

STERLING BANK OF ASIA INC.
(A Savings Bank)

Financial Statements
December 31, 2015 and 2014

With independent auditor's report provided by



REYES TACANDONG & Co.

FIRM PRINCIPLES. WISE SOLUTIONS.

STERLING BANK OF ASIA INC. (A Savings Bank)

STATEMENTS OF FINANCIAL POSITION

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

See accompanying Notes to Financial Statements.

STERLING BANK OF ASIA INC. (A Savings Bank)

STATEMENTS OF INCOME

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

See accompanying Notes to Financial Statements.

STERLING BANK OF ASIA INC. (A Savings Bank)

STATEMENTS OF COMPREHENSIVE INCOME

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

See accompanying Notes to Financial Statements.

STERLING BANK OF ASIA INC. (A Savings Bank)

STATEMENTS OF CHANGES IN EQUITY

		Years Ended December 31	
	Note	2015	2014
COMMON STOCK			
	27		
Balance at beginning of year		P1,895,000,000	P1,625,000,000
Issuance of shares		175,000,000	270,000,000
Balance at end of year		2,070,000,000	1,895,000,000
PERPETUAL PREFERRED STOCK			
	27		
Balance at beginning of year		300,000,000	62,500,000
Issuance of shares		–	237,500,000
Balance at end of year		300,000,000	300,000,000
OTHER EQUITY RESERVES			
Cumulative Unrealized Gains (Losses) on Available-for-Sale Financial Assets			
	10		
Balance at beginning of year		24,605,598	(134,445,332)
Net unrealized gains (losses)		(212,672,127)	159,050,930
Balance at end of year		(188,066,529)	24,605,598
Cumulative Translation Adjustment			
Balance at beginning of year		(23,293,379)	(14,104,047)
Translation adjustment		13,010,846	(9,189,332)
Balance at end of year		(10,282,533)	(23,293,379)
Cumulative Remeasurement Gains (Losses) on Retirement Liability			
Balance at beginning of year		(499,152)	(499,152)
Remeasurement gain, net of deferred tax	24	1,695,758	–
Balance at end of year		1,196,606	(499,152)
		(197,152,456)	813,067
RETAINED EARNINGS			
Balance at beginning of year		304,864,789	194,451,968
Net income		31,127,583	110,412,821
Balance at end of year		335,992,372	304,864,789
		P2,508,839,916	P2,500,677,856

See accompanying Notes to Financial Statements.

STERLING BANK OF ASIA INC. (A Savings Bank)

STATEMENTS OF CASH FLOWS

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

(Forward)

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

See accompanying Notes to Financial Statements.

STERLING BANK OF ASIA INC. (A Savings Bank)

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

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

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

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

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

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

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

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

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

2. Basis of Preparation and Statement of Compliance

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

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

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

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

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

3. Summary of Changes in Accounting Standards

Adoption of New and Revised PFRS

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

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

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

New and Revised PFRS Not Yet Adopted

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

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

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

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

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

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

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

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

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

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

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

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

4. Summary of Significant Accounting Policies

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

Financial Instruments

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

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

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

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

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

Financial assets and liabilities are classified as held for trading if these are acquired for purposes of selling and repurchasing in the near term. Derivatives, including any separated embedded

derivatives, are also classified as financial assets or financial liabilities at FVPL, unless these are designated as hedging instruments in an effective hedge.

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

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

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

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

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

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

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

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

HTM Investments. HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Bank has the positive intention and

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

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

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

- are so close to maturity or the financial asset's call date (for example, less than three months before maturity) that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- occur after the Bank has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or
- are attributable to an isolated event that is beyond the Bank's control, is non-recurring and could not have been reasonably anticipated by the Bank.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Fair Value Measurement

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

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

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

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

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

Property and Equipment

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

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

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

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

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

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

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

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

Assets Held for Sale

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

Branch Licenses

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

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

Other Assets

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

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

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

Impairment of Nonfinancial Assets

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

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

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

Equity

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

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

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

Other Comprehensive Income (Loss)

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

Revenue Recognition

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

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

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

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

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

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

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

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

Costs and Expense Recognition

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

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

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

Employee Benefits

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

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

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

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

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

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

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

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

Leases

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

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

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

Income Taxes

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

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

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

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

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

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

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

Fiduciary Activities

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

Foreign Currency Transactions

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

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

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

Related Party Relationship and Transactions

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

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

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

Provisions

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

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

and the risks specific to the obligation. Provisions are reviewed at the end of each reporting year and adjusted to reflect the current best estimate.

Contingencies

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

Events after the Reporting Year

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

5. Significant Accounting Judgments and Estimates

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

Judgments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Estimates and Assumptions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

No impairment losses were recognized in 2015 and 2014.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

6. Financial Risk Management Objectives and Policies

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

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

Risk Governance

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

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

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

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

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

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

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

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

Credit Risk

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

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

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

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

Management of Credit Risk

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

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

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

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

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

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

Concentration of Credit Risk Exposure of Financial Assets

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

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

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

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

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

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

2014

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

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

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

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

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

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

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

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

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

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

Credit Quality per Class of Financial Assets

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

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

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

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

(Forward)

2014

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

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

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

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

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

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

A. Moody's Rating

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

B. S&P Rating

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

C. Fitch Rating

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

D. Philratings:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Collateral and Other Credit Risk Mitigation.

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

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

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

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

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

It is the Bank's policy to sell foreclosed assets through public bidding (only after the assets are appraised anew to determine current market value, and duly 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, 2015 and 2014:

	2015						Total
	On Demand	Within 30 Days	31 to 60 Days	61 to 180 Days	181 to 360 Days	Over 360 Days	
Financial Assets							
Financial assets at FVPL	P-	P756,201,001	P534,420,534	P757,226,921	P106,514,032	P-	P2,154,362,488
AFS financial assets	-	9,865,788	1,124,105	43,089,999	8,868,216	2,374,420,412	2,437,368,520
HTM investments	-	-	4,255,858	4,375,109	-	340,029,282	348,660,249
COCI	688,699,312	-	-	-	-	-	688,699,312
Due from BSP	-	3,107,652,243	-	-	-	-	3,107,652,243
Due from other banks	-	1,441,016,646	-	-	-	-	1,441,016,646
Interbank loans receivable	-	1,148,219,571	-	-	-	-	1,148,219,571
Loans and receivables:							
Loans and discounts	-	5,049,737,692	2,074,541,005	3,815,154,508	1,462,653,977	11,872,251,241	24,274,338,423
Unquoted debt securities	-	-	11,604,450	-	-	645,703,884	657,308,334
Accrued interest income	-	29,036,424	12,753,032	22,126,123	8,010,975	71,745,407	143,671,961
Accounts receivable	-	13,119,538	4,439,700	7,412,403	1,646,128	17,492,293	44,110,062
Sales contracts receivable	-	441,230	441,230	1,764,920	2,647,380	102,377,402	107,672,162
Other assets	-	-	-	-	-	23,148,637	23,148,637
	P688,699,312	P11,555,290,133	P2,643,579,914	P4,651,149,983	P1,590,340,708	P15,447,168,558	P36,576,228,608
Financial Liabilities							
Deposit liabilities:							
Demand	P6,007,736,808	P-	P-	P-	P-	P-	P6,007,736,808
Savings	-	1,234,842,785	5,095,824	-	-	1,282,855,276	2,522,793,885
Time	-	9,786,569,861	4,321,568,903	2,701,296,451	583,821,011	1,353,727,023	18,746,983,249
	6,007,736,808	11,021,412,646	4,326,664,727	2,701,296,451	583,821,011	2,636,582,299	27,277,513,942
Manager's checks	-	136,967,809	-	-	-	-	136,967,809
Bills payable	-	36,781,584	-	-	-	-	36,781,584
Accrued interest expense	-	25,274,872	11,311,877	6,926,681	1,481,466	5,727,976	50,722,872
Unsecured subordinated debt	-	-	7,656,250	7,656,250	15,312,500	444,564,236	475,189,236
Other liabilities*	-	646,022,496	-	-	-	-	646,022,496
	P6,007,736,808	P11,866,459,407	P4,345,632,854	P2,715,879,382	P6,000,614,977	P3,086,874,511	P28,623,197,939

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

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

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

Market Risk

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

ALCO, chaired by the Head of Treasury, is the senior review and decision-making body for the management of all related market risk. In managing market risk, the Bank uses a framework of policies and procedures, measurement tools, controls and limits. The Treasury Group manages

asset/liability risks arising from both normal banking operations and from trading operations in financial market. Daily monitoring of compliance with the policies, procedures and limits is performed by the Market Risk Department under RMG. The limits are annually reviewed by the ALCO and RMG and approved by RMC. RMG performs regular reporting to ALCO and to the RMC, which is a sub-committee of the BOD.

Interest Rate Risk

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

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

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

	2015			
	Increase (Decrease) in Basis Points			
	50	100	(50)	(100)
Changes in net interest income:				
Loans and receivables	₱4.74	₱9.48	(₱4.74)	(₱9.48)
Deposit liabilities	(11.41)	(22.82)	11.41	22.82
As a percentage of the net interest income for the year	(1%)	(1%)	1%	1%
Changes in equity * -				
AFS financial assets	(108.08)	(208.27)	116.63	242.83

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

	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

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

Foreign Currency Risk

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

Foreign currency-denominated deposits are generally used to fund the Bank's foreign currency-denominated loan and investment portfolio in the FCDU. Banks are required by BSP to match the foreign currency-denominated liabilities with the foreign currency-denominated assets held under the FCDU books. In addition, BSP requires 100% asset cover for its FCDU liabilities, 30% of which

should be in the form of liquid assets. As at December 31, 2015 and 2014, the Bank is in compliance with the said regulation.

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

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

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

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

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

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

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

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

Market Risk in the Trading Book

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

Objectives and Limitations of the VaR Methodology

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

probabilities that have not yet occurred while it captures irregularities present in the historical database.

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

VaR Assumptions/Parameters

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

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

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

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

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

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

Capital Management

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

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

Regulatory Qualifying Capital

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

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

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

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

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

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

The regulatory qualifying capital of the Bank consists of Tier 1 (core) capital, which comprises paid-up common stock, surplus including current year profit, and cumulative foreign currency translation less required deductions such as unsecured credit accommodations to DOSRI and deferred income

tax. Certain adjustments are made to results and reserves based on PFRS, as prescribed by the BSP. The other component of regulatory capital is Tier 2 (supplementary) capital, which includes paid-up preferred stock, unsecured subordinated debt and general loan loss provision.

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

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

7. Fair Value Measurement

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

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

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

(Forward)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

8. Interbank Loans Receivable

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

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

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

9. Financial Assets at FVPL

This account consists of:

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

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

Financial assets at FVPL bear effective interest rates as follows:

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

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

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

Interest income earned from investment securities are as follows:

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

10. AFS Financial Assets

This account consists of:

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

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

AFS financial assets bear effective interest rates as follows:

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

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

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

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

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

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

Reclassification of AFS Financial Assets

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

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

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

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

11. HTM Investments

This account consists of:

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

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

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

12. Loans and Receivables

This account consists of:

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

Receivables from customers consist of:

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

Unquoted debt securities consist of:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

13. Property and Equipment

The details and movements in this account are as follows:

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

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

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

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

14. Assets Held for Sale

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

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

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

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

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

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

15. Branch Licenses

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

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

16. Other Assets

This account consists of:

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

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

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

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

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

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

17. Deposit Liabilities

This account is consists of:

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

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

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

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

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

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

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

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

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

18. Bills Payable

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

19. Accrued Interest, Taxes and Other Expenses

This account consists of:

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

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

20. Unsecured Subordinated Debt

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

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

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

21. Other Liabilities

This account consists of:

	Note	2015	2014
Accounts payable		₱577,409,294	₱557,256,502
Due to Philippine Deposit Insurance Corporation (PDIC)		27,102,067	29,344,005
Withholding taxes		14,168,496	14,217,256
Payment orders		6,824,695	882,020
Bills purchased - contra	12	4,771,727	489,709,649
(Forward)			
Statutory obligations		₱2,155,761	₱2,186,758
Marginal deposits		2,097,812	2,724,835

	Note	2015	2014
Others		8,713,675	10,698,967
		₱643,243,527	₱1,107,019,992

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

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

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

22. Maturity Profile of Assets and Liabilities

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

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

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

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

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

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

23. Operating Leases

The Bank leases the premises being occupied by certain branches for periods ranging from five to 10 years, renewable under certain terms and conditions. The rent expense included under

“Occupancy” in the statements of income amounted to ₱84.9 million and ₱85.8 million in 2015 and 2014, respectively.

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

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

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

24. Retirement Benefits

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

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

The retirement benefits recognized in the statements of income follow:

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

Net retirement liability is as follows:

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

Movements in the present value of retirement liability follow:

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

Movements in the fair value of the plan assets follow:

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

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

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

Details of cumulative remeasurement loss follow:

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

The fair value of plan assets by class follow:

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

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

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

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

	Basis Points	Effect on Retirement Liability
Discount rate	+100 bps	(P7,286,464)
	-100 bps	8,730,167
Salary increase rate	+100 bps	9,117,962
	-100 bps	(7,710,726)

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

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

2016	P3,748,479
2017 to 2021	30,171,201
2022 to 2026	33,804,908
2027 to 2031	89,529,165
2032 to 2036	126,766,539
2037 and beyond	338,349,718
	P622,370,010

25. Other Operating Expenses

Other expenses consist of:

	Note	2015	2014
Fees and commissions		P49,055,622	P45,316,749
Repairs and maintenance		37,118,706	33,897,577
Postage		32,327,614	40,397,506
Appraisal fees		11,466,458	8,817,934
Transportation and travel		10,354,948	11,085,788
Supervision fees		9,419,382	8,793,053
Litigation cost		8,948,026	7,178,416
Stationery and supplies used		6,695,780	9,338,489

(Forward)

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

26. Income and Other Taxes

Current income tax expense consists of:

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

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

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

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

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

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

Deferred tax assets and liabilities consist of:

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

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

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

Details of the MCIT and NOLCO follow:

MCIT

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

NOLCO

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

27. Capital Stock

This account consists of:

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

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

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

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

28. Related Party Transactions and Balances

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

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

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

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

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

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

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

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

Nature of Transactions	2015		2014	
	Transactions during the Year	Outstanding Balances	Transactions during the Year	Outstanding Balances
Key Management Personnel				
Loans and receivables	₱6,242,000	₱6,865,088	₱3,220,000	₱6,408,930
Interest income	386,924	–	535,016	–
Deposit liabilities	252,169,879	35,735,221	1,255,270,407	125,548,031
Interest expense	995,363	–	205,679	60,169
Subsidiaries of the Parent Company				
Loans and receivables	916,028,057	264,486,549	49,287,000	53,190,884
Accrued interest income	3,835,318	–	9,899,542	–
Deposit liabilities	163,296,294,085	385,958,393	–	–
Accrued interest expense	2,136,399	94,158	–	–
Trust fee	97,753	–	439,162	–
Rent expense	6,109,506	–	3,666,830	–
Parent Company				
Deposit liabilities	421,399,123	6,671,918	2,349,232,124	6,392,057
Interest expense	18,812	–	3,767	–
(Forward)				
Stockholders				
Loans and receivables	₱2,000,000	₱2,100,234	₱2,000,000	₱2,170,763
Accrued interest income	62,888	–	65,800	–

Nature of Transactions	2015		2014	
	Transactions during the Year	Outstanding Balances	Transactions during the Year	Outstanding Balances
Deposit liabilities	1,991,063,456	100,621,836	926,163	242,236,786
Accrued interest expense	2,238,061	121,529	-	-

Terms and Conditions

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

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

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

Rent expense pertains to leases of ATM and branch premises.

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

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

Transactions with Retirement Plan

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

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

29. Trust Operations

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

Securities and other resources held by the Bank in fiduciary or agency capacity for its customers are not included in the accompanying statements of financial position since these are not assets of the Bank. Total assets held by the Bank's Trust Group amounted to ₱4.7 billion and ₱2.2 billion as at December 31, 2015 and 2014, respectively.

In compliance with current banking regulations relative to the Bank's trust operations, government securities included under AFS financial assets with a total face value of ₱46.0 million and ₱22.0 million as at December 31, 2015 and 2014, respectively, are deposited with the BSP. In

addition, 10% of the Bank's net income realized from its trust operations is appropriated to surplus reserve until such reserve for trust operations amounts to 20% of the Bank's regulatory capital.

30. Commitments and Contingencies

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

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

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

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

31. Financial Performance

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

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

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

Revenue Regulations No. 15-2010

Gross Receipt Tax (GRT)

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

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

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

Taxes and Licenses

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

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

Withholding Taxes

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

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

Tax Assessments and Cases

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

Revenue Regulations No. 19-2011

Taxable Income

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

Deductible Cost of Services

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

Itemized Deductions

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

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

Other Taxable Income

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