2013
Credit RWA	₱18,356,730	₱14,663,938
Market RWA	2,822,807	1,336,951
Operational RWA	1,893,313	1,164,088
Total RWA	₱23,072,850	₱17,164,977
Tier 1 capital ratio	8.03%	9.86%
Total capital ratio	12.07%	13.84%

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 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 2014 and 2013.

8. Fair Value Measurement

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

	Note	Carrying Amount	2014		
			Fair Value		
			Quoted Prices in Active Market (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets Measured at Fair Value	10				
Financial assets at FVPL:					
Government securities		₱4,008,748,622	₱4,008,748,622	₱-	₱-
Private bonds		161,013,689	161,013,689	-	-
		4,169,762,311	4,169,762,311	-	-
AFS financial assets:	11				
Government securities		2,933,109,577	2,933,109,577	-	-
Private bonds		1,106,226,470	1,106,226,470	-	-
		4,039,336,047	4,039,336,047	-	-
Assets for which Fair Values are Disclosed					
HTM investments -	12				
Government securities		₱329,794,376	₱416,592,832	₱-	₱-
Loans and receivables:	13				
Receivable from customers					
Corporate lending		9,619,889,676	-	-	10,331,257,821
Consumer lending		5,473,545,534	-	-	5,613,787,586
Unquoted debt securities		732,642,275	-	-	732,642,275
		15,826,077,485	-	-	16,677,687,682
Assets held for sale	15	126,274,908	-	129,047,934	-
Refundable deposits	17	23,209,525	-	23,987,834	-
Total Assets		₱24,514,454,652	₱8,625,691,190	₱153,035,768	₱16,677,687,682
Liabilities for which Fair Values are Disclosed					
Time deposits	18	₱21,642,896,394	₱-	₱21,426,582,569	₱-
Unsecured subordinated debt	21	500,000,000	-	558,869,251	-
Total Liabilities		₱22,142,896,394	₱-	₱21,985,451,820	₱-

		2013 (As restated - see Note 6)			
		Fair Value			
	Note	Carrying Amount	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		₱1,309,168,475	₱1,309,168,475	₱-	₱-
Private bonds		284,557,521	284,557,521	-	-
		1,593,725,996	1,593,725,996	-	-
AFS financial assets:					
Government securities	11	1,955,144,256	1,955,144,256	-	-
Private bonds		1,470,526,642	1,470,526,642	-	-
		3,425,670,898	3,425,670,898	-	-
Assets for which Fair Values are Disclosed					
HTM investments -					
Government securities	12	121,203,117	153,102,506	-	-
Loans and Receivables:					
Receivable from customers:					
Corporate lending		10,852,412,411	-	-	10,860,197,156
Consumer lending		3,994,511,755	-	-	4,348,643,792
Unquoted debt securities		776,995,677	-	-	776,995,677
		15,623,919,843	-	-	16,050,162,671
Assets held for sale	15	124,627,916	-	136,572,780	-
Refundable deposits	17	20,379,674	-	22,766,462	-
Total Assets		₱20,909,527,444	₱5,172,499,400	₱159,339,242	₱16,050,162,671
Liabilities for which Fair Values are Disclosed					
Time deposits	18	₱15,631,067,177	₱-	₱15,638,825,642	₱-
Unsecured Subordinated Debt	21	500,000,000	-	539,286,950	-
Total Liabilities		₱16,131,067,177	₱-	₱16,178,112,592	₱-

There were no transfers between levels/hierarchy of fair value measurements in 2014 and 2013.

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

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

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

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

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

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

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

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

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

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

	2014		2013 (As restated - see Note 6)	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and other cash items	₱903,508,869	₱903,508,869	₱607,079,022	₱607,079,022
Due from BSP	3,964,969,282	3,964,969,282	2,737,379,105	2,737,379,105
Due from other banks	2,317,217,108	2,317,217,108	657,268,106	657,268,106
Interbank loans receivable	625,686,821	625,686,821	11,464,989	11,464,989
Loans and receivables:				
Receivables from customers:				
Corporate loans	139,539,816	139,539,816	64,326,046	64,326,046
Accrued interest income	199,419,439	199,419,439	295,988,658	295,988,658
Accounts receivable	197,837,537	197,837,537	45,035,868	45,035,868
RCOCI	778,309	778,309	1,446,432	1,446,432
	₱8,348,957,181	₱8,348,957,181	₱4,419,988,226	₱4,419,988,226
Financial Liabilities				
Deposit liabilities	₱7,721,974,782	₱7,721,974,782	₱7,147,317,966	₱7,147,317,966
Bills payable	366,183,853	366,183,853	304,377,778	304,377,778
Accrued interest	62,957,227	62,957,227	72,821,365	72,821,365
Other liabilities*	639,926,011	639,926,011	762,783,164	762,783,164
	₱8,791,041,873	₱8,791,041,873	₱8,287,300,273	₱8,287,300,273

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

9. Interbank Loans Receivable

Interbank loans receivable pertain to short-term loans to local and foreign banks maturing up to three months. Interbank loans receivable amounted to ₱625.7 million and ₱11.5 million as at December 31, 2014 and 2013, respectively. Interest income on interbank loans receivable amounted to ₱2.9 million and ₱6.4 million in 2014 and 2013, respectively.

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

	2014	2013
Local banks	2.00% to 4.0%	2.00% to 3.75%
Foreign banks	0.25% to 1.0%	0.01% to 1.40%

10. Financial Assets at FVPL

This account consists of:

	2014	2013 (As restated - see Note 6)
Government securities	₱4,008,748,622	₱1,309,168,475
Private bonds	161,013,689	284,557,521
	₱4,169,762,311	₱1,593,725,996

Mark-to-market gain (loss) on financial assets at FVPL included under "Net trading gains" in the statement of income amounted to ₱56.8 million and (₱49.9 million) in 2014 and 2013, respectively.

Financial assets at FVPL bear effective interest rates as follows:

	2014	2013
Philippine Peso-denominated	2.89% to 3.50%	2.80% to 6.30%
Foreign currency-denominated	2.12% to 14.28%	2.10 to 6.00%

Interest income earned from financial assets at FVPL amounted to ₱143.9 million and ₱112.8 million in 2014 and 2013, respectively.

Net trading gains from investment securities are as follows:

	Note	2014	2013 (As restated - see Note 6)
Financial assets at FVPL		₱281,191,840	₱355,627,925
AFS financial assets	11	45,677,438	225,931,172
		₱326,869,278	₱581,559,097

Interest income earned from investment securities are as follows:

	Note	2014	2013 (As restated - see Note 6)
AFS financial assets	11	₱204,331,945	₱170,310,229
Financial assets at FVPL		143,865,916	112,778,819
HTM investments	12	13,356,586	8,436,928
		₱361,554,447	₱291,525,976

11. AFS Financial Assets

This account consists of:

	2014	2013 (As restated - see Note 6)
Government securities	₱2,933,109,577	₱1,955,144,256
Private bonds	1,106,226,470	1,470,526,642
Unquoted equity security	16,073,463	16,073,463
	₱4,055,409,510	₱3,441,744,361

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

AFS financial assets bear effective interest rates as follows:

	2014	2013
Philippine Peso-denominated	2.00% to 7.18%	2.00% to 7.30%
Foreign currency-denominated	2.98% to 18.99%	1.90% to 8.30%

Interest income earned amounted to ₱204.3 million and ₱170.3 million in 2014 and 2013, respectively (see Note 10).

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

	Note	2014	2013 (As restated - see Note 6)
Balance at beginning of year		(₱134,445,332)	₱155,975,555
Changes in fair value		204,388,637	(65,246,150)
Trading gains taken to profit and loss	10	(45,677,438)	(225,931,172)
Amortization of unrealized losses on reclassified AFS financial assets		339,731	756,435
		159,050,930	(290,420,887)
Balance at end of year		₱24,605,598	(₱134,445,332)

As at December 31, 2014, the net unrealized gains (losses) on AFS investments include unrealized losses on reclassified AFS financial assets amounting to ₱6.8 million and ₱7.1 million as at December 31, 2014 and 2013, 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 amounting to \$2.3 million and effective interest of 6.80% from AFS financial assets to HTM investments. The reclassification is also compliant with the criteria and rules set forth in BSP Circular Nos. 626 and 628 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 ₱121.6 million and ₱160.6 million, respectively, as at December 31, 2014, and ₱121.2 million and ₱153.1 million as at December 31, 2013, respectively.

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 statement of financial position amounted to ₱9.7 million. Had the reclassification not been made, the fair value loss recognized in “Net unrealized gains (losses) on AFS financial assets” would have decreased by ₱39.0 million and ₱23.1 million in 2014 and 2013, respectively. As at December 31, 2014 and 2013, the Bank expects to recover the entire cash flows of these reclassified financial assets.

12. HTM Investments

This account consists of:

	2014	2013
Government debt securities:		
Face value	₱237,016,000	₱102,108,500
Unamortized premium	92,778,376	19,094,617
	₱329,794,376	₱121,203,117

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

Interest income earned on HTM investments amounted to ₱13.3 million and ₱8.4 million in 2014 and 2013, respectively (see Note 10). Amortization of premium amounted to ₱3.3 million and (₱1.2 million) in 2014 and 2013, respectively.

13. Loans and Receivables

This account consists of:

	2014	2013 (As restated - see Note 6)
Receivables from customers	₱16,243,420,559	₱15,456,052,290
Unquoted debt securities	701,542,198	760,596,499
Accrued interest income	199,419,439	295,988,658
Accounts receivable	197,837,537	45,035,868
Sales contracts receivable	31,100,077	16,399,178
	17,373,319,810	16,574,072,493
Allowance for credit and impairment losses	(520,735,884)	(302,136,639)
	₱16,852,583,926	₱16,271,935,854

Receivables from customers consist of:

	2014	2013
Loans and discounts:		
Corporate lending	₱9,999,016,728	₱11,019,942,319
Consumer lending	5,759,567,202	4,198,186,944
Bills purchased	489,709,649	242,665,439
	16,248,293,579	15,460,794,702
Unearned discounts and capitalized interest	(4,873,020)	(4,742,412)
	₱16,243,420,559	₱15,456,052,290

Unquoted debt securities consist of:

	2014	2013
Private bonds:		
Face value	₱704,680,273	₱765,232,549
Unamortized discount	(3,138,075)	(4,636,050)
	₱701,542,198	₱760,596,499

Unquoted debt securities bear effective interest rates ranging from 3.90% to 4.10% in 2014 and 2013. Interest income amounted to ₱40.2 million and ₱59.5 million in 2014 and 2013, respectively.

Accounts receivable include receivables from officers relating to the car plan amounting to ₱27.7 million and ₱27.4 million as at December 31, 2014 and 2013, respectively.

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

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

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

	2013		
	Corporate Lending	Consumer Lending	Total
Balance at beginning of year	₱55,624,983	₱137,879,053	₱193,504,036
Provision	42,836,467	67,316,848	110,153,315
Write-offs	-	(1,520,712)	(1,520,712)
Balance at end of year	₱98,461,450	₱203,675,189	₱302,136,639
Specific impairment	₱90,956,010	₱-	₱90,956,010
Collective impairment	7,505,440	203,675,189	211,180,629
	₱98,461,450	₱203,675,189	₱302,136,639
Gross amount of loans individually determined to be impaired	₱113,290,096	₱-	₱113,290,096

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

	2014		2013	
	Amount	%	Amount	%
Secured by:				
Real estate mortgage	₱3,383,593,153	20.82	₱2,792,679,716	18.06
Chattel mortgage	2,536,608,544	15.61	1,503,720,712	9.73
Deposits	489,100,703	3.01	1,689,218,752	10.93
Others	92,475,868	0.57	398,936,414	2.58
	6,501,778,268	40.01	6,384,555,594	41.30
Unsecured	9,746,515,311	59.99	9,076,239,108	58.70
	₱16,248,293,579	100.00	₱15,460,794,702	100.00

As at December 31, 2014 and 2013, information on the concentration of credit (at gross amounts) as to industry follows:

	2014		2013	
	Amount	%	Amount	%
Other community, social and personal activities	₱5,377,330,799	33.09	₱3,611,066,364	23.36
Wholesale and retail trade	3,435,857,631	21.15	3,638,902,449	23.54
Real estate	2,787,812,354	17.16	3,482,682,609	22.53
Manufacturing	1,873,924,676	11.53	1,987,025,510	12.85
Financial intermediaries	1,509,251,366	9.29	1,482,632,384	9.59
Transportation, storage and communication	683,252,404	4.21	375,181,642	2.43
Agricultural, hunting and forestry	415,903,451	2.56	454,709,850	2.94
Construction	117,731,160	0.72	321,641,892	2.08
Hotel and restaurants	25,804,738	0.16	85,060,264	0.55
Mining and quarrying	21,000,000	0.13	21,391,738	0.13
Electricity, gas and water supply	425,000	0.00	500,000	0.00
	₱16,248,293,579	100.00	₱15,460,794,702	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, 2014 and 2013.

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

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

Based on the revised definition of NPL under BSP Circular No. 772, *Amendments to Regulations on Non-Performing Loans*, the gross and net NPLs of the Bank as reported to BSP amounted to ₱929.9 million and ₱467.9 million as at December 31, 2014, respectively, and ₱779.1 million and ₱466.1 million as at December 31, 2013, respectively. The gross and net NPL ratios of the Bank are 5.62% and 2.82% as at December 31, 2014, respectively, and 5.03% and 3.01% as at December 31, 2013, respectively.

As at December 31, 2014 and 2013, breakdown of the secured and unsecured NPLs follows:

	2014	2013
Secured	₱279,849,801	₱300,401,345
Unsecured	650,033,509	478,710,074
	₱929,883,310	₱779,111,419

Restructured loans, which do not meet the requirements to be treated as performing receivables, are also considered as NPLs. Restructured loans amounted to ₱12.3 million and ₱28.0 million as at December 31, 2014 and 2013, respectively. Interest income on restructured receivables amounted to ₱4.0 million and ₱4.4 million in 2014 and 2013, respectively.

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

	2014	2013 (As restated - See Note 6)
Corporate loans	₱653,781,220	₱683,903,037
Consumer loans	527,892,938	430,927,763
Unquoted debt securities	40,187,817	59,451,005
Domestic bills	34,040,805	23,086,368
Bills discounted	31,161,300	34,438,447
Sales contracts receivable	2,208,353	1,191,151
	₱1,289,272,433	₱1,232,997,771

Of the total loans and receivables as at December 31, 2014 and 2013, 60.45% and 66.20%, respectively, are subject to periodic interest repricing. The remaining peso-denominated loans have annual fixed interest ranging from 3.54% to 24.00% in 2014 and 3.50% to 24.00% in 2013.

14. Property and Equipment

The balances of and movements in this account are as follows:

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

	2013				Total
	Land	Building and Condominium Units	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	
Cost					
Balance at beginning of year	₱164,344,500	₱233,010,767	₱451,392,174	₱220,440,805	₱1,069,188,246
Additions	–	2,942,816	65,945,697	26,251,280	95,139,793
Disposals	–	(130,000)	(17,985,679)	(17,888,943)	(36,004,622)
Reclassifications	–	–	(264,235)	264,235	–
Balance at end of year	164,344,500	235,823,583	499,087,957	229,067,377	1,128,323,417
Accumulated Depreciation and Amortization					
Balance at beginning of year	–	40,067,821	321,436,279	100,571,277	462,075,377
Depreciation and amortization	–	11,872,361	79,274,386	40,517,538	131,664,285
Disposals	–	–	(11,247,560)	(9,322,137)	(20,569,697)
Reclassifications	–	–	(118,146)	118,146	–
Balance at end of year	–	51,940,182	389,344,959	131,884,824	573,169,965
Accumulated Impairment					
Balance at beginning and end of year	–	2,667,217	–	–	2,667,217
Carrying Amount	₱164,344,500	₱181,216,184	₱109,742,998	₱97,182,553	₱552,486,235

Gain from sale of property and equipment included under “Net profit (loss) from assets sold or acquired” in the statement of income amounted to ₱382,484 and ₱408,088 in 2014 and 2013, respectively (see Note 15).

As at December 31, 2014 and 2013, the cost of fully-depreciated assets still being used in the operations amounted to ₱295.0 million and ₱129.0 million, respectively.

15. Assets Held for Sale

This account consists of properties acquired in settlement of loans and receivables aggregating to ₱126.3 million and ₱124.6 million as at December 31, 2014 and 2013, respectively.

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

	Note	2014	2013 (As restated - see Note 6)
Assets held for sale:			
Gain (loss) on sale		₱23,493,621	(₱2,031,132)
Loss on foreclosure		(9,484,656)	(14,559,041)
Gain on sale of property and equipment	14	382,484	408,088
		₱14,391,449	(₱16,182,085)

Unrealized loss on foreclosure amounted to ₱4.6 million and ₱2.4 million in 2014 and 2013, respectively.

Provision for impairment of assets held for sale amounting to ₱5.5 million and ₱24.0 million in 2014 and 2013, respectively (see Note 26).

16. Branch Licenses

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

As at December 31, 2014 and 2013, the Bank has a total of 41 and 38 branches, respectively. Of the 41 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 8.4% in 2014 and 2013, and cash flows beyond the five year-period are extrapolated using a steady growth rate of 4.60% in 2014 and 2013, 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.

17. Other Assets

This account consists of:

	2014	2013
Prepaid expenses	₱59,018,377	₱47,519,740
Refundable deposits	23,209,525	20,379,674
Documentary stamp taxes	8,144,305	6,573,061
Other investments	4,663,333	4,663,333
CWT	3,107,626	4,750,725
Deferred lease	1,716,341	2,225,467
Supplies on hand	1,487,442	797,113
RCOCI	778,309	1,446,432
Others	4,876,918	10,596,181
	₱107,002,176	₱98,951,726

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

Refundable deposits include noninterest-bearing rental deposits. Unamortized discount on refundable deposits amounted to ₱2.5 million and ₱7.3 million as at December 31, 2014 and 2013, respectively. Accretion recognized under "Interest income – deposits in banks and others" amounted to ₱836,826 and ₱859,637 in 2014 and 2013, respectively.

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 24).

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

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

18. Deposit Liabilities

This account is consists of:

	2014	2013
Time	₱21,642,896,394	₱15,631,067,177
Demand	5,498,315,951	5,283,860,801
Savings	2,223,658,831	1,863,457,165
	₱29,364,871,176	₱22,778,385,143

BSP Circular 832, *Increase in Reserve Requirements*, which took effect on May 30, 2014, promulgated the 1% increase from 7.00% to 8.00% in the reserve requirements on peso deposit liabilities and deposit substitutes.

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

As at December 31, 2014 and 2013, the Bank was in compliance with such BSP regulations. The available reserves as at December 31, 2014 and 2013 are as follows:

	2014	2013
Due from BSP - Demand deposit account	₱2,034,969,282	₱1,357,379,105

As at December 31, 2014 and 2013, 72.85% and 68.62% of the total deposit liabilities, respectively, are subject to periodic interest repricing. The remaining deposit liabilities bear annual fixed interest rate as follows:

	2014	2013
Peso-denominated	0.25% to 2.78%	0.25% to 4.25%
Dollar-denominated	1.00% to 2.80%	0.25% to 3.90%

Interest expense charged to profit or loss is as follows:

	Note	2014	2013
Deposit liabilities:			
Time		₱561,146,157	₱693,545,377
Demand		11,942,033	12,847,642
Savings		9,026,945	10,940,562
		582,115,135	717,333,581
Unsecured subordinated debt	21	30,625,000	30,625,000
Bills payable	19	10,726,790	9,521,522
		₱623,466,925	₱757,480,103

19. Bills Payable

As at December 31, 2014, bills payable consists of BSP rediscounted loans with interest rate of 4.06% and 3.56% in 2014 and 2013, respectively. Interest expense on bills payable amounted to ₱10.7 million and ₱9.5 million in 2014 and 2013, respectively (see Note 18).

20. Accrued Interest, Taxes and Other Expenses

This account consists of:

	Note	2014	2013
Accrued expenses:			
Interest		₱62,957,227	₱72,821,365
Compensation and other benefits		43,648,376	27,763,458
Rent		29,584,971	32,610,618
Utilities and leased line		6,725,610	3,109,035
Security, messengerial and janitorial		5,432,954	3,501,404
ATM related expenses		1,532,091	1,467,116
Professional fees		577,892	3,782,156
Travel and transportation		265,000	3,006,370
Others		3,853,952	8,622,890
		154,578,073	156,684,412
Retirement liability	25	64,691,511	48,213,901
Gross receipts tax		13,262,869	7,560,794
		₱232,532,453	₱212,459,107

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

21. Unsecured Subordinated Debt

On January 5, 2012, the Monetary Board of the BSP, in its Resolution No. 30, approved the Bank's issuance of Unsecured Subordinated Debt with aggregate principal amount of ₱500 million. The Unsecured Subordinated Debt, which was issued on May 30, 2012, bears interest of 6.125% per annum, payable quarterly.

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

Interest expense on Unsecured Subordinated Debt amounted to ₱30.6 million both in 2014 and 2013 (see Note 18).

22. Other Liabilities

This account consists of:

	Note	2014	2013
Accounts payable		₱557,256,502	₱495,057,134
Bills purchased - contra	10	489,709,649	242,665,439
Due to Philippine Deposit Insurance Corporation (PDIC)		29,344,005	21,419,617
Withholding taxes		14,217,256	14,001,559
Marginal deposits		2,724,835	2,727,806
Statutory obligations		2,186,758	2,109,520
Payment orders		882,020	913,168
Others		10,698,967	10,904,171
		₱1,107,019,992	₱789,798,414

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

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

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

23. Maturity Profile of Assets and Liabilities

The following tables present the assets and liabilities as at December 31, 2014 and 2013 analyzed according to whether these are expected to be recovered or settled within 12 months or over 12 months from the reporting date:

Note	2014			2013 (As Restated- see Note 6)		
	Within One Year	Over One Year	Total	Within One Year	Over One Year	Total
Financial Assets						
Cash and other cash items	₱903,508,869	₱-	₱903,508,869	₱607,079,022	₱-	₱607,079,022
Due from BSP	3,964,969,282	-	3,964,969,282	2,737,379,105	-	2,737,379,105
Due from other banks	₱2,317,217,108	₱-	₱2,317,217,108	₱657,268,106	₱-	₱657,268,106
Interbank loans receivable	9 625,686,821	-	625,686,821	11,464,989	-	11,464,989
Financial assets at FVPL	10 4,169,762,311	-	4,169,762,311	1,593,725,996	-	1,593,725,996
AFS financial assets	11 506,825,166	3,548,584,344	4,055,409,510	85,310,385	3,356,433,976	3,441,744,361
HTM investments	12 -	329,794,376	329,794,376	-	121,203,117	121,203,117
Loans and receivables - gross	13 6,942,451,114	10,435,741,717	17,378,192,831	10,231,133,246	6,347,681,659	16,578,814,905
Other assets*	17 23,987,834	-	23,987,834	21,826,106	-	21,826,106
	19,454,408,505	14,314,120,437	33,768,528,942	15,945,186,955	9,825,318,752	25,770,505,707
Nonfinancial assets						
Property and equipment	14 -	1,174,764,785	1,174,764,785	-	1,128,323,417	1,128,323,417
Assets held for sale	15 -	126,274,908	126,274,908	-	124,627,916	124,627,916
Branch licenses	16 -	225,390,000	225,390,000	-	225,390,000	225,390,000
Deferred tax assets	27 -	17,479,611	17,479,611	-	-	-
Other assets	17 -	83,014,342	83,014,342	-	77,125,620	77,125,620
	-	1,626,923,646	1,626,923,646	-	1,555,466,953	1,555,466,953
	19,454,408,505	15,941,044,083	35,395,452,588	15,945,186,955	11,380,785,705	27,325,972,660
Less:						
Allowance for credit and impairment losses**	13, 14 ₱-	₱523,403,102	₱523,403,102	₱-	₱304,803,856	₱304,803,856
Accumulated depreciation and amortization	14 -	644,822,739	644,822,739	-	573,169,965	573,169,965
Unearned discounts and capitalized interest	13 -	4,873,020	4,873,020	-	4,742,412	4,742,412
	-	1,173,098,861	1,173,098,861	-	882,716,233	882,716,233
	₱19,454,408,505	₱14,767,945,222	₱34,222,353,727	₱15,945,186,955	₱10,498,069,472	₱26,443,256,427
Financial liabilities						
Deposit liabilities	18 ₱26,459,765,049	₱2,905,106,127	₱29,364,871,176	₱19,485,837,672	₱3,292,547,471	₱22,778,385,143
Manager's checks	151,068,397	-	151,068,397	117,380,937	-	117,380,937
Bills payable	19 366,183,853	-	366,183,853	304,377,778	-	304,377,778
Accrued interest, taxes and other expenses	20 56,064,665	6,892,562	62,957,227	59,457,833	13,363,532	72,821,365
Unsecured subordinated debt	21 -	500,000,000	500,000,000	-	500,000,000	500,000,000
Other liabilities	22 1,079,917,011	-	1,079,917,011	762,783,164	-	762,783,164
	28,112,998,975	3,411,998,689	31,524,997,664	20,729,837,384	3,805,911,003	24,535,748,387
Nonfinancial liabilities						
Deferred tax liabilities	27 ₱-	₱-	₱-	₱-	₱7,951,611	₱7,951,611
Accrued taxes and other expenses	20 82,181,383	87,393,843	169,575,226	91,423,840	48,213,902	139,637,742
Other liabilities***	22 27,102,981	-	27,102,981	27,015,250	-	27,015,250
	109,284,364	87,393,843	196,678,207	118,439,090	56,165,513	174,604,603
	₱28,222,283,339	₱3,499,392,532	₱31,721,675,871	₱20,848,276,474	₱3,862,076,516	₱24,710,352,990

* Other financial assets pertain to refundable deposits and RCOCI (see Note 17).

** Allowance for credit and impairment losses includes allowance for credit and impairment losses of loans and receivables (see Note 13) and accumulated impairment of property and equipment (see Note 15).

*** Other non-financial liabilities pertain to withholding tax payables, statutory liabilities and other liabilities (see Note 22).

24. 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" and equipment-related expenses in the statement of comprehensive income amounted to ₱85.8 million and ₱83.0 million in 2014 and 2013, 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 (see Note 17).

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

	2014	2013
Within one year	₱10,298,182	₱12,785,300
More than one year but not more than five years	26,285,035	37,027,931
	₱36,583,217	₱49,813,231

25. 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 latest actuarial valuation obtained by the Bank was as at December 31, 2013.

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 annually 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 statement of income follow:

	2014	2013
Current service cost	₱13,243,679	₱12,673,377
Net interest cost	3,233,931	2,814,688
	₱16,477,610	₱15,488,065

Retirement liability is presented as part of "Accrued interest, taxes and other expenses" in the statement of financial position:

	2014	2013
Present value of retirement obligation	₱69,713,130	₱53,082,770
Fair value of plan assets	(5,021,619)	(4,868,869)
	₱64,691,511	₱48,213,901

Movements in the present value of retirement obligation follow:

	2014	2013
Balance at beginning of year	₱53,082,770	₱48,569,826
Interest cost	3,386,681	2,967,616
Current service cost	13,243,679	12,673,377
Remeasurement gains arising from:		
Experience adjustments	-	(3,752,811)
Changes in financial/demographic assumptions	-	(3,141,750)
Benefits paid	-	(4,233,488)
Balance at end of year	₱69,713,130	₱53,082,770

Movements in the fair value of the plan assets follow:

	2014	2013
Balance at beginning of year	₱4,868,869	₱-
Interest income on plan assets	152,750	152,750
Contributions	-	5,000,000
Remeasurement loss arising from return on plan assets (excluding amount included in net interest)	-	(283,881)
Balance at end of year	₱5,021,619	₱4,868,869

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 as at December 31, 2014 follows:

Debt instruments:	
Government securities	₱3,202,229
Private bonds	991,792
	4,194,021
Investments in Unit Investment Trust Funds	527,598
Equity instruments -	
Financial intermediaries	300,000
Fair value of plan assets	₱5,021,619

The Bank plans to contribute ₱5.0 million in 2015.

The principal actuarial assumptions used in determining the retirement liability as at December 31, 2014 and 2013 are shown below:

	2014	2013
Discount rate	6.25%	6.38%
Salary increase	4.50%	4.50%
Average expected future years of service	25.90	25.90

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at December 31, 2014, assuming all other assumptions were held constant:

	Basis Points	Effect on Retirement Liability
Discount rate	+100 bps	₱3,717,903
	-100 bps	(3,717,903)
Salary increase rate	+100 bps	3,979,357
	-100 bps	(3,979,357)

The average duration of the defined benefit obligation at the end of the reporting year is 15.1 years.

Shown below is the maturity analysis of the undiscounted benefit payments as at December 31, 2014:

	2014	2013
2014	P-	P14,582,146
2015	14,582,146	667,307
2016	667,307	2,560,729
2017	2,560,729	3,367,811
2018	3,367,811	10,863,527
2019 and beyond	78,105,482	46,125,669
	P99,283,475	P78,167,189

26. Other Expenses

Other expenses consist of:

	Note	2014	2013
Fees and commissions		P45,316,749	P50,815,318
Postage		40,397,506	36,531,379
Repairs and maintenance		33,897,577	29,327,971
Transportation and travel		11,085,788	10,974,112
Promotions and advertising		10,624,311	18,121,349
Stationery and supplies used		9,338,489	8,736,909
Appraisal fees		8,817,934	3,214,073
Supervision fees		8,793,053	9,250,564
Litigation		7,178,416	13,636,376
Provision for impairment losses of assets held for sale	15	5,464,517	23,994,291
Fines and penalties		4,418,355	2,927,715
Management and other professional fees		3,538,440	4,764,963
Others		8,808,522	4,128,467
		P197,679,657	P216,423,487

27. Income and Other Taxes

Income tax expense (benefit) consists of:

	2014	2013 (As restated - see Note 6)
Current:		
Final tax	P65,578,441	P56,665,722
Minimum corporate income tax (MCIT)	15,486,510	13,375,608
	81,064,951	70,041,330
Deferred	(25,431,222)	(8,994,143)
	P55,633,729	P61,047,187

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

Current income tax expense includes MCIT and 20% final tax paid on interest income from government securities.

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.

Deferred tax assets and liabilities consist of:

	Note	2014	2013 (As restated - See Note 6)
Deferred tax assets on:			
Allowance for credit and impairment losses	13	₱21,454,246	₱21,454,246
Carry forward of MCIT		13,375,608	–
Accrued rent		8,875,496	–
Net operating loss carryover (NOLCO)		6,149,896	–
Allowance for impairment losses on assets held for sale	15	4,648,562	8,279,378
Unrealized loss on foreclosure of acquired assets		1,375,803	714,765
		55,879,611	30,448,389
Fair value adjustment branch licenses acquired in business combination	16	38,400,000	38,400,000
Net deferred tax assets (liability)		₱17,479,611	(₱7,951,611)

As at December 31, 2014 and 2013, the Bank has not recognized deferred tax assets relating to the following deductible temporary differences, NOLCO and carry-forward benefit of MCIT over RCIT.

	Note	2014	2013 (As restated - See Note 6)
Allowance for credit and impairment losses	13	₱449,221,732	₱230,622,486
NOLCO of FCDU		99,064,653	117,762,035
Retirement liability	25	64,691,511	48,213,901
Carry-forward benefit of MCIT over RCIT		26,818,042	36,006,909
Accumulated impairment of property and equipment	14	2,667,217	2,667,217
NOLCO of RBU		-	167,330,629
Accrued rent		-	32,610,618
		₱642,463,155	₱635,213,795

Details of the MCIT and NOLCO follow:

MCIT

Year Incurred	Amount	Expired	Balance	Expiry Year
2011	₱11,299,769	₱11,299,769	₱-	2014
2012	11,331,532	-	11,331,532	2015
2013	13,375,608	-	13,375,608	2016
2014	15,486,510	-	15,486,510	2017
	₱51,493,419	₱11,299,769	₱40,193,650	

NOLCO

As at December 31, 2014, the Bank has outstanding NOLCO amounting to ₱20.5 million which will expire in 2015. In 2014, NOLCO amounting to ₱146.8 million was applied against the taxable income.

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

	2014	2013 (As restated - See Note 6)
Statutory income tax	₱49,813,965	₱38,307,684
Tax effects of:		
Nondeductible expenses	159,103,232	234,069,666
Non-taxable income	(132,156,963)	(198,577,849)
Interest income subject to final tax	(38,377,846)	(34,136,747)
Expired MCIT	11,299,769	10,100,787
Expired NOLCO	3,776,763	10,949,053
Changes in unrecognized deferred tax assets	2,174,808	334,594
	₱55,633,728	₱61,047,188

28. Capital Stock

This account consists of:

	Number of Shares		Amount	
	2014	2013	2014	2013
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	162,500,000	162,500,000	₱1,625,000,000	₱1,625,000,000
Issuance	27,000,000	–	270,000,000	–
Balance at end of year	189,500,000	162,500,000	₱1,895,000,000	₱1,625,000,000
Perpetual preferred stock				
Balance at beginning of year	6,250,000	6,250,000	₱62,500,000	₱62,500,000
Issuance	23,750,000	–	237,500,000	–
Balance at end of year	30,000,000	6,250,000	₱300,000,000	₱62,500,000

Common Stock

In 2014, 18.9 million and 8.1 million shares were issued to JTKC and SEI, respectively, for a total of ₱189.0 million and ₱81.0 million, respectively.

Perpetual Preferred Stock

In 2014, 14.0 million, 9.0 million and 750,000 shares were issued to JTKC, SEI and Discovery World Corporation, respectively for a total consideration of ₱140.0 million, ₱90.0 million and ₱7.5 million, respectively.

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

The issuances of common and preferred shares were approved by the BOD on October 21, 2014.

29. Related Party Transactions and Balances

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

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

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

	Note	2014	2013
Total outstanding DOSRI loans		₱56,361,647	₱56,998,549
Percent of DOSRI accounts granted under BSP Circular No. 423		0.34%	0.37%
Percent of DOSRI accounts to total loans		0.34%	0.37%
Percent of unsecured DOSRI accounts to total DOSRI loans		–	0.21%
Percent of past due DOSRI accounts to total DOSRI loans		–	–
Percent of nonperforming DOSRI accounts to total DOSRI loans		–	–

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 ₱7.5 million and ₱16.7 million in 2014 and 2013, 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	2014		2013	
	Transactions during the Year	Outstanding Balances	Transactions during the Year	Outstanding Balances
Key Management Personnel				
Loans and receivables	₱3,220,000	₱6,408,930	₱4,410,522	₱7,266,316
Interest income	535,016	–	388,971	–
Deposit liabilities	1,255,270,407	125,548,031	1,161,078,420	125,480,655
Interest expense	205,679	60,169	2,584,566	240,015
Subsidiaries of the Parent Company				
Loans and receivables	₱49,287,000	₱53,190,884	₱61,621,200	₱831,029,069
Accrued interest income	9,899,542	–	16,421,154	1,870,805
Deposit liabilities	–	–	163,661,961,204	456,774,009
Accrued interest expense	–	–	4,359,305	114,186
Trust fee	439,162	–	117,936	–
Rent expense	–	–	2,366,212	–
Parent Company				
Deposit liabilities	2,349,232,124	6,392,057	724,945,900	3,334,938
Interest expense	3,767	–	12,256	–
Stockholders				
Loans and receivables	2,000,000	2,170,763	2,000,000	2,233,704
Accrued interest income	65,800	–	443,130	–
Deposit liabilities	926,163	242,236,786	1,526,354,717	118,907,235
Accrued interest expense	–	–	2,091,862	160,159

Terms and Conditions

Loans and receivables are secured by chattel mortgages, deposits and real estate properties, having terms ranging from one to five years, and bear interest ranging from 4.47% to 12.00%. As at December 31, 2014 and 2013, no provision for credit and impairment losses was recognized relating to receivables from related parties.

Deposits have interest ranging from 0.25% to 1.50 % and 0.50% to 5.25% in 2014 and 2013, respectively.

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

Rent expense pertains to leases of ATM and branch premises.

Compensation of key management personnel included under "Compensation and fringe benefits" in the statement of income follows:

	2014	2013
Short-term employee benefits	₱130,534,372	₱119,520,062
Post-employment retirement benefits	9,137,406	8,366,404
	₱139,671,778	₱127,886,466

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 as at December 31, 2014 of the fund are as follows (see Note 25):

Debt instruments	₱4,194,021
Investments in UITF	527,598
Equity instruments	300,000
	₱5,021,619

30. 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 statement of financial position since these are not assets of the Bank. Total assets held by the Bank's Trust Group amounted to ₱2.2 billion and ₱2.0 billion as at December 31, 2014 and 2013, 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 ₱22.0 million as at December 31, 2014 and 2013, are deposited with BSP. In addition, 10% of the Bank's net profit 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.

31. 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 accompanying financial statements. The Bank does not anticipate significant losses as a result of these transactions.

As at December 31, 2014 and 2013, the Bank has several suits and claims that remain pending before various courts. Management believes, based on the opinion of its legal counsels, that the ultimate outcome of such cases and claims will not have a material effect on the Bank's financial position and financial performance.

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

	2014	2013
Investment management account	₱2,047,159,546	₱1,385,460,506
Spot exchange	469,560,000	623,305,800
Trust group accounts	192,623,849	580,752,767
Domestic letters of credit (LC)	41,853,519	28,384,580
Inward bills for collection	14,412,345	2,545,621
Sight/usance domestic LC	11,083,678	19,376,899
Sight/usance foreign LC	8,921,640	7,736,150
Outstanding guarantees issued - others	8,486,914	28,240,348
Late payment deposit/payment received	474,339	2,408,072
Items held for safekeeping	44,956	104,437
Items held as collateral	3,280	3,746

32. Financial Performance

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

	2014	2013
Return on average equity	5.22%	3.63%
Return on average assets	0.36%	0.25%
Net interest margin on average earning assets	3.72%	3.24%