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PHILIPPINE SAVINGS BANK

(A banking corporation organized and existing under Philippine Laws)

₱3,375,000,000 3.5% Long Term Negotiable Certificates of Time Deposit Due 2022
Issue Price 100%

The ₱3,375,000,000 3.5% Long-Term Negotiable Certificates of Time Deposit Due 2022 (the “Series 1 LTNCTDs”) will be issued in an aggregate principal amount of ₱3,375,000,000 by Philippine Savings Bank (“PSBank”, the “Bank” or the “Issuer”). The Series 1 LTNCTDs will bear fixed interest at the rate of 3.5% per annum from and including January 30, 2017 up to but excluding April 30, 2022. The interest of the Series 1 LTNCTDs for the entire term will be payable quarterly in arrears on April 30, July 30, October 30 and January 30 of each year, commencing on April 30, 2017.

The Series 1 LTNCTDs will mature on April 30, 2022 (the “Maturity Date”). Subject as set out below and in “Terms and Conditions of the Series 1 LTNCTDs”, the Series 1 LTNCTDs may be redeemed, in whole but not in part only, at the option of the Issuer on the Pre-Termination Date, at 100% of the face value (as defined in “Terms and Conditions of the LTNCTDs”) of the Series 1 LTNCTDs plus accrued and unpaid interest as of but excluding the Pre-Termination Date. In the event of the proper exercise of the Pre-Termination Option, the Issuer shall shoulder the taxes due, if any, on the interest income already earned by the CD Holders.

The Series 1 LTNCTDs will constitute direct, unconditional, unsecured and unsubordinated obligations of the Issuer. The Series 1 LTNCTDs shall, at all times, rank pari passu and ratably without any preference or priority amongst themselves, and at least pari passu with all other present and future direct, unconditional, unsecured, and unsubordinated obligations of the Bank, except for any obligation enjoying a statutory preference or priority established under Philippine laws. See “Terms and conditions of the Series 1 LTNCTDs — Status and PDIC Insurance”.

See “Investment Considerations” beginning on page 10 for a discussion of certain factors to be considered in connection with an investment in the LTNCTDs.

The Series 1 LTNCTDs will be issued in scripless form and in minimum denominations of ₱50,000.00 and increments of ₱50,000.00 beyond ₱50,000.00, or such other minimum denomination as may be prescribed or approved by the BSP. The Series 1 LTNCTDs will be represented by a Master CD which will be deposited with the Registrar. It is intended that, upon issuance, the Series 1 LTNCTDs will be immobilized and lodged with the Registrar. A Registry Confirmation will be issued by the Registrar in favor of the holders of the Series 1 LTNCTDs in accordance with the regulations of the Bangko Sentral ng Pilipinas (“BSP”). Once lodged, the Series 1 LTNCTDs will be eligible for electronic book-entry transfers in the Registry Book without the issuance of other evidences of certificates, and any sale, transfer, or conveyance of the Series 1 LTNCTDs shall be coursed through an accredited exchange. The Series 1 LTNCTDs will be listed in the trading platform of the Philippine Dealing & Exchange Corp. (“PDEx”) for secondary market trading pursuant to the BSP rules. Upon listing of the Series 1 LTNCTDs in the PDEx, investors shall course their secondary market trades through the trading participants of the PDEx for execution in the PDEx Trading Platform in accordance with the PDEx Trading Rules, Conventions and Guidelines, as these may be amended or supplemented from time to time, and shall settle such trades on a Delivery versus Payment (DvP) basis in accordance with PDEx Settlement Rules and Guidelines.

Arranger and Selling Agent

ING

Selling Agents

First Metro Investment Corporation Metrobank Group · Metrobank · PSBank Philippine Savings Bank Metrobank Group

Final Offering Circular
30 January 2017

The LTNCTDs will be issued pursuant to General Banking Law of 2000 (Rep. Act No. 8791), BSP Circular No. 304 (Series of 2001) on Guidelines Governing the Issuance of Long-Term Negotiable Certificates of Time Deposit With a Minimum Maturity of Five Years, BSP Circular No. 778 (Series of 2012) Amendments to the Qualification Requirements of Selling Agents and/or Market Makers of Long-Term Negotiable Certificates of Time Deposit and/or Unsecured Subordinated Debt; BSP Circular No. 810 (Series of 2013) on Amendments to the Guidelines Governing the Issuance of Long-Term Negotiable Certificate of Time Deposits, BSP Circular No. 824 (Series of 2014) on Amendment to the Regulations on Long-Term Negotiable Certificates of Time Deposits, BSP Circular No. 834 (Series of 2014) on Amendments to the Guidelines Governing the Issuance of Long-Term Negotiable Certificate of Time Deposits and Unsecured Subordinated Debt, BSP Circular No. 877 (Series of 2015) on Amendments to the Guidelines on the Issuance of Long-Term Negotiable Certificates of Time Deposits, Sections X233.9 of the Manual of Regulations for Banks ("MORB"), BSP Memorandum No. M-2014-034 (Series of 2014) on Availability of an Exchange for Long-Term Negotiable Certificates of Time Deposits, Monetary Board Resolution No. 2203 dated 8 December 2016 which authorized the Bank to issue up to ₱10.0 Billion worth of long-term negotiable certificates of time deposit in one or more issuances (the "BSP Approval"), and other related circulars and issuances of the BSP (the "BSP Rules"). The issuance of the LTNCTDs is exempt from the registration requirement under the Securities Regulation Code pursuant to Section 9.1(e) of the said law.

No offer or invitation or solicitation shall be made or received, and no agreement shall be made, on the basis of this document, to purchase or subscribe for any of the LTNCTDs.

The Bank confirms that this document contains all information with respect to PSBank and its joint venture (collectively, the "Bank") and the LTNCTDs which is material in the context of the issue and offering of the LTNCTDs, that the information contained herein is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed herein are honestly held and have been reached after considering all relevant circumstances and are based on reasonable assumptions, that there are no other facts, the omission of which would, in the context of the issue and offering of the LTNCTDs, make this document as a whole or any such information or the expression of any such opinions or intentions misleading in any material respect and that all reasonable enquiries have been made by the Bank to verify the accuracy of such information. The Bank accepts responsibility accordingly. More information on the Bank can be accessed at https://www.psbank.com.ph/.

In making an investment decision, you must rely on your own examination of the Bank and the terms of the offering of LTNCTDs, including the merits and risks involved. By receiving this Offering Circular (the "Offering Circular"), you acknowledge that (i) you have not relied on ING Bank N.V., Manila Branch ("ING") (the "Arranger and Selling Agent") or any person affiliated with the Arranger and Selling Agent in connection with your investigation of the accuracy of any information in this Offering Circular or your investment decision, and (ii) no person has been authorized to give any information or to make any representation concerning the Bank or the LTNCTDs other than as contained in this Offering Circular and, if given or made, any such other information or representation should not be relied upon as having been authorized by the Bank or the Arranger and Selling Agent.

ING and the Philippine Depository and Trust Corp. are third-parties in relation to PSBank and each is not (i) a subsidiary or affiliate of PSBank and (ii) not related in any manner to PSBank as would undermine its independence and ability to perform its obligations in relation to the issuance of the LTNCTDs.

No representation or warranty, express or implied, is made by the Arranger and Selling Agent as to the accuracy or completeness of the information contained in this Offering Circular. Neither the delivery of this Offering Circular nor the offer of LTNCTDs shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Bank since the date of this Offering Circular or that any information contained herein is correct as at any date subsequent to the date hereof.

None of the Bank, the Arranger, Selling Agents or any of its respective affiliates or representatives is making any representation to any purchaser of LTNCTDs regarding the legality of an investment by such purchaser under applicable laws. In addition, you should not construe the contents of this Offering Circular as legal, business or tax advice. You should be aware that you may be required to bear the financial risks of an investment in the LTNCTDs for an indefinite period. You should consult with your own advisers as to the legal, tax, business, financial and related aspects of a purchase of LTNCTDs.

This document does not constitute an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or to any person to whom it is unlawful to make any such offer or solicitation. Each investor in the LTNCTDs must comply with all applicable laws and BSP rules in force in the jurisdiction in which it purchases or offers to purchase such LTNCTDs, and must obtain the necessary consent, approval, or permission for its purchase, or offer to purchase such LTNCTDs under the laws and BSP rules in force in any jurisdiction to which it is subject or in which it makes such purchase or offer, and neither the Bank nor the Arranger and Selling Agent shall have any responsibility thereof. Interested investors should inform themselves as to the applicable legal requirements under the laws and BSP rules of the countries of their nationality, residence, or domicile and as to any relevant tax or foreign exchange control laws and BSP rules that may affect them. See "Distribution and Sale".

CONVENTIONS WHICH APPLY TO THIS OFFERING CIRCULAR

In this Offering Circular, unless otherwise specified or the context otherwise requires, all references to the “Philippines” are references to the Republic of the Philippines. All references to the “Government” herein are references to the Government of the Philippines. All references to “United States” or “U.S.” herein are to the United States of America. All references to “Peso” and “₱” herein are to the lawful currency of the Philippines and all references to “U.S. dollars” or “US$” herein are to the lawful currency of the United States.

For further information on the Bank, see “Description of the Bank”.

TABLE OF CONTENTS

SUMMARY OF THE OFFERING

This summary highlights information contained elsewhere in this Offering Circular. This summary is qualified in its entirety by more detailed information and financial statements, including notes thereto, appearing elsewhere in this Offering Circular. For a discussion of certain matters that should be considered in evaluating an investment in the LTNCTDs, see "Investment Considerations." Investors are advised to read this entire Offering Circular carefully, including the Bank's financial statements and related notes contained herein.

Principal Products, Markets and Distribution

Philippine Savings Bank ("PSBank" or the "Bank" or the "Issuer") was established on 30 June 1959 primarily to engage in savings and mortgage banking. The Bank has outpaced some of its key competitors and is, today, the country's second largest thrift bank in terms of assets. The Bank is the country's first publicly listed thrift bank. The Bank caters mainly to the retail and consumer markets and offers a wide range of products and services such as deposits, loans, treasury, and trust. As of 30 September 2016, it has 255 branches. The Bank's total assets stood at ₱183.83 billion, ₱169.33 billion and ₱145.61 billion as of 30 September 2016, 31 December 2015 and 31 December 2014, respectively. Its total equity were at ₱20.67 billion, ₱19.18 billion and ₱17.73 billion as of 30 September 2016, 31 December 2015 and 31 December 2014, respectively.

As of 30 September 2016, the Bank is 82.68%-owned by Metropolitan Bank & Trust Company ("Metrobank"), a universal bank that provides a full range of banking and other financial services through its local and international branches. Metrobank is the country's second largest domestic bank with assets of ₱1.71 trillion and has an extensive distribution network of over 900 branches nationwide as of 30 September 2016.

Competitive Strengths

Majority owned by the Metrobank Group. PSBank is 82.68%-owned by the Metrobank Group, which is the second largest Philippine universal bank in terms of assets and deposits. Metrobank is one of the leading expanded universal banks in the country with more than 900 local and international offices and subsidiaries. Metrobank and PSBank serve distinct core markets and coordinate on market segmentation.

Focused on the consumer market. Its focus is on retail deposit taking and consumer lending to upper- and middle-income classes. Through its 255 branches, it has been able to accumulate ₱144.00 billion deposit liabilities as of 30 September 2016. Over the years, it has sought to develop products that address the needs of its target market.

Consistent customer service and training. PSBank emphasizes Customer Service which is considered a major part of all performance evaluation reviews for both front-line and back-end support personnel. In an industry where homogenous products and services are being offered, PSBank aims to set itself apart through a unique customer-driven experience.

Investments in Information Technology. PSBank has been investing in information technology for greater automation and integration of processes. This has resulted in improved efficiency through faster turn-around time for credit decisions, more uniform compliance with credit policies and better profit monitoring for its loan portfolio. PSBank offers one of the fastest turn-around times for mortgage and auto loan applications in the industry. It has a one day turn-around time for Auto Loans, five days for Home Loans and three days for Flexi/Personal Loans.

Strategy

The Bank's vision is to be the country's consumer and retail bank of choice. It also aims to become the country's largest and most profitable thrift bank. The Bank will do this by maintaining a strategic management discipline that focuses on the consumer market. It will continue to harness inherent synergies with Metrobank and, at the same time, differentiate itself through its unmatched service, speed, and quality. To grow the business, PSBank will rely on increasing visibility and customer convenience by strengthening its branch network and various customer touch-points. This will be complemented by the Bank's continued improvements in customer profiling through its unique customer information system. The objective is to stay ahead of the profitability curve and build a competitive advantage by having a focus on its target market. This will be supported by having a customer-centric performance oriented culture within the Bank and an organizational structure which encourages employees to be flexible and motivated contributors. The Bank continues to be fueled and inspired by its mission and mandate to deliver *Simple Lang, Maasahan* (Simple and Reliable) service at all times. See *Description of the Bank — Strategy of the Bank.*

Recent Developments

The Board of Directors of the Bank in its meeting held on October 21, 2016 passed resolution approving the following:

- Appointment of Director Amelia B. Cabal as member of the Corporate Governance Committee of the Bank effective immediately
- Appointment of Mr. Edmund A. Go as member of the Trust Committee of the Bank
- Declaration of a 7.5% Regular Cash Dividend for the third quarter of 2016 amounting toP180.19 million equivalent to P0.75 per share. This will be payable to all common stockholders as of the Record Date of November 9, 2016 and will be paid no later than the Payment Date of November 21, 2016

Notation on the approval granted by the Bangko Sentral ng Pilipinas to exercise the call option on its Unsecured Subordinated Debt – Tier 2 Notes amounting to P3.0 billion issued in 2012. The exercise of the call option is allowed by BSP regulations after five years from the date of issuance or on February 21, 2017. In connection with this, the Board of Directors approved the authority of President Mr. Vicente R. Cuna, Jr. to sign, execute and deliver any and all documents and to do and perform any and all acts as may be necessary to carry into effect the intents and purposes behind the exercise of the call option for the PSBank Tier 2 Notes.

In its meeting on 17 November 2016, the Board of Directors of the Bank passed a resolution approving the movement / appointment of the following senior officers effective 1 January 2017:

- Mr. Leandro G. Santillan, SVP and Treasurer, will finish his secondment in PSBank and return to parent company Metrobank;
- Mr. Perfecto Ramon Z. Dimayuga Jr., Senior Vice President, will be appointed as Treasurer and head of the Treasury Group;
- Ms. Leah M. Zamora, First Vice President and Business Information Management Services Division Head, will be appointed as Controller and concurrently Head of the Finance Group.

On 7 December 2016, PSBank issued a confirmation to the Philippine Stock Exchange on a news report that indicated PSBank's projected profit growth in 2017.

Risks of Investing

Prospective investors should consider the current and immediate political and economic factors in the Philippines as a principal risk for investing. Political instability and threats to local and regional currencies may also influence the operations, growth, and profitability of the Bank. Of equal importance are the investment considerations regarding the Bank's operations. See *Investment Considerations*.

SUMMARY FINANCIAL INFORMATION

The following tables provide selected financial information of the Bank which has been derived from its audited financial statements as of and for the years ended 31 December 2015, 2014, and 2013 and unaudited interim condensed financial statements of the Bank as of September 30, 2016 and for the nine months ended September 30, 2015 and 2016, prepared in accordance with Philippine Financial Reporting Standard.

Statements of Income

	For the years ended 31 December			**For the nine months ended**	
(In ₱)	**2013** (audited)	**2014** (audited)	**2015** (audited)	**2015** (unaudited)	**2016 (unaudited)**
Interest Income	9,027,235,611	10,113,409,810	11,002,726,921	8,116,356,366	9,156,395,245
Interest Expense	2,340,415,810	2,403,027,585	2,520,780,655	1,887,168,230	2,082,344,505
Net Interest Income	6,686,819,801	7,710,382,225	8,481,946,266	6,229,188,136	7,074,050,740
Net Service Fees and Commission Income	962,558,457	1,077,890,405	1,195,492,050	913,537,964	834,747,023
Other Operating Income	5,035,092,801	1,780,678,877	1,124,094,654	883,392,495	1,528,326,980
Total Operating Income	12,684,471,059	10,568,951,507	10,801,532,970	8,026,118,595	9,437,124,743
Other Expenses	8,685,377,446	8,349,764,091	8,513,308,445	6,286,630,219	7,400,385,829
Income before Share in Net Income of an Associate and a Joint Venture and Income Tax	3,999,093,613	2,219,187,416	2,288,224,525	1,739,488,376	2,036,738,914
Share in Net Income of an Associate and a Joint Venture	109,569,160	76,956,073	20,213,935	13,251,324	19,189,876
Income before Income Tax	4,108,662,773	2,296,143,489	2,308,438,460	1,752,739,700	2,055,928,790
Provision for (Benefit from) Income Tax	1,180,173,965	(22,533,126)	(42,461,640)	19,742,578	188,650,095
Net income	**2,928,488,808**	**2,318,676,615**	**2,350,900,100**	**1,732,997,122**	**1,867,278,695**

Statements of Condition

	As of 31 December			**As of 30 September**
(In ₱)	**2013** (audited)	**2014** (audited)	**2015** (audited)	**2016 (unaudited)**
Assets				
Cash and Other Cash Items	3,157,499,370	4,174,756,446	3,934,496,578	2,642,717,179
Due from Bangko Sentral ng Pilipinas	7,401,657,444	23,997,102,406	11,143,781,766	11,037,088,907
Due from Other Banks	8,491,340,954	3,382,662,578	1,861,110,141	1,150,654,449
Interbank Loans Receivable and Securities Purchased Under Resale Agreements	14,527,000,000	2,186,320,000	2,513,904,112	-
Fair Value through Profit or Loss Investments	184,607,411	278,909,438	2,821,437,211	224,249,365
Available-for-Sale Investments	5,649,063,231	6,083,317,341	8,928,662,491	15,497,170,235
Held-to-Maturity Investments	-	1,683,128,162	14,946,668,457	20,418,011,935
Loans and Receivables	82,917,120,994	95,759,749,830	113,867,515,442	122,963,273,933
Investments in a Joint Venture	1,346,142,412	668,606,533	690,333,838	709,523,713
Property and Equipment	2,389,780,404	2,469,507,446	2,746,074,371	2,684,210,136

(In ₱)	As of 31 December 2013 (audited)	2014 (audited)	2015 (audited)	As of 30 September 2016 (unaudited)
Investment Properties	2,589,408,311	2,933,068,849	3,344,154,413	3,760,511,618
Deferred Tax Assets	243,119,247	731,937,469	1,194,416,550	1,259,590,643
Goodwill and Intangible Assets	292,832,054	369,140,026	444,460,121	441,523,243
Other Assets	836,302,917	888,822,949	894,231,737	1,038,124,823
Total Assets	**130,025,874,749**	**145,607,029,473**	**169,331,247,228**	**183,826,650,179**
Liabilities				
Deposit Liabilities				
Demand	9,050,826,107	10,609,490,126	12,906,567,074	14,416,599,675
Savings	16,181,291,134	18,502,557,268	22,835,987,240	26,148,736,641
Time	81,286,386,669	87,415,706,427	98,553,753,813	103,429,419,482
	106,518,503,910	116,527,753,821	134,296,308,127	143,994,755,798
Bills Payable		-	4,494,845,747	6,852,559,701
Subordinated Notes	2,972,366,024	5,946,901,321	5,952,051,581	5,956,112,800
Treasurer's, Cashier's and Manager's Checks	1,110,517,230	1,253,781,718	1,348,621,410	1,567,942,315
Accrued Taxes, Interest and Other Expenses	1,099,730,994	1,128,438,120	1,050,769,312	1,130,101,410
Income Tax Payable	132,339	7,134,677	8,055,422	89,342,775
Financial Liabilities at Fair Value Through Profit or Loss	-	-	-	174,189,662
Other Liabilities	2,061,548,773	3,012,717,598	3,005,540,869	3,391,323,125
Total Liabilities	113,762,799,270	127,876,727,255	150,156,192,468	163,156,327,586
Equity				
Common Stock	2,402,524,910	2,402,524,910	2,402,524,910	2,402,524,910
Capital Paid in Excess of Par Value	2,818,083,506	2,818,083,506	2,818,083,506	2,818,083,506
Surplus Reserves	1,035,275,317	1,035,275,317	1,035,275,317	1,035,275,317
Surplus	10,205,364,827	11,803,283,969	13,433,426,596	14,760,137,187
Net Unrealized Gain on Available-for-Sale Investments	22,289,515	26,600,463	179,775	142,449,680
Equity in Net Unrealized Gain on Available-for-Sale Investments of an Associate	25,000	-	-	-
Remeasurement Losses on Retirement Plan	(178,577,793)	(312,363,737)	(471,371,011)	(471,371,011)
Equity in Remeasurement Gains (Losses) on Retirement Plan of a Joint Venture	(479,690)	(1,445,728)	67,642	67,642
Equity in Cash Flow Hedge Reserve of an Associate	(335,158)	-	-	-
Cumulative Translation Adjustment	(41,094,955)	(41,656,482)	(43,131,975)	(16,844,638)
Total Equity	16,263,075,479	17,730,302,218	19,175,054,760	20,670,322,593
	130,025,874,749	**145,607,029,473**	**169,331,247,228**	**183,826,650,179**

Selected Financial Ratios

(in % except for Earnings per Share)	As of 31 December 2013 (audited)	2014 (audited)	2015 (audited)	As of 30 September 2016 (Unaudited)
Return on Average Assets (1)	2.38	1.68	1.49	1.41
Return on Average Equity (2)	18.72	13.64	12.74	12.50
Net Interest Margin on Average Earning Assets (3)	5.88	6.58	6.37	6.24
Tier 1 Capital Adequacy Ratio (4)	13.81	13.32	12.40	11.96
Capital Adequacy Ratio (5)	16.92	19.57	18.04	15.01
Earnings per share (₱) (6)	12.19	9.65	9.79	7.77

(1) Net income divided by average total assets for the period indicated. Average total assets is based on outstanding balances at the beginning and end of the period divided by two.

(2) Net income divided by average total equity for the period indicated. Average total equity is based on outstanding balances at the beginning and end of the period divided by two.

(3) Net interest income divided by average interest-earning assets (Due from BSP - Specialized Deposit Account, Due from Other Banks, Interbank Loans Receivable, GSP Under RRA, Financial Assets at Fair Value through Profit or Loss, Available for Sale Investments, Held to Maturity Investments, Loans & Discounts (Current), Bills Purchased, and Sales Contract Receivables) .

(4) Net Tier 1 capital divided by total risk weighted assets as reported to the BSP.

(5) Total qualifying capital divided by total risk-weighted assets, as reported to the BSP.

(6) Net income divided by weighted average number of outstanding common share.

Source: PSBank

MANAGEMENT DISCUSSION AND ANALYSIS

Analysis of Statements of Condition

September 30, 2016 (Unaudited) and December 31, 2015 (Audited)

The Bank's Total Assets as of September 30, 2016 was recorded at ₱183.83 billion, this was 8.56% better than the ₱169.33 billion level in December 2015. The significant increase in assets was due to the continued growth in its loan and investment portfolios.

Loans and Receivables, net of allowance and unearned interest and discounts representing 66.89% of total assets, stood at ₱122.96 billion as of September 30, 2016. This was ₱9.10 billion higher than the as of December 31, 2015 level of ₱113.87 billion. Mortgage and Auto Loans rose by 6.58% and 10.90%, respectively.

Cash and Other Cash Items was lower by 32.83% to ₱2.64 billion as of September 30, 2016 from ₱3.93 billion as of December 31, 2015. Due from Bangko Sentral ng Pilipinas, representing 6.00% of total assets slightly decreased to ₱11.04 billion as of September 30, 2016 from ₱11.14 billion as of December 31, 2015 while Due from other Banks slid by ₱710.46 million to ₱1.15 billion as of September 30, 2016. On the other hand, there was no Interbank Loans Receivable and Securities Purchased under Resale Agreements as of September 30, 2016 versus ₱2.51 billion as of December 31, 2015.

Available-for-Sale Investments went up by ₱6.57 billion, 73.57% higher to ₱15.50 billion as of September 30, 2016 from ₱8.93 billion as of December 31, 2015. Held-to-Maturity Investments amounted to ₱20.42 billion as of September 30, 2016. Meanwhile, Financial Assets at Fair Value through Profit or Loss (FVPL) went down to ₱224.25 million as of September 30, 2016 from ₱2.82 billion as of December 31, 2015. Overall, these investment accounts comprised 19.66% of the total assets.

Investment in a joint venture went up by 2.78% or ₱19.19 million to ₱709.52 million as of September 30, 2016 from ₱690.33 million as of December 31, 2015, as the Bank recognized its share in the net earnings of Sumisho Motor Finance Corporation (SMFC), a joint venture between PSBank and Sumitomo Corporation.

Investment Properties went up to ₱3.76 billion as of September 30, 2016 from ₱3.34 billion as of December 31, 2015 due to the foreclosure of real estate properties. Property and Equipment decreased by ₱61.86 million to ₱2.68 billion as of September 30, 2016.

Deferred Tax Asset went up by 5.46% or ₱65.17 million to ₱1.26 billion as of September 30, 2016 versus ₱1.19 billion as of December 31, 2015 due to recognition of deferred tax on provision for probable losses on loans. Goodwill and Intangibles reflected a less than percentage decrease or ₱2.94 million to ₱441.52 million as of September 30, 2016 from ₱444.46 million as of December 31, 2015. Meanwhile, Other Assets increased to ₱1.04 billion as of September 30, 2016 from the ₱894.23 million level as of December 31, 2015. This was mainly due to the increase in prepaid expense account.

The Bank's deposit level, comprising 88.26% of total liabilities, improved by 7.22% or ₱9.70 billion to ₱143.99 billion as of September 30, 2016 from ₱134.30 billion as of December 31, 2015. The increase came from across all deposit products with growth in CASA of ₱4.82 billion and time deposits of ₱4.88 billion.

As September 30, 2016, the total Tier II Notes of the Bank amounted to ₱5.96 billion. On July 28, 2016, the Bank received an issuer rating of PRS Aaa (corp.) from Philippine Rating Services Corporation (PhilRatings). An issuer rating means that the company has a very strong capacity to meet its financial commitments relative to that of other Philippine corporate. A PRS Aaa is the highest corporate credit rating assigned on the PRS scale. The Tier II Notes issued in May 2014 qualified as Tier II capital in the BSP's revised risk-based capital adequacy framework in line with BASEL III standards. The issuance has a loss absorption feature to conform with BASEL III requirements.

Treasurer's, Cashier's and Manager's Checks increased to ₱1.57 billion as of September 30, 2016 from ₱1.35 billion as of December 31, 2015. Accrued Taxes, Interest and Other Expenses was up by ₱79.33 million to ₱1.13 billion as of September 30, 2016 from ₱1.05 billion as of December 31, 2015. Income Tax Payable as of September 30, 2016 was at ₱89.34 million. This represents an accrual for the current quarter which is due for remittance on or before November 29, 2016. Bills Payable went up by ₱2.36 billion to ₱6.85 billion as of September 30, 2016 from ₱4.49 billion as of December 31, 2015 as the Bank entered into repurchased agreements amounting to ₱5.95 billion as of September 30, 2016. Meanwhile, Financial Liabilities at FVPL was recorded at ₱174.19 million as of September 30, 2016. Other Liabilities was posted at ₱3.39 billion as of September 30, 2016 from ₱3.01 billion as of December 31, 2015.

The Capital stood at ₱20.67 billion as of September 30, 2016, 7.80% higher than the December 31, 2015 level of ₱19.18 billion. The Bank's net unrealized gains from its Available-for-Sale Investments was recorded at ₱142.45 million as of September 30, 2016 versus ₱0.18 million gain as of December 31, 2015.

Return on Average Equity (ROAE) went down to 12.50% in for the nine months ended September 30, 2016 compared to 12.74% for the year ended December 31, 2015. Return on Average Assets (ROAA) slid to 1.41% for the nine months ended September 30, 2016 versus 1.49% for the year ended December 31, 2015.

B. Discussion of Results of Operations

For the nine months ended September 30, 2016 vs. for the nine months ended September 30, 2015 (Unaudited)

For the nine months ended September 30, 2016, the Bank registered a Net Income after Tax of ₱1.87 billion or 7.75% higher than the ₱1.73 billion recorded for the same period last year. The increase in net income was attributed to higher core income and trading gains in the first nine months.

Total Interest Income went up by 12.81% or ₱1.04 billion to ₱9.16 billion for the nine months ended September 30, 2016 versus ₱8.12 billion for the same period last year.

Interest income on Loans and Receivables was posted at ₱8.11 billion for the nine months ended September 30, 2016, 10.34% higher than the ₱7.35 billion recorded during the same period last year. Interest income on Investment Securities went up to ₱987.71 million for the nine months ended September 30, 2016 from ₱444.60 million for the same period last year due to the Bank's higher investment portfolio in 2016. On the other hand, Interest earned from Interbank Loans Receivable and SPURA decreased to ₱51.54 million for the nine months ended September 30, 2016, 71.74% lower than the ₱182.36 million posted in the same period last year. For the nine months ended September 30, 2016, interest income from deposits with other banks went down by 79.30% to ₱1.54 million while Interest earned from deposits with BSP declined by 93.03% to ₱9.42 million.

Interest Expense on deposit liabilities rose by 9.59% or ₱156.15 million to ₱1.78 billion for the nine months ended September 30, 2016 from ₱1.63 billion in the same period last year as total deposit liabilities grew by 13.34% year-on-year. The Bank recorded ₱40.55 million in Interest Expense on Bills Payable for the nine months ended September 30, 2016.

Net Interest Income improved by 13.56% to ₱7.07 billion for the nine months ended September 30, 2016 from ₱6.23 billion in the same period last year.

Net Service Fees and Commission Income declined to ₱834.75 million for the nine months ended September 30, 2016 from ₱913.54 million in the same period last year.

Other Operating Income improved by 73.01% or ₱644.93 million to ₱1.53 billion for the nine months ended September 30, 2016 due to higher trading gains recorded this year. The Bank registered ₱673.74 million trading gains for the nine months ended September 30, 2016 or ₱710.85 million higher than the ₱37.11 million trading loss in the same period last year.

For the nine months ended September 30, 2016, the Bank recorded a net gain on the foreclosure and sale of chattel mortgage amounting to ₱245.31 million, ₱30.95 million lower compared with the

₱276.26 million gains during the same period last year. On the other hand, net gain on foreclosure and sale of investment properties increased by ₱66.90 million to ₱287.14 million for the nine months ended September 30, 2016 from ₱220.24 million in in the same period last year. Gain on sale of property and equipment decreased by ₱8.72 million as the Bank sold its old armoured cars in March 2015.

Other Operating Expenses, excluding provision for impairment and credit losses, increased to ₱5.70 billion for the nine months ended September 30, 2016 from ₱5.16 billion in the same period last year. For the nine months ended September 30, 2016, compensation and Fringe Benefits was posted at ₱2.23 billion while occupancy and equipment-related costs was at ₱529.11 million. Depreciation and amortization of Bank's properties and leasehold improvements was up to ₱416.97 million for the nine months ended September 30, 2016 from ₱365.16 million in the same period last year. Meanwhile, security, messengerial and janitorial services was at ₱261.24 million for the nine months ended September 30, 2016. Amortization of software costs was recorded at ₱87.82 million for the nine months ended September 30, 2016. Miscellaneous Expenses was higher by 9.37% or ₱118.44 million to ₱1.38 billion for the nine months ended September 30, 2016 from ₱1.26 billion in the same period last year.

The Bank set aside ₱1.71 billion in provision for impairment and credit losses for the nine months ended September 30, 2016.

The Bank recorded its share in the net income of its investment in Sumisho Motor Finance Corporation (SMFC) at ₱19.19 million for the nine months ended September 30, 2016 from ₱13.25 million in the same period last year.

Provision for income tax increased by ₱168.91 million to ₱188.65 million for the nine months ended September 30, 2016 due to the net movement in deferred, corporate and final taxes.

September 2016 vs. September 2015 Comparative highlights on key performance indicators

1. Return on Average Equity (ROAE) for the nine months ended September 30, 2016 decreased to 12.50% from 12.53% in the same period last year. ROAE measures how well the Bank is using common shareholders' invested money. It is calculated by dividing the annualized/normalized net income by the average total equity for the period indicated. Average total equity is based on outstanding balances at the beginning and end of the period divided by two.

2. Return on Average Assets (ROAA) decreased to 1.41% for the nine months ended September 30, 2016 from 1.51% for the nine months ended September 30, 2015. ROAA is calculated by dividing the annualized/normalized net income by the average total assets for the period indicated. Average total assets is based on outstanding balances at the beginning and end of the period divided by two.

3. Net Interest Margin on Average Earning Assets (NIM) declined to 6.24% for the nine months ended September 30, 2016 from 6.37% for the nine months ended September 30, 2015. NIM is calculated by dividing the net interest income by the average earning assets ((Due from BSP - Specialized Deposit Account, Due from Other Banks, Interbank Loans Receivable, GSP Under RRA, Financial Assets at Fair Value through Profit or Loss, Available for Sale Investments, Held to Maturity Investments, Loans & Discounts (Current), Bills Purchased, and Sales Contract Receivables).

4. Earnings per Share (EPS) was higher at ₱7.77 for the nine months ended September 30, 2016 compared to the ₱7.21 reported during the same period last year. EPS represents the net profit the Bank has generated per common share. It is computed by dividing the year to date net income by the weighted average number of outstanding common shares.

5. Capital-to-Risk Assets Ratio (CAR) declined to 15.01% as of September 30, 2016 versus 18.17% as of September 30, 2015. CAR is the measure of the Bank's capital strength. It is calculated by dividing the qualified capital by risk-weighted assets as defined by the Bangko Sentral ng Pilipinas (BSP).

6. Liquidity Ratio (LR) was lower at 15.70% as of September 30, 2016 from 28.28% the same period last year. LR measures the Bank's ability to meet its short-term liabilities. It is derived by dividing the current assets by current liabilities.

7. Debt-to-Equity Ratio (DER) was higher at 7.89:1 as of September 30, 2016 from 7.32:1 as of September 30, 2015. DER indicates the extent to which the Bank's leveraged, or financed by credit. This is computed by dividing total liabilities by total stockholder's equity.

8. Asset-to-Equity Ratio (AER) increased to 8.89:1 as of September 30, 2016 from 8.32:1 as of September 30, 2015. AER is computed by dividing the total assets by total shareholder's equity.

9. Interest Rate Coverage Ratio (IRCR) went up to 1.99:1 for the nine months ended September 30, 2016 from 1.93:1 or the nine months ended September 30, 2015. IRCR is a measure of the Bank's ability to meet its interest payments on outstanding debt. It is calculated by dividing the total earnings before interest and taxes over interest expense.

INVESTMENT CONSIDERATIONS

An investment in the LTNCTDs involves a number of investment considerations. You should carefully consider all the information contained in this Offering Circular including the investment considerations described below, before any decision is made to invest in the LTNCTDs. The Bank's business, financial condition and results of operations could be adversely affected materially by any of these investment considerations. The market price of the LTNCTDs could decline due to any one of these risks, and all or part of an investment in the LTNCTDs could be lost.

Considerations Relating to the Bank

Significant Shareholding by Metrobank

As of 30 September 2016, a significant portion of the equity of the Bank, or 82.68%, is owned by Metrobank. The next largest shareholder is the Dolor Family, which owns 8.42% of the Bank. There is no assurance that the interests of Metrobank will necessarily coincide with the interests of the Holders.

Concentration of Loan Portfolio

As of 30 September 2016, the Bank's top 10 largest exposures account for 5.77% of the Bank's gross loan portfolio. There can be no assurance that these exposures would continue to perform their obligations to the Bank.

As of 30 September 2016, 90.87% or ₱113.97 billion of the Bank's gross loan portfolio is concentrated in three major economic activities. These include activities of households as employers and undifferentiated goods-and-services producing activities of households for own use at ₱73.37 billion or 58.50%; real estate activities at ₱38.36 billion or 30.59%, and financial and insurance activities at ₱2.25 billion or 1.79%.

The Bank has significant exposure to the Philippine real estate market as well as the level of real estate it holds as collateral. As 30 September 2016, loans secured by real estate collateral accounted for 30.66% of the Bank's total secured loans to customers. The Philippine real estate market is highly cyclical, and real estate prices in general have been volatile. Real estate prices are affected by a number of factors, including, among other things, the supply of and demand for comparable properties, the rate of economic growth in the Philippines, remittances from OFWs and political and economic developments. Accordingly, an extended downturn in the Philippine real estate sector could increase the level of the Bank's NPLs and related provisions for impairment loan losses, reduce the Bank's net income and consequently materially and adversely affect the Bank's business, financial condition and results of operations.

High Level of Regulation

The Bank, being subject to the supervision and regulation of the BSP, is periodically audited by the BSP through the appropriate Supervision and Examination Sector for compliance with banking rules and regulations. While the Bank believes that as of 30 September 2016, it is fully compliant with all applicable rules and regulations and has effectively and efficiently implemented all corrective actions required, if any, to the satisfaction of the BSP, there can be no assurance that the Bank will at all times be compliant or that the BSP will find the operations or corrective measures taken by the Bank to be proper, acceptable or sufficient. In such cases, the Bank could be reprimanded, fined, or in extreme cases, have its banking license revoked, but at all times after due notice and hearing.

Level of Non-Performing Loans

As of 30 September 2016, the Bank's net NPL ratio was at 1.10%. Through the implementation of stringent credit policies, the Bank expects its NPLs to further taper off. Ongoing volatile economic conditions in the Philippines may adversely affect the ability of the Bank's borrowers to service their indebtedness and as a consequence the Bank may experience an increase in NPLs and provisions for probable losses. Although the Bank monitors closely current and future credit risk exposures, no assurance can be given that the amount of NPLs will not increase and will not have a material effect on the Bank's capital adequacy ratio, its operations, and financial condition.

Secured Loans

As of 31 December 2014, 2015, and 30 September, 2016, the Bank's secured loans represented 74.60%, 77.78%, and 78.47% of the Bank's total loans, and 35.29%, 32.46%, and 30.66% of the collateral on these secured loans consisted of real properties. There can be no assurance that the collateral securing any particular loan will protect the Bank from suffering a partial or complete loss if the loan becomes non-performing. The recorded values of the Bank's collateral may not accurately reflect its liquidation value, which is the maximum amount the Bank is likely to recover from a sale of collateral, less expenses of such sale. There can be no assurance that the realized value of the collateral would be adequate to cover the Bank's loans. In addition, some of the valuations in respect of the Bank's collateral may also be out-of-date or may not accurately reflect the value of the collateral. Any decline in the value of the collateral securing the Bank's loans, including with respect to any future collateral taken by the Bank, would mean that its provision for credit losses may be inadequate and the Bank may need to increase such provision. Any increase in the Bank's provisions for credit losses could materially and adversely affect the Bank's business, financial condition and results of operations. Furthermore, the Bank may not be able to recover in full the value of any collateral or enforce any guarantee due, in part, to difficulties and delays involved in enforcing such obligations through the Philippine legal system.

Unsecured Loans

As of 30 September 2016, 21.53% of the Bank's lending portfolio was unsecured. Unsecured loans, which primarily consist of credit cards (booked under Metrobank Card Corp), personal loans and loans to top tier corporates, entail a higher degree of credit risk than loans secured by collateral. Any increase in the level of NPLs with unsecured obligations could materially and adversely affect the Bank's business, results of operations and financial condition.

Consumer Debt Concentration

The Bank plans to continue to expand its consumer loan operations, including auto loans and credit card services. Such expansion plans will increase the Bank's exposure to consumer debt and vulnerability with respect to changes in general economic conditions affecting Philippine consumers. Accordingly, economic difficulties in the Philippines that have a significant adverse effect on Philippine consumers could result in reduced growth and deterioration in the credit quality of the Bank's consumer loan and credit card portfolios. A rise in unemployment or an increase in interest rates, among others, could have an adverse impact on the ability of borrowers to make payments and increase the likelihood of potential defaults and reduce demand for consumer loans, which could materially and adversely affect the Bank's business, financial condition and results of operations.

Implementation of Strategies

The Bank's ability to grow its revenue will partly depend on its ability to successfully implement its business strategies, which may expose the Bank to a number of risks and challenges, including, among others, the following:

- new and expanded business activities may have less growth or profit potential than the Bank anticipates, and there can be no assurance that new business activities will become profitable at the level the Bank desires or at all;
- the Bank's competitors may have substantially greater experience and resources for the new and expanded business activities; and
- economic conditions, such as rising interest rates or inflation, could hinder the Bank's expansion, particularly in the consumer loan industry.

In addition, new business endeavors may require knowledge and expertise which differ from those used in the current business operations of the Bank, including different management skills, risk management procedures, guidelines and systems, credit risk evaluation, monitoring and recovery procedures. The Bank may not be successful in developing such knowledge and expertise. The

Bank’s inability to implement its business strategy could materially and adversely affect the Bank’s business, financial condition and results of operations.

Credit Risk

Credit risk is the risk that obligations will not be repaid on time and in full as contracted, resulting in a financial loss. It is the broadest category of risk in the Bank and is closely linked with other risk categories. Exposure to credit risk arises primarily from its lending activities.

Market Risk

Market risk is the risk that the Bank's earnings decline, either immediately or over time, as a result of a change in market factors. The level of market risk to which the Bank is exposed varies continually as a result of changing market conditions as well as the composition of the Bank's trading and non-trading portfolios.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This risk is a function of internal controls, information systems, employee integrity and operating processes. Operations risk has a very broad category that encompasses any risk not categorized as market or credit risk.

The Bank’s operations are centralized in its Head Office in Makati. Although this is intended to promote efficiency, this set-up could also be a source of operational risk. The Bank mitigates this risk through its Business Continuity Program (“BCP”). It conducts regular BCP exercises and targets different recovery times per system. The Bank’s heavy reliance on technology for its operations also presents operational risks.

Liquidity Risk

Liquidity Risk relates to the Bank’s ability to generate sufficient cash or equivalents from internal or external sources, in a timely and cost-effective manner, to meet its commitments as they fall due. Mismanagement of liquidity will have quicker and more severe repercussions than errors in managing other risks. The Bank’s objective in liquidity management is to ensure that the Bank has sufficient liquidity to meet obligations under normal and adverse circumstances and is able to take advantage of lending and investment opportunities as they arise.

Reputational Risk

The Bank is exposed to the risk that fraud and other misconduct committed by employees or outsiders could occur. Such incidences may adversely affect banks and financial institutions more significantly than companies in other industries due to the large amounts of cash that flow through their systems. Any occurrence of such fraudulent events may damage the reputation of the Bank and may adversely affect its business, financial position, results of operations and prospects. In addition, failure on the part of the Bank to prevent such fraudulent actions may result in administrative or other regulatory sanctions by the BSP or other Government agencies, which may be in the form of suspension or other limitations placed on the Bank’s banking and other business activities. Although the Bank has in place certain internal procedures to prevent and detect fraudulent activities, such as a code of conduct, daily trading limits and compliance monitoring, these may be insufficient to prevent such occurrences from transpiring. There can be no assurance that the Bank will be able to avoid incidents of fraud that could materially and adversely affect the Bank’s business, financial condition or results of operations.

Considerations Relating to the Philippine Banking Industry

The Philippine banking industry is highly competitive and increasing competition may result in declining margins in the Bank's principal businesses.

The Bank is subject to significant levels of competition from many other Philippine banks and branches of international banks, including, in some instances, competitors that have greater financial and other capital resources, greater market share and greater brand name recognition than the Bank. The banking industry in the Philippines is a mature market that has, in recent years, been subject to consolidation and liberalization, including liberalization of foreign ownership regulations with the passage of RA10641 in July 2014. RA10641 lifted restrictions that previously barred the full entry and operation of foreign banks in the country. Since the enactment of RA10641, several foreign banks have obtained approvals from the BSP to venture into the Philippines banking, in entry modes including setting up branches, subsidiaries and acquisition of equity stake in domestic banks. In addition, the establishment of ASEAN economic integration which envisions providing a platform for ASEAN banks to enjoy greater market access and operational flexibility.

There were a total of 64 thrift operating in the Philippines as of June 30, 2016 according to the BSP.

In the future, the Bank may face increased competition from financial institutions offering a wider range of commercial banking services and products than the Bank and having larger lending limits, greater financial resources and stronger balance sheets than the Bank. Increased competition may arise from:

- other large Philippine banking and financial institutions with significant presence in Metro Manila and large country-wide branch networks;

- foreign banks, due to, among other things, relaxed standards permitting large foreign banks to set up their own branches in the country or expand their branch network through acquiring domestic banks;

- domestic banks entering into strategic alliances with foreign banks with significant financial and management resources; and

- continued consolidation in the banking sector involving domestic and foreign banks, driven in part by the gradual removal of foreign ownership restrictions.

The recent mergers and consolidations in the banking industry, as well as the liberalization of foreign ownership regulations in banks, have allowed the emergence of foreign and bigger local banks in the market. This is expected to increase the level of competition both from Philippine banks and branches of international banks. This may impact the Philippine banks' operating margins, but this would also enhance the industry's overall efficiency, business opportunities and service delivery.

There can be no assurance that the Bank will be able to compete effectively in the face of such increased competition. Increased competition may make it difficult for the Bank to increase the size of its loan portfolios and deposit bases and may cause increased pricing competition, which could have a material adverse effect on its growth plans, margins, ability to pass on increased costs of funding, results of operations and financial position.

The Philippine banking sector may face another downturn, which could materially and adversely affect the Bank.

The Philippine banking sector has recovered from the global economic crisis as evidenced by the steady decrease in average NPL ratios (including interbank loans) in the Philippine banking system from 3.61% in 2010 to 2.24% as of March 31, 2016. The Bank has realized some benefits from this recovery, including increased liquidity levels in the Philippine market, lower levels of interest rates as well as lower levels of NPLs. However, the Philippine banking industry may face significant financial and operating challenges. These challenges may include, among other things, a sharp increase in the level of NPLs, variations of asset and credit quality, significant compression in bank margins, low loan growth and potential or actual under-capitalization of the banking system. Fresh disruptions in the Philippine financial sector, or general economic conditions in the Philippines, may cause the Philippine banking sector in general, and the Bank in particular, to experience similar problems to those faced in the past, including substantial increases in NPLs, problems meeting capital adequacy requirements, liquidity problems and other challenges.

Philippine banks are generally exposed to higher credit risks and greater market volatility than banks in more developed countries.

Philippine banks are subject to the credit risk that Philippine borrowers may not make timely payment of principal and interest on loans and, in particular that, upon such failure to pay, Philippine banks may not be able to enforce the security interest they may have. The credit risk of Philippine borrowers is, in many instances, higher than that of borrowers in developed countries due to:

(1) The greater uncertainty associated with the Philippine regulatory, political, legal and economic environment;
(2) The vulnerability of the Philippine economy in general to a severe global downturn due to the dependence of the Philippine economy in general on remittances and exports for economic growth;
(3) The large foreign debt of the government and corporate sector, relative to the gross domestic product of the Philippines; and
(4) The volatility of interest rates and USD/₱ exchange rates.

Higher credit risk has a material adverse effect on the quality of loan portfolios and exposes Philippine banks, including the Bank, to more potential losses and higher risks than banks in more developed countries. In addition, higher credit risk generally increases the cost of capital for Philippine banks compared to their international counterparts. Such losses and higher capital costs arising from this higher credit risk may have a material adverse effect on the Bank's financial condition, liquidity and results of operations.

Philippine banks in general have exposure to the Philippine property market through holdings of real and other properties acquired.

As with other banks in the Philippines, the Bank has exposure to the Philippine property market due to the level of its real and other properties acquired ("ROPA") holdings. The Bank's ROPA (net of allowances for impairment and accumulated depreciation) amounted to ₱2.75 billion as of 30 September 2016, or 1.50% of the Bank's total assets. The Philippine property market is highly cyclical, and property prices in general have been volatile through the past decade, though an uptrend has been observed toward the end of 2015 owing in part to recent domestic economic and political developments. Property prices are affected by a number of factors, including, among other things, the supply of and demand for comparable properties, the rate of economic growth in the Philippines and political and economic developments.

There can be no assurance that an extended downturn in the property market will not occur, resulting in a significant decline in property values. Thus, there can be no assurance that the Bank will be able to recover all or most of the originally anticipated value of its ROPA in an eventual sale. Furthermore, the Bank is required under PFRS to recognize impairment losses on all ROPA, by reference to the difference between the carrying amount and the fair value less cost to sell. Accordingly, any extended downturn in the Philippine property sector could increase the level of the Bank's recognized impairment losses, reduce the Bank's net income and consequently adversely affect the Bank's business, financial condition and results of operations generally.

The Bank may experience difficulties due to the implementation of Basel III in the Philippines.

On January 15, 2009, the BSP issued Circular No. 639 covering the Internal Capital Adequacy Assessment Process ("ICAAP") which supplements the BSP's risk-based capital adequacy framework under BSP Circular No. 538. The BSP requires banks to have in place an ICAAP that (i) takes into account not just the credit, market and operational risks but also all other material risks to which a bank is exposed (such as interest rate risk in the banking book, liquidity risk, compliance risk, strategic/business risk and reputation risk); (ii) covers more precise assessments and quantification of certain risks (i.e. credit concentration risk); and (iii) evaluates the quality of capital. In 2011, the BSP issued BSP Circular 709, which aligns with the Basel Committee on Banking Supervision on the eligibility criteria on Additional Bank Concern Capital and Tier 2 Capital to determine eligibility of capital instruments to be issued by Philippine banks/quasi-banks as Hybrid Tier 1 Capital and Lower Tier 2 Capital. Further, in January 2013, the BSP issued Circular No. 781 as the Basel III Implementing Guidelines on Minimum Capital Requirements, which took effect on January 2014, highlights of which include:

- adopting a new categorization of the capital base;
- adopting eligibility criteria for each capital category that is not yet included in Circular 709;
- as applicable, allowing the BSP to adopt regulatory deductions in Basel III;
- keeping minimum CAR at 10%, and prescribing:
  - a minimum Common Equity Tier 1 (CET1) ratio of 6.0%;
  - a minimum Tier 1 ratio of 7.5%; and
  - a capital conservation buffer of 2.5%;
- removing existing limits on eligible Tier 1 and total Tier 2 capital;
- by January 1, 2014, rendering ineligible existing capital instruments as of December 31, 2010 that do not meet eligibility criteria for capital instruments under the revised capital framework;
- by January 1, 2016, rendering ineligible regulatory capital instruments issued under circulars 709 and 716 before the revised capital framework became effective; and
- by subjecting covered banks and quasi-banks to the enhanced disclosure requirements pertaining to regulatory capital.

On October 29, 2014, the BSP issued Circular No. 856, or the "Implementing Guidelines on the Framework for Dealing with Domestic Systemically Important Banks ("DSIBs") under Basel III" to address systemic risk and interconnectedness by identifying banks which are deemed systemically important within the domestic banking industry. Banks that will be identified as DSIBs shall be required to have higher loss absorbency, on top of the minimum CET1 capital and capital conservation buffer. Identified DSIBs will need to put up an additional 1.5 – 3.5% common equity Tier 1 depending on their classification. Compliance with this requirement shall be phased-in starting January 1, 2017, with full compliance on January 1, 2019.

Furthermore, banks face new liquidity requirements under Basel III's new liquidity framework, namely, the Liquidity Coverage Ratio ("LCR") and the Net Stable Funding Ratio ("NSFR"). The LCR requires banks to hold sufficient level of high-quality liquid assets to enable them to withstand a 30 day-liquidity stress scenario. Beginning 1 January 2018, the LCR threshold that banks will be required to meet will be 90 percent which will then be increased to 100 percent beginning 1 January 2019. Meanwhile, the NSFR requires that banks' assets and activities are structurally funded with long-term and more stable funding sources. This is being finalized and the BSP said that the exposure draft may be issued within the year. Compliance with these ratios may also further increase competition among banks for deposits as well as high quality liquid assets.

Unless the Bank is able to access the necessary amount of additional capital, any incremental increase in the capital or liquidity requirement due to the implementation of ICAAP and Basel III, may impact the Bank's ability to grow its business and may even require the Bank to withdraw from or to curtail some of its current business operations, which could materially and adversely affect the Bank's business, financial condition and results of operations. There can also be no assurance that the Bank will be able to raise adequate additional capital in the future at all or on terms favorable to it. There can be no assurance that the Bank will be able to meet the requirements of Basel III as implemented by the BSP. In addition, the limitations or restrictions imposed by the BSP's implementation of Basel III could materially and adversely affect the Bank's business, financial condition and results of operations. Whenever the capital accounts of a bank are deficient with respect to the prescribed risk-based CAR of 10%, the Monetary Board of the BSP (the "Monetary Board"), may impose monetary and non-monetary sanctions. The Monetary Board will also prohibit opening of new branches whenever a bank's CAR falls below 12% on a non-consolidated and consolidated basis. Likewise, it will also prohibit the distribution of dividends whenever a bank's CET1 ratio and CAR falls below 8.5% and 10% respectively.

As of December 31, 2015, according to the BSP and under the Revised Basel III standards (Memorandum No. M-2013-056), the universal and commercial banking industry's CAR was 15.8% on a consolidated basis and 14.9% on a non-consolidated basis. As of September 30, 2016, the Bank's CAR was 15.01% as reported to BSP.

The Metrobank Group has been identified as a Domestic Systematically Important Bank (D-SIB) by the BSP and is required to maintain a Higher Loss Absorbency Ratio (HLA) of 2.5% CET1 Ratio. Based on the Bank's recent ICAAP submission, the Bank is compliant and ready for implementation starting in 2017.

The Bank may have to comply with strict regulations and guidelines issued by banking regulatory authorities in the Philippines, including the BSP, the BIR and international bodies, including the FATF.

The Bank's interests are regulated and supervised principally by, and have reporting obligations to, the BSP. The Bank is also subject to the banking, corporate, taxation and other BSP rules and laws in effect in the Philippines, administered by agencies such as the Bureau of Internal Revenue of the Philippines (the "BIR") and the Anti-Money Laundering Council ("AMLC"), as well as international bodies such as the Financial Action Task Force ("FATF").

In recent years, existing BSP and BIR rules have been modified, new guidelines and rules have been enacted and reforms have been implemented by the BSP and the BIR which are intended to provide tighter control and added transparency in the Philippine banking sector. These rules include new guidelines on the monitoring and reporting of suspected money laundering activities, and BSP rules governing the capital adequacy of banks in the Philippines. Institutions that are subject to the AMLA are required to establish and record the identities of their clients based on official documents. In addition, all records of transactions are required to be maintained and stored for a minimum of ten years from the date of a transaction. Records of closed accounts must also be kept for five years after their closure.

The BSP has also recently ordered universal, commercial and thrift banks to conduct Real Estate Stress Tests to determine whether their capital is sufficient to absorb a severe shock. The Real Estate Stress Test Limit ("REST Limit") combines a macroprudential overlay of a severe stress test scenario, the principle of loss absorbency through minimum capital ratio thresholds and heightened supervisory response. Should a bank fail to comply with the prescribed REST Limits, it shall be directed to explain why its exposures do not warrant immediate remedial action. Should the same be found insufficient, the bank shall be required to submit an action plan to meet the REST Limits within a reasonable time frame.

The BIR has also promulgated rules on the submission of an Alphabetical List ("Alphalist") of portfolio investors receiving income payments and dividends. The BIR requires all withholding agents to submit an Alphalist of payees on income payments subject to creditable and withholding taxes and prohibit the lumping into a single amount and account of various income payments and taxes withheld. The Supreme Court, however, issued a temporary restraining order against the said BIR rule last September 9, 2014 with regard to the lumping into a single amount.

In the event of any changes to the existing guidelines or rules, or introduction of additional regulations, the Bank, as far as applicable, will have to comply with the same and may incur substantial compliance and monitoring costs. The Bank's failure to comply with current or future BSP rules and guidelines issued by other regulatory authorities in the Philippines could have a material adverse effect on the Bank's business, financial condition and results of operations.

The local banking industry faces higher credit risks and greater market volatility than that of other developed markets.

Philippine banks are subject to the credit risk that borrowers may not make timely payments of principal and interest on loans and, in particular, that upon such failure to pay, Philippine banks may not be able to enforce the security interest they may have. The credit risk of Philippine borrowers is, in many instances, higher than those of borrowers in more developed countries due to the greater uncertainty associated with the Philippine regulatory, political, legal and economic environment, the large foreign debt of the Government and corporate sectors relative to the gross domestic product of the Philippines, and the greater volatility of interest rates and Peso/U.S. dollar exchange rates.

Higher credit risk has a material adverse effect on the quality of loan portfolios and exposes Philippine banks, including the Bank, to more potential losses and higher risks than banks in more developed countries. In addition, higher credit risk generally increases the cost of capital for Philippine banks. Such losses and higher capital costs arising from this higher credit risk could materially and adversely affect the Bank's business, financial condition and results of operations.

The Bank's ability to assess, monitor and manage risks inherent in its business is limited by the quality and timeliness of available data.

The Bank is exposed to a variety of risks including credit, market, foreign exchange and operational risks. The effectiveness of the Bank's risk management, in particular its credit risk management, is limited by the quality and timeliness of available data in the Philippines in relation to factors such as the credit history of proposed borrowers and the loan exposure borrowers have with other financial institutions. Limitations in the Bank's risk management systems may result in the Bank granting loans or taking positions that expose the Bank to significant credit risks or otherwise result in the Bank being over exposed to interest rate, liquidity, foreign exchange rate and other risks.

Considerations Relating to the Philippines

Substantially all of the Bank's business activities are conducted in the Philippines and substantially all of its assets are located in the Philippines, which exposes the Bank to risks associated with the Philippines, including the performance of the Philippine economy.

The Bank is highly dependent on the state of the Philippine economy since demand for banking services is directly related to the strength of the Philippine economy (including its overall growth and income levels), the overall levels of business activity in the Philippines as well as the amount of remittances received from OFWs and overseas Filipinos. Factors that may adversely affect the Philippine economy include:

- decreases in business, industrial, manufacturing or financial activities in the Philippines, the Southeast Asian region or globally;
- scarcity of credit or other financing, resulting in lower demand for products and services provided by companies in the Philippines, the Southeast Asian region or globally;
- foreign exchange rate fluctuations;
- foreign exchange controls;
- inflation or increase in interest rates;
- levels of employment, consumer confidence and income;
- changes in the Government's fiscal policies;
- Government budget deficits;
- a re-emergence of SARS, avian influenza (commonly known as bird flu), or H1N1, or the emergence of another similar disease in the Philippines or in other countries in Southeast Asia;
- natural disasters, including but not limited to tsunamis, typhoons, earthquakes, fires, floods and similar events; political instability, terrorism or military conflict in the Philippines, other countries in the region or globally; and
- other regulatory, social, political or economic developments in or affecting the Philippines.

Any future deterioration in economic conditions in the Philippines due to these or other factors could materially and adversely affect the Bank's borrowers and contractual counterparties. This, in turn, could materially and adversely affect the Bank's financial position and results of operations, including the Bank's ability to grow its asset portfolio, the quality of the Bank's assets and its ability to implement the Bank's business strategy. Therefore, changes in the conditions of the Philippine economy could materially and adversely affect the Bank's business, financial condition or results of operations.

The Bank's business may be affected by political or social instability in the Philippines

The Philippines has from time-to-time experienced severe political and social instability, including acts of political violence. There is no guarantee that future events will not cause political instability in the Philippines. Such instability may disrupt the country and its economy, and in turn could materially and adversely affect the Bank's business, financial condition and results of operations.

Uncertainties and instability in global market conditions could adversely affect the Bank's business, financial condition, and results of operations.

A number of risks still weigh on economic activity and outlook. The lingering effects of the global financial crisis, tightening of credit conditions, rising oil prices, the manner of United Kingdom's exit from the European Union, uncertainty in China's economic growth coupled with its high leverage and risk to the property sector, change in leadership and policy directions in the United States and challenges to the Euro and Eurozone could result to slower economic growth. These risks engender volatile global capital and equity markets. Specifically, the United States' Federal Reserve could increase the pace of tightening with rate hikes that are more than market expectations. The incoming US administration's trade, employment and reflation policies may generate adverse effects on global trade and growth. A hard BREXIT negotiation could raise the risk of softer European growth while a wave of populist sentiment could sweep anti-Eurozone political parties to leadership roles as France, Netherlands and Germany face major elections. Although the Philippines still grew by 7.0% in the nine months of 2016, Philippine economic environment could become more challenging even as domestic demand driven policies are likely to moderate global risks. Nevertheless, more challenging economic environment may result in a corresponding increase in personal and corporate financial difficulties, and have a material adverse effect on the Bank's retail and corporate customers. Declining customer demand for the Bank's products and services would lead to excess capacity in the Bank's operations, which could have a material impact on the Bank's business, financial condition and results of operations.

The occurrence of natural catastrophes such as flooding, typhoons and earthquakes or power outages may materially disrupt the Bank's operations.

The Philippines has experienced a number of major natural catastrophes in recent years including typhoons, volcanic eruptions, earthquakes, mudslides, droughts, storm surges and floods related to the El Niño and La Niña weather events. Natural catastrophes may impair the economic conditions in the affected areas, as well as the overall Philippine economy, and disrupt the Bank's operations in these areas. The Philippines has also experienced power outages, both from insufficient power generation and from disruptions such as typhoons. These types of events may materially disrupt and adversely affect the Bank's business and operations.

The sovereign credit ratings of the Philippines may adversely affect the Bank's business.

The sovereign ratings of the Government may directly affect companies residing in the Philippines, as international credit rating agencies issue credit ratings by reference to that of the sovereign. The investment grade rating of the Philippines was reaffirmed by major credit rating agencies recently. In 21 April, 2016, Standard & Poor's Financial Services (S&P) reaffirmed the BBB Stable long-term sovereign credit rating of the Philippines. Aside from S&P, Fitch Ratings (Fitch) kept a BBB- Positive rating in 8 April 2016 and Moody's Investors Service (Moody's) reaffirmed the Philippines a Baa2 Stable Investment Grade rating in 14 December 2015. In their announcements, the rating agencies cited expectations of sound growth in jobs, increasing inward remittance flows and adequately performing financial system for some of the reasons behind their decision. However, no assurance can be given that international credit rating agencies will not downgrade the credit ratings of the Government in the future and, therefore, of Philippine companies, including the Bank. Any of such downgrades could have an adverse impact on the liquidity in the Philippine financial markets, the ability of the Government and Philippine companies, including the Bank, to raise additional financing and the interest rates and other commercial terms at which such additional financing is available.

Any future changes in PFRS may affect the financial reporting of the Bank's business.

In July 2014, the IASB issued the final version of IFRS 9, Financial Instruments. The new standard (renamed as PFRS 9) reflects all phases of the financial instruments project and replaces PAS 39, Financial Instruments: Recognition and Measurement, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. Early application of previous versions of PFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before February 1, 2015. The Bank did not early adopt PFRS 9.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Bank's financial assets, but will potentially have no impact on the classification and measurement of the Bank's financial liabilities. The adoption will also have an effect on the Bank's determination of the amount of its credit losses. The Bank is currently assessing the impact of adopting this standard.

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted.

PFRS 16 replaces the accounting requirements for leases under the old Standard (IAS 17, Leases). The new standard requires all leases to be reported on balance sheet as assets and liabilities. PFRS 16 shall be effective for annual periods beginning on or after January 1, 2019. Earlier application is not permitted until the Financial Reporting Standards Council ("FRSC") has adopted the new revenue recognition standard International Financial Reporting Standards ("IFRS") 15, Revenues from Contracts with Customer, issued by the International Accounting Standards Board ("IASB"). The Bank is will start assessing the impact of adopting this standard in 2017.

An increase in interest rates could decrease the value of the Bank's securities portfolio and raise the Bank's funding costs.

Domestic interest rates had been relatively low since 2014, with the monetary policy directed towards stimulating the economy amid a low inflation environment. The BSP made operational tweaks to its policy rates due to a shift to an interest rate corridor for its monetary operations last June 2016. The policy rates were tweaked as follows - overnight lending rate at 3.5% (from 6.0%), overnight borrowing rate at 3.0% (from 4.0%) and overnight deposit facility at 2.5% (no change from the special deposit account rate). The BSP also introduced the term deposit facility as the main tool to absorb excess liquidity in the system and to help guide short term market rates to the BSP's policy rates.

The Bank realizes income from the margin between income earned on its assets and interest paid on its liabilities. As some of its assets and liabilities are re-priced at different times, the Bank is vulnerable to fluctuations in market interest rates. As a result, volatility in interest rates could have a material adverse effect on the Bank's financial position, liquidity and results of operations.

An increase in interest rates could lead to a decline in the value of securities in the Bank's portfolio. A sustained increase in interest rates will also raise the Bank's funding costs without a proportionate increase in loan demand (if at all). Rising interest rates will therefore require the Bank to re-balance its assets and liabilities in order to minimize the risk of potential mismatches and maintain its profitability.

Corporate governance and disclosure standards in the Philippines may differ from those in more developed countries.

While a principal objective of Philippine securities laws and the PSE rules is to promote full and fair disclosure of material corporate information, there may be less publicly available information about Philippine public companies than what is regularly made available by public companies in other countries. Philippine SEC and PSE requirements with respect to corporate governance standards may differ from those applicable in certain other jurisdictions.

Generally, financial statements require the use of certain critical accounting estimates. Management of institutions are to use their own judgment to come up with estimates on certain balance sheet and income statement accounts such as, but not limited to, impairment losses on loans and receivables; fair value of derivatives; impairment of available-for-sale and held-to-maturity securities; impairment of goodwill; and realization of deferred income tax assets, among others.

CONSIDERATIONS RELATING TO THE LTNCTDs

Certain actions relating to the LTNCTDs require prior approval of the BSP.

Certain actions relating to the LTNCTDs, such as early redemptions and payments of principal, are subject to the prior approval of the BSP. There is no assurance that such approval will be obtained in a timely manner, if at all. Neither the Issuer nor the Arranger makes any such assurance that such approval will be obtained in a timely manner, if at all.

All redemption rights are at the Issuer's discretion and the timing of redemption of the LTNCTDs may not correspond with the CD Holders' expectations or preferences.

The "Terms and Conditions of the LTNCTDs" provide that the LTNCTDs are redeemable at the Issuer's option, in whole but not in part, on the Early Redemption Date at the Early Redemption Price.

The date on which the Issuer elects to redeem the LTNCTDs may not accord with the preference of individual CD Holders. This may be disadvantageous to CD Holders in light of market conditions or the individual circumstances of the CD Holders. A CD Holder's ability to realize value at a certain time may be limited to selling the LTNCTDs into the secondary market. In addition, an investor may not be able to reinvest the redemption proceeds in comparable securities at an effective distribution rate at the same level as that of the LTNCTDs.

Liquidity for the LTNCTDs

CD Holders may not redeem or pre-terminate the LTNCTDs before Maturity Date. CD Holders may, however, negotiate or transfer the LTNCTDs to purchasers who are not Prohibited CD Holders. In accordance with the Manual of Regulations for Banks, as amended, negotiations/transfers from one CD Holder to another do not constitute pre-termination. Any change in the interpretation of current tax laws subjecting the LTNCTDs to deductions or withholdings of whatever nature shall, however, be for the account of the CD Holder.

The Bank may, subject to the General Banking Law of 2000, Section X233.9 of the Manual of Regulations for Banks, Circular No. 304 Series of 2001 of the BSP and other related circulars and issuances, as may be amended from time to time, redeem all and not only part of the outstanding LTNCTDs on any Interest Payment Date prior to Maturity Date, at an Early Redemption Amount equal to the Issue Price plus interest accrued and unpaid up to but excluding the Early Redemption Date.

The Bank intends to list the LTNCTDs on the PDEx. The liquidity for the LTNCTDs will depend in part upon the activity of the trading participants of PDEx. No assurance can be given that an active trading market for the LTNCTDs will develop.

Upon listing of the LTNCTDs with PDEx, investors shall course their secondary market trades through the trading participants of PDEx for execution in the PDEx Trading Platform in accordance with the PDEx Trading Rules, Conventions and Guidelines, as these may be amended or supplemented from time to time, and must settle such trades on a Delivery versus Payment (DvP) basis in accordance with PDEx Settlement Rules and Guidelines. These Settlement Rules and Guidelines include guidelines on minimum trading lots and record dates. The secondary trading of LTNCTDs in PDEx may be subject to such fees and charges of PDEx, the trading participants of PDEx, and other providers necessary for the completion of such trades. The PDEx rules and conventions are available in the PDEx website (www.pds.com.ph). An investor Frequently Asked Questions ("FAQ") discussion on the secondary market trading, settlement, documentation and estimated fees are also available in the PDEx website.

As with other fixed income securities, the LTNCTDs trade at prices higher or lower than the initial offering price due to prevailing interest rates, the Bank's operations, and the overall market for debt securities, among others. It is possible that a selling CD Holder would receive sales proceeds lower than his initial investment should a CD Holder decide to sell his LTNCTDs prior to maturity.

Transfers subject to BSP rules and transaction related fees

The LTNCTDs may not be issued or transferred to (i) the Bank; (ii) the subsidiaries or affiliates of the Bank; or (iii) wholly or majority-owned or controlled entities of such subsidiaries and affiliates of the Bank. The Registry is authorized to refuse any transfer or transaction in the Registry Book that may be in violation of these restrictions.

In addition, transactions on the LTNCTDs will be subject to the relevant rules of the exchange, including guidelines on minimum trading lots and record dates, all in accordance with guidelines for holding and trading of the LTNCTDs as may be prescribed by the BSP. Such rules and regulations may include maintaining the minimum denomination for the LTNCTDs as prescribed by the BSP at all times such that no negotiation or secondary trading may be allowed if the result is that a remaining CD Holder of the LTNCTDs will hold less than the minimum denomination as prescribed or approved by the BSP.

The trading rules and regulations of the BSP or PDEx or its trading participants, and other providers necessary for the completion of such trades may affect the liquidity of the LTNCTDs.

Additionally, any trading or negotiations of the LTNCTDs may be subject to fees and charges of PDEx or its trading participants, and other providers necessary for the completion of such trades.

Taxation of the LTNCTDs

If, because of new or changes in the interpretations or conventions regarding current taxes, such that any payments of principal and/or interest under the LTNCTDs shall be subject to deductions or withholdings for or on account of any present taxes, duties, assessments, or governmental charges of whatever nature imposed, levied, collected, withheld, or assessed by or within the Philippines or any authority therein or thereof having the power to tax, including but not limited to stamp, issue, registration, documentary, value-added or similar tax, or other taxes, duties, assessments, or government charges, including interest, surcharges, and penalties thereon (the “Taxes”), then such Taxes shall be for the account of the CD Holder concerned, and if the Issuer shall be required by law or regulation to deduct or withhold such Taxes, then the Issuer shall make the necessary withholding or deduction for the account of the CD Holder concerned; provided, however, that all sums payable by the Issuer to tax-exempt persons shall be paid in full without deductions for Taxes or government charges, subject to the submission by the relevant CD Holder claiming the exemption of reasonable and acceptable evidence of such exemption to the Registrar.

In relation to the foregoing, the BIR has also issued Revenue Memorandum Circular No. 8-2014 (RMC 8-2014) which applies to exemptions from withholding tax in general. Under BIR RMC 8-2014, taxpayers claiming exemption from withholding taxes shall be required by the concerned withholding agent to submit a copy of a valid, current and subsisting tax exemption certificate or ruling, as per existing administrative issuances and any issuance that may be issued from time to time, before payment of related income. If the taxpayer fails to submit the said proof of tax exemption, he or she shall be subjected to the payment of appropriate withholding taxes due on the transaction.

In March 2015, the BIR has issued Revenue Memorandum Circular (RMC) 7-2015 which clarifies that interest income from LTNCTDs can be considered tax-exempt if held by an individual taxpayer for a period of at least five years. See “Taxation” Section for details. However, there is no assurance that any subsequent changes in related regulations will not affect the tax-exempt status of LTNCTDs. In such an event, the Bank may be compelled to apply the prescribed rates of withholding tax and proceed to withhold the necessary tax due on the LTNCTDs based on the related BIR rules.

The LTNCTDs may not be a suitable investment for all investors.

Each potential investor in the LTNCTDs must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the LTNCTDs, the merits and risks of investing in the LTNCTDs and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;

- have access to, and knowledge of, the appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the LTNCTDs and the impact the LTNCTDs will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the LTNCTDs, including where the currency for principal or interest payments is different from the potential investor's currency;
- understand thoroughly the terms of the LTNCTDs and be familiar with the behavior of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Investors may purchase LTNCTDs as a way to manage risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the LTNCTDs unless it has the expertise (either alone or with a financial adviser) to evaluate how the LTNCTDs will perform under changing conditions, the resulting effects on the value of the LTNCTDs and the impact this investment will have on the potential investor's overall investment portfolio.

PDIC Insurance Coverage of the LTNCTDs

The LTNCTDs, which are considered bank deposits, are insured with the Philippine Deposit Insurance Corporation ("PDIC") for up to the maximum insurance coverage set out in, and subject to PDIC's applicable rules and regulations, as may be amended from time to time, including, without limit, the following:

(a) Deposits are insured by the PDIC up to a maximum amount of Five Hundred Thousand Pesos (₱500,000.00) per depositor.

(b) PDIC shall presume that the name/s appearing on the deposit instrument is/are the actual/beneficial owner/s of the deposit, except as provided therein.

(c) In case of transfers or break-up of deposits, PDIC shall recognize actual/beneficial ownership of transferees who are qualified relatives of the transferor. Qualified relatives are transferees within the third degree of consanguinity or affinity of the transferor.

(d) In case of: (i) deposits in the name of, or transfers or break-up of deposits in favor of entities, either singly or jointly with individuals; and (ii) transfers or break-up of deposits in favor of non-qualified relatives, whenever such transfers/ break up will result in increased deposit insurance coverage, PDIC shall recognize beneficial ownership of the entity or transferee provided that the deposit account records show the following:

    (1) details or information establishing the right and capacity or the relationship of the entity with the individual/s; or

    (2) details or information establishing the validity or effectivity of the deposit transfer; or

    (3) copy of the board resolution, order of competent government body/agency, contract or similar document as required/provided by applicable laws.

(e) In the absence of any of the foregoing, PDIC shall deem the outstanding deposit as maintained for the benefit of the transferor although in the name of the transferee, subject to consolidation with the other deposits of the transferor.

(f) PDIC may require additional documents from the depositor to ascertain the details of the deposit transfer or the right and capacity of the transferee or his relationship to the transferor.

USE OF PROCEEDS

The net proceeds of the issue of the LTNCTDs, after deducting fees, commissions, and other related expenses will be utilized to diversify the Bank’s funding sources and support business expansion.

CAPITALIZATION OF THE BANK

The following table sets out the capitalization of the Bank and indebtedness of the Bank (i) as of 30 September 2016, and (ii) as adjusted for the aggregate principal amount of the Series 1 LTNCTDs being issued. The following selected financial information should be read together with other portions of this Offering Circular.

Capitalization of the Bank

(In ₱)	As of 30 September 2016 (Unaudited)	As of 30 September 2016 (Unaudited and Adjusted Including the LTNCTDs currently being issued)
Liabilities		
Deposit Liabilities		
Demand	14,416,599,675	14,416,599,675
Savings	26,148,736,641	26,148,736,641
Time	103,429,419,482	103,429,419,482
New Long Term Negotiable Certificates of Time Deposit due 2022*	-	3,375,000,000
	143,994,755,798	147,369,755,798
Bills Payable	6,852,559,701	6,852,559,701
Subordinated Notes	5,956,112,800	5,956,112,800
Treasurer's, Cashier's and Manager's Checks	1,567,942,315	1,567,942,315
Accrued Taxes, Interest and Other Expenses	1,130,101,410	1,130,101,410
Income Tax Payable	89,342,775	89,342,775
Financial Liabilities at Fair Value Through Profit or Loss	174,189,662	174,189,662
Other Liabilities	3,391,323,125	3,391,323,125
Total Liabilities	163,156,327,586	166,531,327,586
Equity		
Common Stock	2,402,524,910	2,402,524,910
Capital Paid in Excess of Par Value	2,818,083,506	2,818,083,506
Surplus Reserves	1,035,275,317	1,035,275,317
Surplus	14,760,137,187	14,760,137,187
Net Unrealized Gain on Available-for-Sale Investments	142,449,680	142,449,680
Remeasurement Losses on Retirement Plan	(471,371,011)	(471,371,011)
Equity in Remeasurement Gains on Retirement Plan of a Joint Venture	67,642	67,642
Cumulative Translation Adjustment	(16,844,638)	(16,844,638)
Total Equity	20,670,322,593	20,670,322,593
Total capitalization and indebtedness	**183,826,650,179**	**187,201,650,179**

** gross principal amount of the Series 1 LTNCTD issuance. This does not yet consider related transaction costs of the issuance.*

TERMS AND CONDITIONS OF THE SERIES 1 LTNCTDS

The following do not purport to be a complete listing of all the rights, obligations, and privileges of the LTNCTDs. Some rights, obligations, or privileges may be further limited or restricted by other documents. Prospective investors are encouraged to carefully review the Agreements, other information in this Offering Circular, and all amendments thereto.

1 DEFINITIONS	In these Terms and Conditions and the Contracts (as hereinafter defined):
"ADVERSE EFFECT"	means any material and adverse effect on: (a) the ability of the Bank to duly perform and observe its obligations and duties under the LTNCTDs and the Contracts; (b) the condition (financial or otherwise), prospects, results of operations or general affairs of the Bank or the Group; or (c) the legality, validity and enforceability of the Contracts;
"ANTI-MONEY LAUNDERING LAWS OF THE PHILIPPINES"	means Republic Act No. 9160, Republic Act No. 9194 and Republic Act No. 10365 and BSP Circular Nos. 251, 253 279, 527, 564, 608 and 612, and all other amendatory and implementing law, regulation, jurisprudence, notice or order of any Philippine governmental body relating thereto;
"ARRANGER"	means ING Bank N.V., Manila Branch ("ING");
"AUDITORS"	means SyCip, Gorres,Velayo & Company;
"BANK"	means Philippine Savings Bank, the issuer of the LTNCTDs;
"BENCHMARK RATE"	means 5YR PDST-R2;
"BIR"	means the Philippine Bureau of Internal Revenue;
"BSP"	means the Bangko Sentral ng Pilipinas;
"BSP RULES"	means General Banking Law of 2000 (Republic Act No. 8791), BSP Circular No. 304 (Series of 2001), BSP Circular No. 778 (Series of 2012), BSP Circular No. 810 (Series of 2013), BSP Circular No. 824 (Series of 2014), BSP Circular No. 834 (Series of 2014), BSP Circular No. 877 (Series of 2015), Section X233.9 of the Manual of Regulations for Banks ("MORB") and other related circulars and issuances of the BSP, as may be amended from time to time;
"BUSINESS DAY"	means any day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets in Manila and Makati City are required or authorized to be open for business. All other days not otherwise specified in these Terms and Conditions shall mean calendar days;
"CASH SETTLEMENT ACCOUNT"	means an account designated by a CD Holder with a Cash Settlement Bank into which shall be credited the interests, principal and other payments on the LTNCTDs;
"CASH SETTLEMENT BANK"	means a bank licensed and authorized under the laws of the Philippines and designated by a CD Holder as the bank with which such CD Holder's Cash Settlement Account is maintained, such designation to be made in accordance with the procedures of the Paying Agent;

"CD HOLDER(S)"	means a person who, at any relevant time, appears in the Registry as the registered owner of the LTNCTDs;
"CLOSED PERIOD"	shall have the meaning set forth in Condition 18;
"CONTRACTS"	means: (a) the Issue Management and Placement Agreement in the agreed form dated on or about January 9, 2017 between the Bank, the Arranger and the Selling Agents; (b) the Registry and Paying Agency Agreement in the agreed form dated on or about January 9, 2017 between the Bank and the Registrar and Paying Agent; (c) the PSBank Master CD; (d) these Terms and Conditions; and (e) such other separate letters or agreements covering conditions precedent, fees, expenses and other obligations of the parties, including amendments or accessions thereto;
"EVENT OF DEFAULT"	means an event specified as such under Condition 22 hereof;
"GROUP"	means the Bank, its subsidiaries, affiliates and entities controlled by the Bank, taken as a whole, and each of them being a member of the Group;
"INSOLVENCY DEFAULT"	means the acts of bankruptcy referred to under subparagraph (h) of Condition 22, including but not limited to the following: (a) filing of a petition in any bankruptcy, reorganization, winding-up, suspension of payment, liquidation, or other analogous proceeding; (b) appointment of a trustee or receiver of all or a substantial portion of the Bank's properties; (c) making of an assignment for the benefit of the Bank's creditors of all or substantially all of its properties; (d) admission in writing of the Bank's inability to pay its debts; or (e) entry of any order or judgment of any court, tribunal, or administrative agency or body confirming the insolvency of the Bank, or approving any reorganization, winding-up, liquidation, or appointment of trustee or receiver of the Bank or a substantial portion of its properties or assets;
"INTEREST"	means, in respect of a series of LTNCTDs, for any Interest Period, the interest payable on the LTNCTDs at such rate set out in these Terms and Conditions;
"INTEREST PAYMENT DATE"	means, in respect of a series of LTNCTDs, the last day of an Interest Period when payment for Interest in respect of the LTNCTDs for such series becomes due, as set out in these Terms and Conditions; Provided, that if any Interest Payment Date would otherwise fall on a day which is not a Business Day, the Interest Payment Date shall be deemed the next succeeding Business Day; Provided, further, that if such succeeding Business Day falls into the next calendar month, the Interest Payment Date shall be the immediately preceding Business Day, in either case, without adjustment to the amount of interest to be paid. For the avoidance of doubt, each Interest Payment Date shall be specified in the relevant PSBank Master CD;
"INTEREST PERIOD"	means, in respect of a series of LTNCTDs, the period commencing on the relevant Issue Date and having a duration of three (3) months and, thereafter, each successive three (3) -month period commencing on the last day of the immediately preceding Interest Period up to, but excluding the first (1^{st}) day of the immediately succeeding Interest Period. Each Interest Period for the LTNCTDs shall end on the numerically corresponding day of each third (3rd) month after the Issue Date or the immediately preceding Interest Period, except in the case of the last Interest Period, where the Interest Period will be the period from and including the last day of the immediately preceding Interest Period

up to, but excluding, the relevant Maturity Date;

"INTEREST RATE" means a rate equal to 3.5% per annum;

"ISSUE DATE" means each date when a series or tranche of the LTNCTDs is issued by the Issuer to CD Holders, as the Issuer may determine, which shall be such number of Banking Day following the end of a relevant Offer Period as may be determined by the Bank, or such other date as the Issuer and the Arranger may agree in writing; Provided, that the Issue Dates for each tranche or series subsequent to the first tranche must be no later than one (1) year from December 16, 2016, being the date of BSP Approval, pursuant to, and in accordance with the provisions of the BSP Rules;

"ISSUE PRICE" means one hundred percent 100% of the nominal principal amount of each PSBank CD;

"LTNCTDS" means long-term negotiable certificates of time deposit in the amount of up to a maximum of ₱10,000,000,000.00 to be issued by the Bank in one or more tranches under these Terms and Conditions and pursuant to the authority granted by the BSP to the Bank on December 16, 2016 and the BSP Rules, represented by a PSBank Master CD;

"MATURITY DATE" means five years and three months (5.25) years from the Issue Date at which date the LTNCTDs will be redeemed at their Maturity Value; *Provided,* that, if such date is declared to be a non-Business Day, the Maturity Date shall be the next succeeding Business Day;

"MATURITY VALUE" means the Issue Price plus unpaid and accrued applicable interests up to but excluding the Maturity Date;

"OFFER PERIOD" means the period when a series or tranche of the LTNCTDs shall be offered for sale by the Bank to the public, through the Bank's branches and the Selling Agents to prospective CD Holders, commencing at 10:00 a.m. and ending at 5:00 p.m., or on such other times and on such days or dates as may be determined by the Bank and the Arranger;

"OFFERING CIRCULAR" means the relevant Offering Circular (including, for the avoidance of doubt, the consolidated financial statements of the Bank included therein) in preliminary and final forms in respect of the LTNCTDs (the final form being dated as of the Issue Date), and all amendments, supplements and addenda thereto, including the supplemental offering circular(s) for the issuance of subsequent tranche(s) of the LTNCTDs in preliminary and final form;

"PAYMENT DATE" means each date on which payment for interest and/or principal in respect of the LTNCTDs become due. The date on which a payment in respect of the LTNCTDs becomes due means the first date on which the CD Holders could claim the relevant interest or principal payment;

"PDEx" means the Philippine Dealing & Exchange Corp., a domestic corporation duly registered with the SEC to operate an exchange and trading market for fixed income securities and a member of the PDS Group;

"PDEx RULES" means the PDEx Rules for the Fixed Income Securities Market, as amended, and as the same may be revised from time to time, as well as other related rules, guidelines, and procedures that may be issued by PDEx;

"PDIC" means Philippine Deposit Insurance Corporation;

"PLACEMENT AGREEMENT"	means the Issue Arrangement and Placement Agreement in the agreed form dated on or about January 9, 2017 among the Bank, the Arranger and Selling Agents, as may be amended or supplemented from time to time;
"PRE-TERMINATION AMOUNT"	means the face value of a relevant series of the LTNCTDs, subject of a Pre-termination Option, plus accrued interest covering the accrued and unpaid interest as of but excluding the Pre-termination Date in respect of such relevant series of the LTNCTDs;
"PRE-TERMINATION DATE"	means, in respect of a series of LTNCTDs, the Interest Payment Date on which the Bank may exercise its Pre-termination Option for such series pursuant to Condition 14 of these Terms and Conditions;
"PRE-TERMINATION OPTION"	means the option of the Bank to redeem a relevant series of the LTNCTDs as a whole, but not in part, on any Interest Payment Date on the basis of events specified in, and in accordance with, Condition 14 of these Terms and Conditions;
"PRICING DATE"	means any day within the relevant Offer Period and prior to the Issue Date, as may be determined by the Issuer in consultation with the Arranger;
"PROHIBITED CD HOLDER(S)"	means persons and entities which are prohibited from purchasing and/or holding any LTNCTDs of the Bank pursuant to BSP Rules, specifically: (1) the Bank; (2) the subsidiaries and affiliates of the Bank; (3) wholly or majority-owned or controlled entities of the subsidiaries and affiliates of the Bank; and (4) persons classified as U.S. Persons under the Foreign Account Tax Compliance Act of the United States, as this may be amended from time to time, which include: a U.S. citizen (including dual citizen); a U.S. resident alien for U.S. tax purposes; a US partnership; a U.S. corporation; any U.S. estate; any U.S. trust if: (a) a court within the United States is able to exercise primary supervision over the administration of the trust; (b) one or more U.S. persons have the authority to control all substantial decisions of the trust; any other person that is not a non-US person. A "**subsidiary**" means, at any particular time, a company which is then directly controlled, or more than fifty percent (50%) of whose issued voting equity share capital (or equivalent) is then beneficially owned, by the Bank and/or one or more of its subsidiaries or affiliates. An "**affiliate**" means, at any particular time, a company at least twenty percent (20%) but not more than fifty percent (50%) of whose issued voting equity share capital is then owned by the Bank. For a company to be "**controlled**" by another means that the other (whether directly or indirectly and whether by the ownership of share capital, the possession of voting power, contract or otherwise) has the power to appoint and/or remove all or the majority of the members of the board of directors or other governing body of that company or otherwise controls or has the power to control the affairs and policies of that company;
"PSBANK MASTER CD"	means the master form representing the LTNCTDs or a series of the LTNCTDs, as the case may be, setting forth the Terms and Conditions. For the avoidance of doubt, each LTNCTDs shall specify the series or tranche of LTNCTDs to which it pertains, as well as the relevant terms and conditions specific to such series or tranche;
"PSE"	means the Philippine Stock Exchange, Inc.;
"PURCHASE ADVICE"	means the written advice sent by the Selling Agents (in case of the primary issuance of the LTNCTDs) or, upon listing of the LTNCTDs in

		PDEx, a PDEx Trading Participant (in case of secondary transfers of the LTNCTDs) to a CD Holder confirming the acceptance of its offer to purchase LTNCTDs and consequent ownership thereof and stating the details, including the tax status, and summary terms and conditions, of the issue, sale or assignment of LTNCTDs to such CD Holder;
	"REGISTRAR" OR "PAYING "AGENT"	means Philippine Depository & Trust Corp. ("PDTC"), or the registrar and paying agent in respect of the LTNCTDs appointed from time to time under the Registry and Paying Agency Agreement or an agreement supplemental to it and in accordance with the BSP Rules;
	"REGISTRY"	means the electronic registry book of the Registrar containing the official information on the CD Holders and the amount of LTNCTDs they respectively hold, including all transfers or assignments thereof or any liens or encumbrances thereon;
	"REGISTRY CONFIRMATION"	means the written advice sent by the Registrar to the CD Holders, confirming the registration in the name of such CD Holder of the specified amount of LTNCTDs issued to or purchased by a CD Holder, in the Registry, and setting forth the declarations required by the BSP;
	"SEC"	means the Philippine Securities and Exchange Commission and its successor agency/ies;
	"SELLING AGENTS"	means; PSBank, ING, First Metro Investment Corporation and Metropolitan Bank & Trust Company, and includes their respective successor entities, or the selling agent(s) in respect of the LTNCTDs appointed from time to time under the Issue Arrangement and Placement Agreement or an agreement supplemental to it;
	"TAX EXEMPT / TREATY DOCUMENTS"	shall have the meaning set forth in Condition 26; and
	"TERMS AND CONDITIONS"	mean these Terms and Conditions of the LTNCTDs as may be amended from time to time.
2	**PURPOSE OF ISSUANCE**	The issue will be used to diversify the maturity profile of funding sources and to support business expansion plans.
3	**FORM**	The LTNCTDs shall be scripless and, subject to the payment of fees to the Registrar, registered and lodged with the Registrar in the name of the CD Holders. Once lodged, the LTNCTDs shall be eligible for electronic transfer in the Registry, without the issuance or cancellation of certificates. The LTNCTDs shall comply with the provisions of Republic Act No. 8792 or the Electronic Commerce Act, particularly, on the existence of an assurance on the integrity, reliability and authenticity of the LTNCTDs in electronic form.
4	**DENOMINATION**	The LTNCTDs will be in minimum denominations of Fifty Thousand Pesos (₱50,000) and in integral multiples of Fifty Thousand Pesos (₱50,000) thereafter. The LTNCTDs will be traded in a minimum board lot size of ₱50,000 and in multiples of ₱50,000 in excess thereof for as long as any of the LTNCTDs are listed on PDEx. Secondary market trading in PDEx shall follow the applicable PDEx rules, conventions, and guidelines governing trading and settlement between CD holders of different tax status and shall be subject to the relevant fees of PDEx and PDTC.
5	**TITLE**	Legal title to the LTNCTDs shall be evidenced by the Registry, which

shall be the official registry and best evidence of ownership and all other information regarding ownership of the LTNCTDs. Following receipt from the Selling Agents of a Purchase Advice evidencing the purchase of LTNCTDs by the CD Holders, a Registry Confirmation will be issued by the Registrar in favor of the said CD Holders to evidence the registration of such LTNCTDs in their names in the Registry; Provided, however, that upon the listing of the LTNCTDs with the PDEx, the registration of the LTNCTDs shall, in addition to the Registry Rules, be subject to the PDEx Rules and fixed income trading conventions .

6 SEC REGISTRATION

The LTNCTDs have not been and will not be registered with the SEC. Since the LTNCTDs qualify as exempt securities under Section 9.1 (e) of the Philippine Securities Regulation Code, the LTNCTDs may be sold and offered for sale or distribution in the Philippines without registration.

7 LISTING

The LTNCTDs are intended to be listed by the Bank in the PDEx on Issue Date.

8 ELIGIBLE CD HOLDERS

In general, the LTNCTDs may be issued or transferred to any person of legal age, regardless of nationality or residency, any corporation, association, partnership, trust account, fund or entity, regardless of place of incorporation or domicile, except, in each case, to Prohibited CD Holders.

9 QUALIFICATION DETERMINATION

Each Selling Agent (in the case of initial issuances of the LTNCTDs for each tranche) and a PDEx Trading Participant (in the case of transfers or assignments of the LTNCTDs) shall verify the identity and relevant details of each proposed CD Holder and ascertain that said proposed CD Holder is an Eligible CD Holder and is not a Prohibited CD Holder.

Each Trading Participant shall verify the respective aggregate amounts of the LTNCTDs held by the transferor and the transferee to determine compliance with the required minimum denomination through the Registry Confirmations to be provided by each of the transferor and the transferee.

Proposed CD Holders shall be required to submit any and all information reasonably required by the Selling Agents or PDEx Trading Participants in order for the said Selling Agents or PDEx Trading Participants, as the case may be, to be able to determine that such proposed CD Holder is an Eligible CD Holder and is not a Prohibited CD Holder. Any question on such determination shall be referred to the Bank.

10 INTEREST ACCRUAL AND PAYMENT

The LTNCTDs will bear interest on its principal from and including the Issue Date up to but excluding: (a) the Maturity Date (if the Pre-termination Option is not exercised); or (b) the Pre-termination Date (if the Pre-termination Option is exercised).

Interest shall be payable on each Interest Payment Date. The amount of interest payable in respect of the LTNCTDs for each Interest Period shall be calculated by the Paying Agent on a 30/360-day year basis.

The determination by the Paying Agent of the amount of interest payable (in the absence of manifest error) is final and binding upon all parties.

11 PAYMENT

The Paying Agent shall pay, or cause to be paid on behalf of the Bank, on or before 12:00 p.m. on each relevant Payment Date the amounts due in respect of the LTNCTDs through a direct credit of the proper amounts, net of taxes and fees (if any) to the Cash Settlement Banks of the CD Holders, for onward remittance to the Cash Settlement Accounts of the CD Holders with the Cash Settlement Banks.

12 PRINCIPAL REPAYMENT

Unless the LTNCTDs are pre-terminated by the Bank on Pre-termination Date (*See Condition 13*), the LTNCTDs shall be redeemed at their Maturity Value on Maturity Date. If the Maturity Date falls on a date that is not a Business Day, the Maturity Date shall fall on the immediately succeeding Business Day, without adjustment to interest payable in respect of the LTNCTDs.

13 PRE-TERMINATION BY THE CD HOLDER

Presentation of the LTNCTDs to the Bank for termination or redemption before the Maturity Date is not allowed, unless there occurs an event under "Events of Default" in these Terms and Conditions. CD Holders may, however, transfer or assign their LTNCTDs to another holder who is not a Prohibited CD Holder. Negotiations/transfers from one CD Holder do not constitute pre-termination. For tax purposes, negotiations/transfers from one CD Holder to another shall be subject to the pertinent provisions of the National Internal Revenue Code of 1997, as amended, and Bureau of Internal Revenue Regulations.

14 PRE-TERMINATION BY THE BANK

Subject to BSP Rules, the Bank shall have the option (but not the obligation) to pre-terminate the LTNCTDs as a whole, but not in part, prior to the Maturity Date and on any Interest Payment Date at the Pre-termination Amount, for any cause as may be allowed under the BSP Rules, including, without limitation if or when: (i) there shall occur at any time during the term of the LTNCTDs any change in any applicable law, rule or regulation or in the terms and/or interpretation or administration thereof or a new applicable law should be enacted, issued or promulgated which shall result in payments by the Bank becoming subject to additional or increased taxes, other than the taxes and rates of such taxes prevailing on the Issue Date, and such additional or increased rate of such tax cannot be avoided by use of reasonable measures available to the Bank; or (ii) at any time during the term of the LTNCTDs, long term negotiable certificates of deposit issuances become subject to additional or increased reserves required by the BSP, other than the seven percent (7%) statutory regular reserves required in BSP Circular No.832, Series of 2014.

The Bank may pre-terminate all and not only part of the LTNCTDs as permitted under this Condition 14 on any Interest Payment Date prior to the Maturity Date provided that: (1) a 30-day prior notification is given to the appropriate department of the Supervisory and Examination Sector of the BSP and PDEx, together with the justification for the pre-termination; (2) a 30-day prior notification is given to the CD Holders; (3) the Bank shall shoulder the tax due on the interest income already earned by the CD Holders; and (4) the Bank's reserve positions shall be recomputed retroactively based on the applicable reserve rate(s) for regular time deposits during the affected periods.

Any incremental tax that may be due on the interest income already earned under the LTNCTDs prior to or as a result of the exercise by the Bank of its Pre-termination Option shall be for the account of the Bank. In addition, the Bank shall re-compute its reserve positions retroactively based on the applicable reserve rate(s) for regular time deposits during the period between the Issue Date and the Pre-termination Date.

15 SECONDARY TRADING

The LTNCTDs are freely transferable across tax categories, if and when so allowed under PDEx rules, conventions, and guidelines.

All transfers or assignments of the LTNCTDs shall be coursed through a PDEx Trading Participant, subject to the PDEx Rules.

As a condition precedent for any transfer or assignment of the LTNCTDs, the transferee CD Holder must present to the Registrar, and in such forms as prescribed by the Registrar: (i) the Purchase Advice; (ii) the Registry Confirmations of both the transferor and the transferee (if any); (iii) the Trade-Related Transfer Form or Non-Trade Related Transfer Form; (iv) the Investor Registration Form; (v) Tax Exempt/Treaty Documents, if applicable; (vi) written consent of the transferee CD Holder to be bound by the terms of the LTNCTDs and the Registry Rules, in the form agreed upon between the Bank and the Registrar; and (vii) such other documents as may be reasonably required by the Registrar.

A service charge shall be imposed for any registration of transfer or assignment of the LTNCTDs, and the Registrar may require payment of a sum sufficient to cover any tax or governmental charge that may be imposed in connection with any transfer or assignment of the LTNCTDs, each for the account of the CD Holder requesting the registration of transfer or assignment of the LTNCTDs.

Subject to Condition 18, payment by the relevant CD Holder of the proper fees, if any, to PDEx and/or the Registrar, a transfer or assignment of LTNCTDs may generally be done at any time.

In case of a transfer or assignment deemed by the Bank as a pre-termination, solely for withholding tax purposes, the transferor CD Holder shall be liable for the resulting tax due on the entire interest income earned on the LTNCTDs (if any), based on the holding period of such LTNCTDs by the transferor CD Holder and the amount equal to the final withholding tax, if any, will be deducted from the purchase price due to it. Thereafter, the interest income of a transferee CD Holder who is an individual shall not be treated as income from long-term deposit or investment certificates, unless the LTNCTDs has a remaining maturity of at least five (5) years.

“Transfers or assignments deemed by the Bank as pre-termination for withholding tax purposes” means any transfer or assignment which: (a) is made by a CD Holder who is a citizen, resident individual, non-resident individual engaged in trade or business in the Philippines, or a trust (subject to certain conditions); (b) under the BSP Rules, is not considered a pre-termination of the LTNCTDs; and (c) under relevant tax laws or revenue regulations, will result in the interest income on the LTNCTDs being subject to the graduated tax rates imposed on long-term deposit or investment certificates on the basis of the holding period of the investment instrument.

16 TRANSFERABILITY

All transfers and assignment of, as well as change in title to, the LTNCTDs shall be recorded in the Registry. Settlement in respect of such transfer and assignment of, or change of title to, the LTNCTDs, including settlement of applicable taxes, if any, arising from such transfers, assignments or change in title, shall be for the account of the transferee and/or transferor CD Holder.

Transfers or assignments of the LTNCTDs made in violation of the restrictions on transfer under these Terms and Conditions shall be null and void and shall not be registered by the Registrar.

17 PLACE OF REGISTRY AND COMPLIANCE WITH REGISTRY RULES

The Registry shall be kept at the specified office of the Registrar.

The registry rules of the Registrar (a copy of which shall be separately provided by the Registrar to the Bank and the CD Holders) shall be observed and complied with in the implementation of the functions of the Registrar, including, without limit, transfers of the LTNCTDs.

18 CLOSING OF REGISTRY

The Registrar shall not register any transfer or assignment of the LTNCTDs for a period of two (2) Business Days preceding the due date for any payment of interest on the LTNCTDs, or during the period of two (2) Business Days preceding the due date for the payment of the principal amount of the LTNCTDs ("**Closed Period**"), or register the transfer or assignment of any LTNCTDs previously called for redemption or pre-termination. The Registrar will treat the person in whose name the LTNCTDs is registered immediately before the relevant closed period as the owner of such LTNCTDs for the purpose of receiving distributions pursuant to these Terms and Conditions and for all other purposes whatsoever, and the Registrar shall not be affected by any notice to the contrary.

19 STATUS AND PDIC INSURANCE

The LTNCTDs constitute direct, unconditional, unsecured, and unsubordinated Peso-denominated obligations of the Bank, enforceable in accordance with these Terms and Conditions. Claims of all the CD Holders in respect of the LTNCTDs will at all times rank *pari passu* without any preference among themselves. The LTNCTDs shall be at least *pari passu* with all other present and future unsecured and unsubordinated Peso-denominated obligations of the Bank that by their terms rank equal with the LTNCTDs, except obligations mandatorily preferred by law.

The LTNCTDs are insured with the Philippine Deposit Insurance Corporation ("PDIC") for up to the maximum insurance coverage set out in, and subject to PDIC's applicable rules and regulations, as may be amended from time to time, including, without limit, the following:

(g) Deposits are insured by the PDIC up to a maximum amount of Five Hundred Thousand Pesos (₱500,000.00) per depositor.
(h) PDIC shall presume that the name/s appearing on the deposit instrument is/are the actual/beneficial owner/s of the deposit, except as provided therein.
(i) In case of transfers or break-up of deposits, PDIC shall recognize actual/beneficial ownership of transferees who are qualified relatives of the transferor. Qualified relatives are transferees within the third degree of consanguinity or affinity of the transferor.
(j) In case of: (i) deposits in the name of, or transfers or break-up of deposits in favor of, entities, either singly or jointly with individuals; and (ii) transfers or break-up of deposits in favor of non-qualified relatives, whenever such transfers/ break up will result in increased deposit insurance coverage, PDIC shall recognize beneficial ownership of the entity or transferee provided that the deposit account records show the following:
    (1) details or information establishing the right and capacity or the relationship of the entity with the individual/s; or
    (2) details or information establishing the validity or effectivity of the deposit transfer; or
    (3) copy of the Board Resolution, order of competent government body/agency, contract or similar document as required/provided by applicable laws.
(k) In the absence of any of the foregoing, PDIC shall deem the outstanding deposit as maintained for the benefit of the transferor although in the name of the transferee, subject to consolidation with the other deposits of the transferor.

PDIC may require additional documents from the depositor to ascertain the details of the deposit transfer or the right and capacity of the transferee or his relationship to the transferor.

20 REPRESENTATIONS AND WARRANTIES

The Bank hereby represents and warrants to the CD Holders, as follows:

(a) each of the members of the Group is duly incorporated, validly existing and in good standing under the laws of its place of incorporation with full power and authority to conduct its business and is lawfully qualified to do business in those jurisdictions in which business is conducted by it;

(b) except as otherwise disclosed in the Offering Circular, each of the members of the Group has legal title to all its property in each case free and clear of all liens, encumbrances and defects; and any real property and buildings held under lease by the Group are held by them under valid, subsisting and enforceable leases, except where such a failure would not result in an Adverse Effect;

(c) the Bank has the corporate power under the laws of the Republic of the Philippines and its constitutive documents: (i) to issue the LTNCTDs and to enter into and perform its obligations under and to take all other actions and to do all other things provided for or contemplated in the Contracts and these Terms and Conditions; (ii) to conduct its business as presently being conducted and to own its properties and assets now owned by it as well as those to be hereafter acquired by it for the purpose of its business; and (iii) to incur the indebtedness and other obligations provided for in the LTNCTDs;

(d) the Bank (and, if applicable, any person on whose behalf it may act as agent or in a representative capacity) has and will continue to have full capacity and authority to enter into the Contracts and to carry out the transactions contemplated in the Contracts and has taken and will continue to take all action (including the obtaining of all necessary corporate approvals and governmental consents) to authorize the execution, delivery and performance of the Contracts;

(e) the Contracts have been duly authorised, executed and delivered by the Bank and constitute valid and legally binding obligations of the Bank;

(f) the LTNCTDs have been duly authorised by the Bank and, when duly executed, authenticated, issued and delivered in accordance with the Registry and Paying Agency Agreement, will constitute valid and legally binding obligations of the Bank, enforceable in accordance with its terms;

(g) the LTNCTDs constitute the direct, unconditional, unsecured and unsubordinated Peso-denominated obligations of the Bank, enforceable in accordance with these Terms and Conditions, and will at all times rank *pari passu* and ratably without any preference among themselves and at least *pari passu* with all other direct, unconditional, unsecured and unsubordinated Peso-denominated obligations of the Bank, present and future, other than obligations mandatorily preferred by law;

(h) all necessary actions and things required to be taken, fulfilled or done (including without limitation the obtaining of any consent, authorisation, order or license or the making of any filing or registration) for the issue of the LTNCTDs, the carrying out of the other transactions contemplated by the LTNCTDs and the Contracts or the compliance by the Bank with the terms of the LTNCTDs and the Contracts, as the case may be, have been taken, fulfilled or done;

(i) the Bank has obtained the approval of the BSP to issue the LTNCTDs, which approval has not been revoked, qualified, or restricted, and shall fully, timely, and unconditionally comply with all other terms and conditions imposed by the BSP regarding the issuance of the LTNCTDs while any portion of the LTNCTDs remain outstanding;

(j) the Bank has complied with all qualifications and conditions of the BSP Rules to issue, maintain, service, pay out, redeem, and cancel the LTNCTDs, including the prohibitions of Section X233.9 (h) of the Manual of Regulations for Banks, which qualifications and conditions continue to be complied with;

(k) the execution and delivery of the Contracts, the issue of the LTNCTDs, the carrying out of the other transactions contemplated by the Contracts and these Terms and Conditions and compliance with their terms do not and will not: (i) conflict with or result in a breach of any of the terms or provisions of, or constitute a default under, the documents constituting the Bank, or any indenture, trust deed, mortgage or other agreement or instrument to which the Bank or any of the Bank's subsidiaries is a party or by which it or any of its properties is bound; or (ii) infringe any existing applicable law, rule, regulation, judgment, order or decree of any government, governmental body or court, domestic or foreign, having jurisdiction over the Bank, any such subsidiary or any of their properties;

(l) the Offering Circular contains all information with respect to the Group and to the LTNCTDs which is material in the context of the issue and offering of the LTNCTDs (including, without limitation, all information required by the applicable laws and regulations of the Philippines and the information which, according to the particular nature of the Bank and of the LTNCTDs, is necessary to enable potential CD Holders and their investment advisers to make an informed assessment of the assets and liabilities, financial position, profits and losses, and prospects of the Bank and of the rights attaching to the LTNCTDs); (ii) the statements contained in the Offering Circular relating to the Bank and the Group are in every material respect true, accurate and not misleading; (iii) the opinions and intentions expressed in the Offering Circular with regard to the Bank and the Group are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; (iv) there are no other facts in relation to the Group or the LTNCTDs the omission of which would, in the context of the issue and offering of the LTNCTDs, make any statement in the Offering Circular misleading in any material respect; and (v) all reasonable inquiries have been made by the Bank to ascertain such facts and to verify the accuracy of all such information and statements;

(m) the Offering Circular accurately describes: (i) accounting policies which the Bank believes to be the most important in the portrayal of the Group's financial condition and results of operations (the "**Critical Accounting Policies**"); (ii) material judgments and uncertainties affecting the application of the Critical Accounting Policies; and (iii) an explanation of the likelihood that materially different amounts would be reported under different conditions or using different assumptions, and the Board of Directors and audit committee of the Bank have reviewed and agreed with the selection and disclosure of the Critical Accounting Policies in the Offering Circular and have consulted with their independent accountants with regards to such disclosure;

(n) each member of the Group maintains systems of internal accounting controls sufficient to provide reasonable assurance that: (i) transactions are executed in accordance with management's general or specific authorizations; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with financial reporting standards in the Philippines for banks and to maintain asset accountability; (iii) access to assets is permitted only in accordance with management's general or specific authorization; (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences; and (v) each member of the Group has made and kept books, records and accounts which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets of such entity and provide a sufficient basis for the preparation of the Bank's consolidated financial statements in accordance with financial reporting standards in the Philippines for banks; and the Bank's current management information and accounting control system has been in operation for at least twelve (12) months during which none of the Bank nor any other member of the Group has experienced any material difficulties with regard to (i) through (v) above;

(o) there are no outstanding guarantees or contingent payment obligations of the Bank in respect of indebtedness of third parties except as described in the Offering Circular; the Bank is in compliance with all of its obligations under any outstanding guarantees or contingent payment obligations as described in the Offering Circular;

(p) the Offering Circular accurately and fully describes: (i) all material trends, demands, commitments, events, uncertainties and risks, and the potential effects thereof, that the Bank believes would materially affect liquidity and are reasonably likely to occur; and (ii) all material off-balance sheet transactions, arrangements, and obligations; and neither the Bank nor any other member of the Group has any material relationships with unconsolidated entities that are contractually limited to narrow activities that facilitate the transfer of or access to assets by the Bank or any other member of the Group, such as structured finance entities and special purpose entities that are reasonably likely to have a material effect on the liquidity of the Bank or any other member of the Group or the availability thereof or the requirements of the Bank or any other member of the Group for capital resources;

(q) all information provided by the Bank to its Auditors required for the purposes of their comfort letters in connection with the offering and sale of the LTNCTDs has been supplied, or as the case may be, will be supplied, in good faith and after due and careful enquiry; such information was when supplied and remains (to the extent not subsequently updated by further information supplied to such persons prior to the date hereof), or as the case may be, will be when supplied, true and accurate in all material respects and no further information has been withheld the absence of which might reasonably have affected the contents of any of such letters in any material respect;

(r) the Auditors are independent public accountants with respect to the Group, as required by the Philippine Institute of Certified Public Accountants and the applicable rules and regulations thereof;

(s) save as disclosed in the Offering Circular, all transactions by the Bank with its directors, officers, management, shareholders, or any other person, including persons formerly holding such positions, are on terms that are available from other parties on an arm's-length basis;

(t) each of the Bank and the other members of the Group: (i) has all licenses, franchises, permits, authorizations, approvals, registrations and orders and other concessions that are necessary to own or lease its other properties and conduct its businesses as described in the Offering Circular; (ii) is conducting its business and operations in compliance with all applicable laws and regulations in each of the jurisdictions in which it conducts business and operations, including, without limitation, all regulations, guidelines and circulars of the BSP, the SEC, the PSE and the BIR; (iii) has complied with, corrected and successfully and effectively implemented, to the satisfaction of the BSP, all findings and recommendations of the BSP resulting from all past audits and examinations conducted by the BSP on the Bank; and (iv) is otherwise in compliance with all agreements and other instruments to which it is a party, except where any failure to be in compliance with any of which would not qualify as, or result in, an Adverse Effect;

(u) except as specifically described in the Offering Circular, the Bank and the other members of the Group own or possess (or can acquire on reasonable terms), all patents, licenses, inventions, copyrights, know-how, trademarks, service marks, trade names or other intellectual property (collectively, "**Intellectual Property**") necessary to carry on the business now operated by them; and neither the Bank nor any other member of the Group has received notice or is otherwise aware of any infringement of or conflict with asserted rights of others with respect to any Intellectual Property or of any facts or circumstances which would render any Intellectual Property invalid or inadequate to protect the interests of the Bank or other members of the Group therein; and which infringement or conflict (if the subject of any unfavorable decision, ruling or finding) or invalidity or inadequacy, singly or in the aggregate, would reasonably be expected to result in an Adverse Effect;

(v) except as specifically described in the Offering Circular, there are no pending actions, suits or proceedings against or affecting the Bank or any other member of the Group or any of their properties which, if determined adversely would individually or in the aggregate have an Adverse Effect, or affect the ability of the Bank to perform its obligations under the Contracts or the LTNCTDs, or which are otherwise material in the context of the issue of the LTNCTDs and, to the best of the Bank's knowledge, no such actions, suits or proceedings are threatened or contemplated;

(w) no event has occurred or circumstance arisen which (whether or not with the giving of notice and/or the passage of time and/or the fulfillment of any other requirement) constitutes an event described under "Events of Default" hereunder;

(x) The Bank and the other members of the Group are in compliance with the Anti-Money Laundering Laws of the Philippines in all material respects. The financial transactions and operations of the Bank and its subsidiaries are and have been conducted at all times in compliance with applicable financial record keeping and reporting requirements and anti-money laundering laws, rules, regulations or guidelines applicable to the Bank and its subsidiaries (collectively, the "**Anti-Money Laundering Laws**") and no action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving the Bank or any of its subsidiaries with respect to the Anti-Money Laundering Laws is pending or, to the best knowledge of the Bank and each of its subsidiaries, after due inquiry, threatened; and

(y) The Bank is Solvent. As used in this paragraph, the term "**Solvent**" means, with respect to a particular date, that on such date: (i) the present fair market value (or present fair saleable value) of the assets of the Bank is not less than the total amount required to pay the liabilities of the Bank on its total existing debts and liabilities (including contingent liabilities) as they become absolute and matured; (ii) the Bank is able to realize upon its assets and pay its debts and other liabilities, contingent obligations and commitments as they mature and become due in the normal course of business; (iii) the Bank is not incurring debts or liabilities beyond its ability to pay as such debts and liabilities mature; (iv) the Bank is not engaged in any business or transaction, and does not propose to engage in any business or transaction, for which its property would constitute unreasonably small capital after giving due consideration to the prevailing practice in the industry in which the Bank is engaged; (v) the Bank will be able to meet its obligations under all its outstanding indebtedness as they fall due; and (vi) the Bank is not a defendant in any civil action that would result in a judgment that the Bank is or would become unable to satisfy.

These representations and warranties are true and correct as of the Issue Date and shall be deemed repeated with reference to the facts and circumstances then existing on each Interest Payment Date.

21 COVENANTS

The Bank hereby covenants and agrees that during the term of the LTNCTDs and until payment in full and performance of all its obligations under the LTNCTDs, it shall act as follows and perform the following obligations:

(a) The Bank shall pay all amounts due under the LTNCTDs at the times and in the manner specified in, and perform all its obligations, undertakings, and covenants under the LTNCTDs;

(b) The Bank shall ensure that it will continue to have the legal and juridical personality to maintain the LTNCTDs until Maturity Date or full payment of the claims under the LTNCTDs, whichever is later, and accordingly, shall secure all necessary corporate and government approvals, and perform all necessary acts, for the renewal and extension of its corporate term, on or prior to the expiry thereof;

(c) It shall, as soon as practicable, make available copies of its audited financial statements, consisting of the balance sheet of the Bank as of the end of its latest fiscal year and statements of income and retained earnings and of the source and application of funds of the Bank for such fiscal year, such audited financial statements being prepared in accordance with generally accepted accounting principles and practices in the Philippines consistently applied and being certified by an independent certified public accountant of recognized standing in the Philippines; and shall, as soon as practicable, upon written request from a CD Holder, furnish to such requesting CD Holder such updates and information as may be reasonably requested by a CD Holder pertaining to the business, assets, condition, or operations of the Bank, or affecting the Bank's ability to duly perform and observe its obligations and duties under the LTNCTDs and the Contracts;

(d) It shall, when so requested in writing, provide any and all information reasonably needed by the Paying Agent and/or Registrar, as the case may be, to enable them to respectively comply with their respective responsibilities and duties under the BSP Rules, and the Contracts; *Provided,* that, in the event that the Bank cannot, for any reason, provide the required information, the Bank shall immediately advise the party requesting the same and shall perform such acts as may be necessary to provide for alternative information gathering;

(e) The Bank shall promptly advise the CD Holders through the Registrar and Paying Agent of: (i) any request by any government agency for any information related to the LTNCTDs; and (ii) the issuance by any governmental agency of any cease-and-desist order suspending the distribution or sale of the LTNCTDs or the initiation of any proceedings for any such purpose and shall use its best efforts to obtain at its sole expense the withdrawal of any order suspending the transactions with respect to the LTNCTDs at the earliest time possible;

(f) The Bank shall ensure that any documents related to the LTNCTDs will, at all times, comply in all material respects with the applicable laws, rules, regulations, and circulars, and, if necessary, make the appropriate revisions, supplements, and amendments to make them comply with such laws, rules, regulations, and circulars;

(g) The Bank shall upon written request of a CD Holder execute and deliver to such CD Holders such reports, documents, and other information relating to the business, properties, condition, or operations, financial or otherwise, of the Bank as a CD Holder may from time to time reasonably require;

(h) The Bank shall, as soon as possible and in any event within five (5) Business Days after the occurrence of any default on any of the obligations of the Bank, or other event which, with the giving of any notice and/or with the lapse of time, would constitute a default under the material agreements of the Bank with any party, including, without limitation the Contracts, serve a written notice to the CD Holders through the Registrar and Paying Agent, of the occurrence of any such default, specifying the details and the steps which the Bank is taking or proposes to take for the purpose of curing such default, including the Bank's estimate of the length of time to correct the same;

(i) It will duly and punctually comply with all reporting, filing and similar requirements imposed by the BSP, the SEC, PDEx and the PSE or in accordance with any applicable Philippine law and regulations from time to time relating to the LTNCTDs and the Contracts;

(j) The Bank shall maintain the services of the Auditors and in any event where the Auditors shall cease to be the external auditor of the Bank for any reason, the Bank shall appoint another reputable, responsible and internationally accredited external auditor;

(k) It shall fully and promptly comply with all BSP directives, orders, issuances, and letters, including those regarding its capital, licenses, risk management, and operations and promptly and satisfactorily take all corrective measures that may be required under BSP audit reports;

(l) It shall use the net proceeds from the LTNCTDs in accordance with the purpose of issuance provided in the Offering Circular; and

(m) It shall ensure that there shall at all times be a Registrar and Paying Agent for the purposes of the LTNCTDs, as provided in the Registry and Paying Agency Agreement.

These covenants of the Bank shall survive the issuance of the LTNCTDs and shall be performed fully and faithfully by the Bank at all times while the LTNCTDs or any portion thereof remain outstanding.

22 EVENTS OF DEFAULT

The Bank shall be considered in default under the LTNCTDs in case any of the following events shall occur:

(a) The Bank fails to pay any principal and/or interest due on the LTNCTDs, provided, that such non-payment shall not constitute an Event of Default if the Bank has confirmed the Payment Instruction Report (as defined in the Registry and Paying Agency Agreement) prepared by the Registrar and Paying Agent and there are sufficient funds standing in the Payment

Account (as defined in the Registry and Paying Agency Agreement) on a relevant payment date;

(b) Any representation and warranty of the Bank or any certificate or opinion submitted by the Bank in connection with the issuance of the LTNCTDs is untrue, incorrect, or misleading in any material respect;

(c) The Bank fails to perform or violates its covenants under these Terms and Conditions (other than the payment obligation under paragraph (a) above) or the Contracts, and such failure or violation is not remediable or, if remediable, continues to be unremedied for a period of fifteen (15) calendar days from notice to the Bank;

(d) The Bank violates any term or condition of any contract, bond, note, debenture, or similar security executed by the Bank with any other bank, financial institution, or other person, corporation, or entity in respect of borrowed moneys in an aggregate amount exceeding Five Hundred Million Pesos (₱500,000,000.00) or its equivalent or, in general, the Bank violates any contract, law, or regulation which: (i) if remediable, is not remedied by the Bank within ten (10) calendar days from such failure; (ii) results in the acceleration or declaration of the whole financial obligation to be due and payable prior to the stated normal date of maturity; or (iii) will adversely and materially affect the performance by the Bank of its obligations under the LTNCTDs and pay any amount outstanding on the LTNCTDs;

(e) Any governmental consent, license, approval, authorization, declaration, filing or registration which is granted or required in connection with the LTNCTDs expires or is terminated, revoked or modified and the result thereof is to make the Bank unable to discharge its obligations hereunder or thereunder;

(f) It becomes unlawful for the Bank to perform any of its material obligations under the LTNCTDs;

(g) The government or any competent authority takes any action to suspend the whole or the substantial portion of the operations of the Bank, or condemns, seizes, nationalizes or expropriates (with or without compensation) the Bank or any material portion of its properties or assets;

(h) The Bank becomes insolvent or is unable to pay its debts when due or commits or permits any act of bankruptcy, including: (i) filing of a petition in any bankruptcy, reorganization, winding-up, suspension of payment, liquidation, or other analogous proceeding; (ii) appointment of a trustee or receiver of all or a substantial portion of its properties; (iii) making of an assignment for the benefit of its creditors of all or substantially all of its properties; (iv) admission in writing of its inability to pay its debts; or (v) entry of any order or judgment of any court, tribunal, or administrative agency or body confirming the insolvency of the Bank, or approving any reorganization, winding-up, liquidation, or appointment of trustee or receiver of the Bank or a substantial portion of its property or assets (each, an "**Insolvency Default**");

(i) Any final and executory judgment, decree, or arbitral award for the sum of money, damages, fine, or penalty in excess of Five Hundred Million Pesos (₱500,000,000.00) or its equivalent in any other currency is entered against the Bank and the enforcement of which is not stayed, and is not paid, discharged, or duly bonded within thirty (30) calendar days after the date when payment of such judgment, decree, or award is due under the applicable law or agreement;

(j) Any writ, warrant of attachment or execution, or similar process shall be issued or levied against more than half of the Bank's assets, singly or in the aggregate, and such writ, warrant, execution or similar process shall not be released, vacated, or fully bonded within thirty (30) calendar days after its issue or levy; and

(k) The Bank voluntarily suspends or ceases operations of a substantial portion of its business for a continuous period of thirty (30) calendar days, except in the case of strikes or lockouts when necessary to prevent business losses, or when due to fortuitous events or *force majeure*, and, provided that, in any such event, there is no Adverse Effect.

23 EFFECTS OF DEFAULT

If any one or more of the Events of Default (other than an Insolvency Default, the effects of which are set forth in Condition 24 hereof) shall have occurred and be continuing after any applicable cure period shall have lapsed, any CD Holder by written notice to the Bank and the Registrar and the Paying Agent stating the Event of Default relied upon, may declare the Bank in default in respect of the LTNCTDs held by such CD Holder and require the principal amount of the LTNCTDs held by such CD Holder, and all accrued interests (including any default interest) and other charges due thereon, to be immediately due and payable, and forthwith collect said outstanding principal, accrued interests (including any default interest) and other charges, without prejudice to any other remedies which such CD Holder or the other holders of the LTNCTDs may be entitled.

In case of an Event of Default under Condition 22 (a), the Bank shall, in addition to the payment of the unpaid amount of principal and accrued interest, pay default interest at the rate of one percent (1%) per month thereon, which shall accrue from the date the amounts payable under these Terms and Conditions became due until the same is fully paid.

Any money delivered to the Paying Agent by the Bank pursuant to an Event of Default shall be applied by the Paying Agent in the order of preference as follows: *first,* to the pro-rata payment to the Registrar and Paying Agent of the costs, expenses, fees, and other charges of collection incurred by it without negligence or bad faith; to the payment to the Registrar and Paying Agent of its fees, and other outstanding charges due to it; *second,* to the pro-rata payment of all outstanding interest owing to the CD Holders, including any default interest as specified in this Condition 23, in the order of maturity of such interest; and third, to the pro-rata payment of the whole amount then due and unpaid on the LTNCTDs for principal owing to the CD Holders.

The Registrar and Paying Agent shall promptly notify the Bank and the CD Holders of any notice received by it on the occurrence of any Event of Default as set forth in these Terms and Conditions according to a process agreed upon by the Registrar and Paying Agent and the Bank attached as Schedule 14 to the Registry and Paying Agency Agreement; *Provided,* that in case such notice (other than a notice of default pursuant to an Insolvency Default) is received by the Registrar and Paying Agent from a CD Holder, the Registrar and Paying Agent, prior to notifying the remaining CD Holders, shall first advise the Bank of such notice and provide the Bank with an opportunity to refute such claim to the satisfaction of the party alleging the Event of Default within three (3) Business Days from its receipt of the advice from the Registrar and Paying Agent, failing which the Registrar and Paying Agent shall immediately notify the remaining CD Holders; *Provided,* further, that in case such notice consists of a notice of default under this Condition 23, the Registrar and Paying Agent shall immediately, and in no case more than one (1) Business Day from its receipt of such notice, notify the remaining CD Holders.

24 REMEDY FOR NON-PAYMENT

The payment of principal on the LTNCTDs may be accelerated only in the event of insolvency of the Bank; provided that insolvency proceedings have been instituted in the appropriate court, which proceedings have not been dismissed within one hundred twenty (120) days from the institution thereof. Recovery of amounts owing in respect of the LTNCTDs against the Bank is available to any CD Holder only through the institution of proceedings for the insolvency of the Bank.

25 TAXATION

If payments of principal and/or interest in respect of the LTNCTDs shall be subject to deductions and withholding for or on account of any present or future taxes or duties imposed by or on behalf of the Republic of the Philippines, including but not limited to stamp, issue, registration, documentary, value-added or similar tax, or other taxes and duties, including interest and penalties thereon, then such taxes or duties shall be for the account of the CD Holder concerned, and if the Bank shall be required by law or regulation to deduct or withhold such taxes or duties, then the Bank shall make the necessary withholding or deduction for the account of the CD Holder concerned; Provided, however, that all sums payable by the Bank to tax-exempt persons shall be paid in full without deductions for taxes, duties, assessments, or government charges, subject to the submission by the relevant CD Holder claiming the exemption of reasonable and acceptable evidence of such exemption to the Registrar in accordance with Condition 25.

In case of transfers and assignments deemed by the Bank as a pre-termination for tax purposes, the transferor CD Holder shall be liable for the resulting tax due on the entire interest income earned on the LTNCTDs (if any), based on the holding period of such LTNCTDs.

The Bank acknowledges that it has read and understood the Bureau of Internal Revenue ("BIR") letter dated 10 March 2015 on the accreditation of the tax-tracking enhancement of the PDS Group's Corporate Action Auto-Claim ("CAAC") System, a copy of which is included in the Listing Information Kit duly furnished to the Bank. In accordance with the said BIR letter, it should be emphasized that PDS owns and maintains the CAAC system, and is not owned by the issuing bank, and neither does it form part of the latter's computerized accounting system. The Bank undertakes to abide by the terms of the said BIR letter, to the extent applicable to it and its Securities, and to the extent that the terms thereof affect the information processed by the CAAC system in relation to the Securities, and in accordance with BIR regulations.

Documentary stamp tax for the primary issue of the LTNCTDs and the documentation, if any, shall be for the Bank's account.

26 CLAIM OF TAX-EXEMPT STATUS

CD Holders claiming exemption from any applicable tax shall be required to submit documentary proof of its tax-exempt status ("**Tax Exempt/Treaty Documents**") to the Registrar (who shall forthwith provide copies to the Bank upon request) upon its purchase of the LTNCTDs (and on each anniversary thereafter), such as, but not limited to:

(a) A current and valid BIR-certified true copy of the tax exemption certificate, ruling or opinion issued by the BIR;

(b) A duly notarized declaration warranting its tax-exempt status or entitlement to reduced treaty rates and undertaking to immediately notify the Bank and the Registrar and Paying Agent of any suspension or revocation of its tax exemption or treaty privileges and agreeing to indemnify and hold the Bank and Registrar and Paying Agent free and harmless against any claims, actions, suits and liabilities arising from the non-withholding or reduced withholding of the required tax; and

(c) For corporations/banks/trust departments or units of banks holding common or individual trust funds or investment management accounts on behalf of qualified individual investors, a duly notarized declaration warranting its tax-exempt status and undertaking to immediately notify the Bank and the Registrar and Paying Agent of any suspension or revocation of its tax exemption and agreeing to indemnify and hold the Bank and Registrar and Paying Agent free and harmless against any claims, actions, suits and liabilities arising from the non-withholding or reduced withholding of the required tax; and

(d) Such other documentary requirements as may be reasonably required by the Bank or the Registrar or Paying Agent, or required under applicable regulations of the relevant taxing or other authorities.

Unless properly provided with satisfactory proof of the tax-exempt status of a CD Holder, the Registrar and Paying Agent may assume that such CD Holder is taxable and proceed to apply the tax due on the LTNCTDs. Notwithstanding the submission of documentary proof of the tax-exempt status of a CD Holder, the Bank may, in its sole and reasonable discretion, determine that such CD Holder is taxable and require the Registrar and Paying Agent to proceed to apply the tax due on the LTNCTDs. Any question on such determination shall be referred to the Bank.

27 REPLACEMENT REGISTRY CONFIRMATIONS

In case any Registry Confirmation shall be mutilated, destroyed, lost or stolen, the Registrar shall deliver to the CD Holders a new Registry Confirmation of like denomination in exchange for, and upon cancellation of, the mutilated Registry Confirmation or in lieu of the Registry Confirmation so destroyed, lost or stolen, only in the absence of any notice in writing to the Registrar that the LTNCTDs for which such Registry Confirmation had been issued has been acquired by a bona fide purchaser and only upon presentation of such documents or other requirements as may be imposed by the Registrar (in consultation with the Bank).

The Registrar and Paying Agent, at its option, may also require from the CD Holders requesting replacement of the Registry Confirmation the payment of a sum sufficient to reimburse the Bank and/or the Registrar and Paying Agent for any tax or other governmental charge connected with the issuance of any such substitute Registry Confirmation and the cost of preparing such Registry Confirmation, and all legal and other expenses incurred by the Registrar and Paying Agent in connection with such issuance.

28 NOTICES

Except for communications to the Issuer and to the Registrar & Paying Agent under Schedule 14 of the Registry ad Paying Agency Agreement which must be delivered personally in writing, any communication shall be given by letter, fax, electronic mail (e-mail) or telephone, and shall be given, in the case of notices to the Bank, to it at:

PHILIPPINE SAVINGS BANK
PSBANK Center
777 Paseo de Roxas cor. Sedeno St.
Makati City

Telephone no.: (63) 2 8858208
Fax no.: (63) 2 8858352
E-mail: pzdimayuga@psbank.com.ph
Attention: Perfecto Ramon Z. Dimayuga, Jr.
SVP and Chief Finance Officer

E-mail: vrcunajr@psbank.com.ph
Attention: Vicente R. Cuna, Jr.
President

And in the case of notices to the Registrar and Paying Agent to it at:

PHILIPPINE DEPOSITORY & TRUST CORPORATION
37th Floor Tower 1, The Enterprise Center
6766 Ayala Avenue corner Paseo de Roxas
Makati City, Metro Manila
Philippines

Telephone no.: (63) 2 884-5022
Fax no.: (63) 2 757-6025
E-mail: baby_delacruz@pds.com.ph
Attention: Josephine Dela Cruz
Director

And in the case of notices to the CD Holders, through publication in two (2) newspapers of general circulation in Metro Manila (one of which shall be the Philippine Daily Inquirer) once a week for two (2) consecutive weeks; or any other address to or mode of service by which written notice has been given to the parties in accordance with this Condition.

Such communications will take effect, in the case of a letter, when delivered or, in the case of fax, when dispatched, provided that any communication by fax shall not take effect until 10:00 a.m. on the immediately succeeding Business Day in the place of the recipient, if such communication is received after 5:00 p.m. on a Business Day or is otherwise received on a day which is not a Business Day. Communications not by letter shall be confirmed by letter but failure to send or receive the letter of confirmation shall not invalidate the original communication.

29 GOVERNING LAW

These Terms and Conditions shall be governed by and construed in accordance with the laws of the Republic of the Philippines.

30 JURISDICTION

The courts of Makati City are to have jurisdiction to settle any disputes which may arise out of or in connection with the LTNCTDs and these Terms and Conditions and accordingly, any legal action or proceedings arising out of or in connection with the LTNCTDs or these Terms and Conditions ("**Proceedings**") may be brought in such courts. The Bank irrevocably submits to the jurisdiction of such courts and waives any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. This submission is made for the benefit of each CD Holder and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

31 AMENDMENT

Any amendment of these Terms and Conditions is subject to the BSP Rules.

32 NON-WAIVER

The failure of any party at any time or times to require the performance by the other of any provision of the LTNCTDs or these Terms and Conditions shall not affect the right of such party to require the performance of that or any other provisions and the waiver by any party of a breach under these Terms and Conditions shall not be construed as a waiver of any continuing or succeeding breach of such provision, a waiver of the provision itself or a waiver of any right under these Terms and Conditions. The remedies herein provided are cumulative in nature and not exclusive of any remedies provided by law.

33 ABILITY TO FILE SUIT

Nothing herein shall be deemed to create a partnership or collective venture between the CD Holders. Each CD Holder shall be entitled, at its option, to take independent measures with respect to its obligations and rights and privileges under these Terms and Conditions, and it shall not be necessary for the other CD Holders to be joined as a party in any judicial or other proceeding for such purpose.

34 SEVERABILITY

If any provision hereunder becomes invalid, illegal or unenforceable under any law, the validity, legality and enforceability of the remaining provisions of these Terms and Conditions shall not be affected or impaired. The parties agree to replace any invalid provision which most closely approximate the intent and effect of the illegal, invalid or enforceable provision.

35 PRESCRIPTION

Any action upon the LTNCTDs shall prescribe within ten (10) years from the time the right of action accrues.

DESCRIPTION OF THE BANK

Introduction

Philippine Savings Bank is a thrift bank based in the Philippines. It offers a wide range of banking and other financial products and services, including deposits, loans, treasury, credit card, and trust. It caters mainly to the retail and consumer markets. The Bank is ranked second among the country's 63 thrift banks in terms of assets as of 30 June 2016 based on data from the *Bangko Sentral ng Pilipinas* ("BSP"). The Bank's total assets stood at ₱183.83 billion, ₱169.33 billion and ₱145.61 billion as of 30 September 2016, 31 December 2015 and 31 December 2014, respectively. Its total equity were at ₱20.67 billion, ₱19.18 billion and ₱17.73 billion as of 30 September 2016, 31 December 2015 and 31 December 2014, respectively.

As of 30 September 2016, the Bank has a network of 255 branches nationwide 2016. The Bank also has 611 ATMs, which are part of the Bancnet consortium. This is broken down to 270 on-site and 341 off-site locations.

The Bank is listed on the Philippine Stock Exchange (the "PSE") with a market capitalization of ₱24.34 billion as of 30 September 2016.

As of 30 September 2016, the Bank's capital adequacy ratio and Tier 1 capital adequacy ratio were at 15.01% and 11.96%, respectively.

History

The Bank was established in 30 June 1959 primarily to engage in savings and mortgage banking. Its first head office was located in Quiapo, Manila. In 1983, Metrobank acquired majority stake in the Bank, and in 2004 further increased its shareholdings to the present level of 82.68%.

In 1991, the Bank was authorized to perform trust functions and in 1995, was granted a quasi-banking license. In 1994, its shares were listed on the PSE and made it the first publicly listed thrift bank in the country.

The Bank moved its principal office to its current address at the PSBank Center, 777 Paseo de Roxas corner Sedeno St., Ayala Avenue, Makati City, Philippines in 2003. The website of the Bank is www.psbank.com.ph. No information on the website should be considered or construed as part of the Offering Circular.

Awards and Citations

The Bank was recently conferred the following awards:

- PSBank received the Pagtugon Award for thrift banks for the second straight year from the Bangko Sentral ng Pilipinas for excellence in responding and addressing clients' concerns endorsed by the central bank.
- It was also named a Gold Stevie® Awardee in the innovative use of technology in customer service category at the annual Asia-Pacific Stevie Awards for PSBank Live Chat--the first and only real-time chat service in the Philippine banking industry developed to address clients' inquiries and concerns.
- PSBank was also recognized for providing an exceptional end-to-end customer experience at the annual Customer Experience Awards in Singapore, winning 2nd Runner Up For The Best Customer Experience Award category and an Honorary Mention In The Best Customer Experience Team category.
- The bank was also awarded the Mobile Banking Initiative Of The Year at the Asian Banking & Finance Retail Banking Awards 2016 for PSBank Mobile Version 2.0, which featured the ATM lock— an additional layer of protection for clients against unauthorized use of their ATM card, arising from ATM loss, theft, skimming, and other forms of electronic fraud.

- PSBank also received two Merit Awards From The 2015 Philippine Quill Awards for the entries: PSBank 2015 TV commercials: Project Massage And Team Huddle: Next Level Under the Marketing, Advertising, and Brand Communication category.
- PSBank, along with Metrobank, was also awarded by the Asian Banker the Auto Loan Product Of The Year In 2016 (Regional and Country Level) for being the market leader in Auto Loans business in the Philippines propelled by the synergy of the retail strategy of the two banks.
- PSBank was recognized by The Asian Banker as the 2nd strongest bank in the Philippines, its highest ranking to date, following its parent company Metrobank for the period 2016-2017. It has consistently ranked among the Top 10 in the country for six consecutive years.
- PSBank was a finalist in the Philippine Stock Exchange Bell Awards for 2016 for excellence in corporate governance. This is the second time that the Bank was included as a finalist and was the only qualifying thrift bank among companies listed in the stock market.

Strategy of the Bank

Throughout its more than 50 years of operation, the Bank's philosophy is that of being responsive to its clients' needs. While its capitalization of ₱24.34 billion as of 30 September 2016 qualifies it to become a commercial bank, the Bank has decided to remain a thrift bank and use its resources to aggressively compete in retail banking.

The Bank will continue to harness inherent synergies with Metrobank but will remain resolute in differentiating itself in terms of markets and products. The Bank and Metrobank have distinct core market focus and have agreed on a coherent strategy on market segmentation. Operational synergies are achieved through coordination on branch expansion, sharing of integrated data and ATM infrastructure, coordination on group-wide concentration limits, and maximization of each institution's competitive advantage.

The Bank has been constantly at the forefront of developing new products to widen and expand its customer reach. The Bank made it simpler for its customers to avail auto loans via fast approval rates, low interest payments, flexible payment terms and convenient modes of payment. Technological applications were the engine powering the Bank's growth over the past few years. It has put in place continuous system and process improvement projects, which enabled it to deliver faster turnaround time for loan approvals.

In 2011, PSBank launched the PSBank Debit MasterCard, a product which combines the functionality of a debit facility and a savings account in one card. It can be used for shopping, paying bills and making online purchases, both here and abroad. PSBank also introduced the PSBank Prepaid Mastercard, the PSBank Euro Time Deposit and the PSBank Euro Savings Account on the same year. It also made structural changes in the organization and adapted new channels for service delivery.

In 2012, PSBank introduced e-Credit to Micro, Small and Medium Enterprises. The service aimed to provide these companies with an alternative to manual payroll processing. The Bank also rolled out its Time Deposit System to automate the processing of TDs for clients. This allowed branches to focus more on product marketing and sales.

In 2013, PSBank launched the PSBank Kiddie Savers and Teen Savers Accounts to introduce children to the concept of saving money. It also opened a Land Registration Authority (LRA) extension office at its head office for its Home Loan clients to receive, process, and issue certified true copies of certificates of land titles. Lastly, the Bank participated in the ASEAN corporate governance scorecard where it received an overall score of 73% and was part of the top 50 publicly listed corporations in the Philippines. For the third consecutive year, it was also recognized by the Asian Banker 500 publication as the 6th strongest bank in the country.

In 2014, the Bank successfully issued P3.0 billion in Basel 3-compliant Tier 2 Unsecured Subordinated Notes. In line with the issuance, PSBank was given an Issuer Rating of PRS Aaa (corp) which is the highest possible corporate rating in the Philippine Ratings Corporation scale. It was again recognized by The Asian Banker as the fifth strongest bank in the Philippines and was the only savings bank in the Top 5 annual ranking. For the first time, PSBank was recognized as one of the 10 finalists in the Philippine Stock Exchange Bell Awards for 2014 for its adherence to the highest standards of corporate governance and regulatory compliance. It also entered into a bancassurance partnership with AXA Philippines to provide its customers with easier access to AXA's wide range of insurance products. It launched its first ever Unit Investment Trust Fund ("UITF") product, the PSBank Money Market Fund. During the year, it started offering its PSBank Online Mobile App which is an online banking facility that allows clients to perform a wide range of transactions on the move. Lastly, PSBank gave its clients more ways to interact through its PSBank Live Chat, a first in the local banking industry, wherein existing and potential clients anywhere in the world can contact customer service assistants regarding their inquiries on deposits, loans, investments and other banking concerns.

In 2015, PSBank maintained its Issuer Rating of PRS Aaa (corp) with Philratings in line with its outstanding Unsecured Subordinated Tier 2 Notes. It emerged as the only savings bank in The Asian Banker 500 list of the Philippines' Top 10 strongest banks and kept its spot for the past five years. It was conferred the Pagtugon Award by the Bangko Sentral ng Pilipinas for excellence in responding to and addressing issues and concerns of clients referred by the Bangko Sentral. The Bank was also recognized with the Balikat ng Bayan Best Paying Partner Thrift Bank by the Social Security System for its role as the pension fund's partner in providing universal, equitable and viable social security protection to its members. During the year, it introduced the Lock and Unlock facility for its ATM cards to provide clients with a tool to ensure their accounts' safety amid the rising incidence of fraud. On the branch level, it introduced an automated lobby management system called PSBank Queue Anywhere wherein customers can use a laptop and mobile phone to book a transaction with any PSBank branch. The Bank also launched its Mobile 2.0, a mobile banking facility that has an easy-to-use interface and its improved website www.psbank.com.ph to provide a seamless customer experience.

All these product launches continue to be in line with the Bank's *"Simple Lang, Maaasahan"* (Simple and Reliable) line of products and services.

The Bank aims to maintain a strategic management discipline in serving the consumer market. To grow the business in the coming years, it will rely on increasing visibility and customer convenience by establishing more branches throughout the country. This will be complemented by the Bank's continued improvements in customer profiling through its unique customer information system. This will be supported by having a customer-centric performance oriented culture within the Bank and an organizational structure which encourages employees to be flexible and motivated contributors.

Strategic Initiatives

PSBank has grown to become the second largest thrift bank in the Philippines today. It has been consistently cited in The Asian Banker's list of top ten strongest banks in the Philippines for six consecutive years. The Bank currently ranks as the country's second strongest bank in The Asian Banker's 2016-2017 edition. Strategic initiatives have been undertaken to increase shareholder value, solidify the Bank's market leadership and sustain its growth momentum. However, these anticipated developments are not assured and actual results may materially differ as a result of risks and uncertainties the Bank faces.

Focus on Core Business. The Bank has established a platform of sustainable growth through its core business. Although the Bank also caters to select small, medium and large businesses thru its Small and Medium Enterprise ("SME") and Large Enterprise Groups ("LEG"), the Bank has focused on households as its primary target market for deposit and loan products. The growth potential of this market is anchored on projected higher domestic consumption due to increasing population and income levels.

Develop a customer-centric organization to achieve service excellence. To meet challenges in an intensely competitive market, the Bank will continue its initiative of reviewing, reorganizing and streamlining of business units to drive productivity and efficiency in the organization, and more so to pursue a customer-centric strategy. Using its customer information system coupled with a robust technology infrastructure, the Bank aims to analyze the demographics, transactions and product availments of all of its customers. Products and services are aligned with clients' interests and requirements while ensuring that standards are in place to measure the delivery of quality service.

Electronic Channels to drive accessibility and convenience. The Bank is firm in its resolve to further increase its market share in the consumer banking industry. To achieve this strategic objective, the Bank will pursue digital products and services to drive customer convenience and accessibility. It started with the enhancement of its PSBank Online and PSBank Mobile Applications. It launched its social medial platforms (Facebook, Twitter, Instagram, YouTube and Linked-In) in February 2016. Other recently introduced digital services include the “PSBank Mobile App with ATM Lock” – a breakthrough innovation of providing an additional layer of protection against card-initiated electronic fraud; “Queue Anywhere” – an automated lobby management system that saves clients more time with no forms to fill; and the “PSBank Business Online Buddy or BOB” – the Bank’s answer to the simple “cash management” requirements of SMEs and retail customers.

Manage Capital Prudently. The Bank enhanced policies and processes on credit and collections, fraud prevention and implemented various cost-control programs and automation for improved productivity and cost efficiencies to manage the bank’s capital.

Support Initiatives

Internal Processes. The Bank launched improvements and streamlining of internal processes to complement business growth. Various surveys were launched to enable the Bank to capture client perceptions and work on exceeding performance expectations.

Technology Applications. The Bank is looking to further develop its customer information system to assist in its customer-focus strategy. This system will allow the Bank to actively profile its clients and analyze their needs. In addition, the Bank is also continually working on integrating its systems where possible with Metrobank.

Resource Requirements. The Bank will continue to invest in the development of its people through continued training on sales, new products, risk appreciation, customer service and other development programs. The Bank also has appropriate incentive packages to encourage expansion of the customer touch points for the Bank's products.

Product Development, Communications and Marketing. The Bank utilizes various consumer research studies to develop new or enhance existing products and marketing programs. It will continue to measure customer satisfaction drivers such as speed in processing, complaint handling, and problem resolution, and, use the same as a feedback mechanism. The Bank utilizes external communications to effectively build and reinforce its story among its markets. The Bank has contracted the services of top agencies to launch its advertising campaigns and provide supplemental public relations efforts.

Business Activities

The Bank’s principal business activities are organized as follows: Consumer Banking, Corporate Banking, Branch Banking and Treasury.

Segment Report

Contributions of the business segments to the Bank’s operating results for the nine months ended 30 September 2016 is as follows:

	As of 30 September 2016 (unaudited)				
(In ₱ thousands)	**Consumer Banking**	**Corporate Banking**	**Branch Banking**	**Treasury**	**Total**
Operating Income					
Interest income	3,048,426	233,768	4,355,178	1,519,023	**9,156,395**
Service fees and commission	353,643	22,996	528,219	-	**904,858**
Other operating income	422,754	14,179	399,616	691,778	**1,528,327**
Total Operating Income	**3,824,823**	**270,943**	**5,283,013**	**2,210,801**	**11,589,580**
Non-cash Expenses					
Depreciation	139,745	4,376	272,716	134	**416,971**
Provision for credit and	2,135,348	(379,289)	(50,567)	-	**1,705,492**

(In ₱ thousands)	As of 30 September 2016 (unaudited) Consumer Banking	Corporate Banking	Branch Banking	Treasury	Total
impairment losses					
Amortization of other intangible assets	31,504	1,896	54,231	191	**87,822**
Total non-cash expenses	**2,306,597**	**(373,017)**	**276,380**	**325**	**2,210,285**
Interest expense	-	-	1,205,847	876,498	**2,082,345**
Service fees and commission expense	27,400	1,782	40,929	-	**70,111**
Subtotal	**27,400**	**1,782**	**1,246,776**	**876,498**	**2,152,456**
Compensation and fringe benefits	544,995	43,150	1,632,391	13,543	**2,234,079**
Taxes and licenses	249,669	17,114	310,967	204,947	**782,697**
Occupancy and equipment-related costs	47,490	1,096	480,524	2	**529,112**
Security, messengerial and janitorial services	54,318	1,677	204,795	450	**261,240**
Miscellaneous	412,197	23,794	875,941	71,040	**1,382,972**
Subtotal	**1,308,669**	**86,831**	**3,504,618**	**289,982**	**5,190,100**
Income (Loss) before Share in net income of a joint venture and income tax	182,157	555,347	255,239	1,043,996	**2,036,739**
Share in net income of a Joint Venture					**19,190**
Income (loss) before income tax					**2,055,929**
Provision for Income Tax					**188,650**
Net Income					**1,867,279**

Source: PSBank

Consumer Banking

Consumer Banking principally handles individual customer deposits and provides consumer loans, and fund transfer facilities. The Bank's consumer lending business is predominantly consumption loans and real estate loans. Net of unearned discounts and allowance, consumption loans as of 30 September 2016 have grown 17.25% to ₱65.79 billion while real estate loans have grown 10.51% to ₱42.75 billion as of 30 September 2016 compared to the same period last year. It is also engaged in small, medium enterprise lending as well as personal loans.

Retail deposit products include current and savings accounts ("CASA") and time deposits in peso and foreign denominated currencies such as US Dollars and Euros.

PSBank developed various sales channels to focus on diverse segments of the market. Branches focused on direct loan clients while Indirect Sales Channel focused on real estate developers, car dealers and financial agencies. Bulk of consumer loans come from these indirect channels which Indirect Sales Group had tapped and develop through the years.

PSBank had also innovated its processes through the use of mobile technology like FAST (Field Application Servicing Tool) which can encode applications even on field or in the dealer's floor.

PSBank also has On-Line services which cater to the tech savvy individuals who want to apply in the comfort of their homes and offices.

Marketing and Customer Experience Groups had initiated direct and indirect customer retention and acquisition programs to ensure proper servicing of existing clients as well as reaching out to the market at large.

The Bank's branch network is its main distribution channel. It also partners with auto dealers, property developers as well as loan agencies for its different products. In some provincial areas, the Bank has set-up sales desks as another distribution channel for its loan products. Currently, the Bank has 17 sales desks. Credit decision-making for consumer loans utilizes a credit scoring process and is centralized in Head Office.

Corporate Banking

Corporate Banking principally handles loans and other credit facilities for small and medium enterprises ("SMEs"), corporate and institutional customers. The banking products offered include term loans, credit lines, standby letters of credit and deposit collateral loans. All loans are screened and approved by the Credit Committee.

The Bank lends across various industries with a significant portion of its loans to activities of households as employers and undifferentiated goods-and-services producing activities of households for own use; real estate; financial and insurance; and wholesale and retail trade, repair of motor vehicles and motorcycles.

The Large Enterprise Group ("LEG") is PSBank's unit responsible for booking and managing its corporate banking portfolio. A large majority of the portfolio are long term fixed yield exposures in the form of term loans / corporate notes and corporate bonds to top tier high grade corporate issuers, resulting in improved group profitability and risk profile. Booking high credit quality accounts further improves the Bank's overall portfolio quality, as its major loan products are consumer auto and residential mortgages which can deteriorate in an economic down cycle.

LEG carefully selects its loan prospects, with current preference to non-cyclical stable industries that gain immediate benefit from the country's forecasted sustainable economic growth, such as private utilities. However, with the Bank's familiarity with the residential property sector through its Mortgage Banking Division ("MBD"), LEG also has significant exposure to the real estate sector, but is careful to choose developers with diversified revenue streams, such as from commercial and office leases and residential sales. In fact, LEG's and MBD's relationships with top tier developers provides opportunities for new products, such as taking out seasoned residential installment portfolios and booking them under the MBD portfolio to further boost its volumes.

LEG's loan accounts have SME suppliers that can be referred to the SME Group for credit lines. Meanwhile, the Auto Loans Division (ALD) continues to refer performing auto dealers to LEG for Floorstock lines.

LEG has started to market potential borrowers in the next credit tier, such as to small or mid-sized conglomerates where interest rates are higher than top tier conglomerates in order to boost its volumes and profitability. LEG's approach will be tempered by a disciplined credit review of these mid-market borrowers.

As of 30 September 2016, the Bank's commercial loans total ₱11.06 billion.

Branch Banking

As of 30 September 2016, the Bank had 255 branches and has the most number of branches among the thrift banks in the country. Branch expansion and increasing the customer base are part of the Bank's deposit growth strategy. However, instead of just targeting deposit and loan growth, the branches are also mandated to increase their client base.

The Bank owns the premises it occupies for the Head Office in Makati City and 29 of its branches. These offices/branches are all in good condition and there is no mortgage or lien on any of these properties owned by the Bank.

The rest of the Bank's branch premises are under lease agreements. Terms of leases range from 1 to 20 years renewable under certain terms and conditions. Rentals charged to operations under these lease contracts amounted to ₱414.82 million for the period ended 30 September 2016.

Currently, the Bank's main focus is to broaden its market reach where its branches are currently located, increasing both its deposit and loan clients. The following table sets out the Bank's branches and ATM information in the Philippines:

	31 December			30 September
	2013	2014	2015	2016
Number of Branches	**224**	**245**	**248**	**255**
Metro Manila	113	113	114	114
Rest of Luzon	70	90	92	98
Visayas	24	25	25	25
Mindanao	17	17	17	18
ATMs	**551**	**595**	**614**	**611**
Total	**775**	**840**	**862**	**866**

Treasury

Treasury provides money market, trading, and treasury services, as well as manages the Bank's funding operations by use of treasury bills, government securities and placements with other banks. The group is composed of the following desks: Liquidity and Strategic Support (LSS), Financial Market (FM) and Treasury Sales and Marketing (TSM). Treasury products and services available through the group include peso and USD trading government securities, commercial papers sales and regular foreign exchange transactions.

The Liquidity and Strategic Support desk ensures adequate funding and liquid assets to meet the Bank's present and future obligations while being 100% reserve compliant with BSP. Treasury Sales and Marketing provides stable funding sources from its retail/institutional accounts. The Financial Market Division recommends the price level/amount of GS / ROPs / US Treasuries it will buy for trading and investments. Treasury group maintains positive spread by maximizing its excess funds through investments with RRPs, TDAFs, ODFs, GS, ROPs and US Treasuries and funding the Bank's consumer loans while sourcing funds at the least possible cost. The group's trading, lending and sourcing activities are subject to the Bank's internal and external controls/limit to ensure that the Bank is within best banking practice.

All investment and portfolio limits are reviewed by Risk Oversight Committee ("ROC") and endorsed to the Board for approval. The basis for the limit setting is the risk tolerance appetite of the Bank and its budget.

Stop loss limits are monitored on a daily basis. Any breach in the stop loss limit is reported to the President and in the monthly ROC and Board meetings. In case of breach in stop loss limits, the trader is required to reduce or cut his position until the trader is within the approved limits.

Competition

The Bank continues to rank as second in terms of assets among thrift banks and is larger in terms of total resources compared with some commercial banks. The Bank competes aggressively in the field of retail and consumer banking. Competition has become even more challenging with a growing number of players in the consumer business and aggressive marketing campaigns by competitor banks. While there are many factors beyond its control, the Bank has integrated efficiencies into its operations to sustain its growth trajectory.

Although faced with stiff competition from various financial segments and providers , PSBank is able to prominently position itself and play strongly against not only thrift banks but universal banks as well. Through the use of technology and innovative marketing tools, PSBank gained significant market share in the consumer banking space.

The Bank obtained a CAMELS rating of 4 from the BSP, after the completion of its examination in May 2016. The Bank has maintained its CAMELS rating of 4 since 2014.

Customers/Clients

While the Bank's client base has been traditionally composed of big and small savers, PSBank has since refocused its strategy towards customers belonging to the Broad C market that includes employed individuals, professionals and business entrepreneurs.

As of 30 September 2016, the Bank services about 600,000 deposit accounts and loan accounts. Many customers have remained loyal depositors and borrowers of the Bank through the years. There is no single customer that accounts for 20.0% or more of the Bank's deposit liabilities and loans.

Loan Portfolio

The Bank offers a wide range of consumer and business loans. For consumer loans, these include: Auto Loan with Prime Rebate, Flexi Personal Loan with Prime Rebate, Home Loan with Prime Rebate, Home Credit Line and Home Construction Loan. For business loans, these include SME Business Credit Line, Credit Line, Term Loans with Prime Rebate, Standby Credit Certification and Domestic Bills Purchase Line.

Industry Concentration and Product Type

The table below shows the Bank's gross loans classified by economic activity, as defined and categorized by the BSP.

(In ₱ millions)	**31 December (audited)**						**30 September (unaudited)**	
	2013	%	**2014**	**%**	**2015**	**%**	**2016**	**%**
Activities of households as employers and undifferentiated goods-and-services producing activities of households for own use	48,293	55.11%	52,468	52.91%	66,087	56.88%	73,366	58.50%
Real estate activities	25,844	29.49%	31,914	32.18%	36,428	31.35%	38,361	30.59%
Wholesale and retail trade, repair of motor vehicles and motorcycles	1,389	1.58%	1,797	1.81%	1,771	1.53%	1,996	1.59%
Information and communication	1,769	2.02%	1,753	1.77%	1,725	1.48%	1,509	1.20%
Financial and insurance activities	3,601	4.11%	2,632	2.65%	1,418	1.22%	2,247	1.79%
Manufacturing	503	0.57%	871	0.88%	825	0.71%	533	0.43%
Electricity, gas, steam and air-conditioning supply	50	0.06%	236	0.24%	605	0.52%	1,064	0.85%
Transportation and storage	419	0.48%	524	0.53%	598	0.52%	701	0.56%
Construction	270	0.31%	349	0.35%	362	0.31%	405	0.32%
Water supply, sewerage, waste management and remediation activities	227	0.26%	220	0.22%	290	0.25%	288	0.23%
Administrative and support service activities	160	0.18%	167	0.17%	282	0.24%	1,232	0.98%
Accommodation and food service activities	166	0.19%	227	0.23%	273	0.24%	341	0.27%
Human health and social work activities	161	0.18%	225	0.23%	211	0.18%	357	0.28%
Education	137	0.16%	142	0.14%	161	0.14%	198	0.16%
Professional,	144	0.16%	145	0.15%	153	0.13%	71	0.06%

(In ₱ millions)	31 December (audited)						30 September (unaudited)	
	2013	%	**2014**	%	**2015**	%	**2016**	%
scientific and technical activities								
Arts, entertainment and recreation	17	0.02%	16	0.02%	32	0.03%	42	0.03%
Agriculture, forestry and fishing	13	0.01%	16	0.02%	30	0.03%	32	0.03%
Mining and quarrying	8	0.01%	2	0.00%	3	0.00%	5	0.00%
Others*	4,462	5.09%	5,454	5.50%	4,931	4.24%	2,673	2.13%
Total	**87,632**	**100.00%**	**99,159**	**100.00%**	**116,183**	**100.00%**	**125,422**	**100.00 %**

**Others relates to economic activities such as construction, health and social work, public administration and defense, extra-territorial organization and bodies, and education and fishing.*
Note: Loans breakdown is gross of unearned discounts and allowance for credit losses

The Bank employs product limits, single borrower limit, DOSRI limit and Metrobank Group lending limits in its exposures. The RMC oversees the system of limits to discretionary authority that the Board delegates to Management and ensures that the system remains effective, limits are observed, and immediate corrective actions are taken whenever limits are breached. These limits are compliant to pertinent BSP regulations.

The table below shows the Bank's gross loans classified by type of product.

(In ₱ millions)	31 December (audited)						30 September (unaudited)	
	2013	**%**	**2014**	**%**	**2015**	**%**	**2016**	**%**
Consumption Loans	41,146	46.95	47,043	47.44	60,271	51.88	67,514	53.83
Real Estate	28,776	32.84	34,645	34.94	40,681	35.01	43,260	34.49
Commercial	13,435	15.33	13,699	13.82	11,632	10.01	11,072	8.83
Personal Loans	4,275	4.88	3,772	3.80	3,600	3.10	3,576	2.85
Total	**87,632**	**100.00**	**99,159**	**100.00**	**116,183**	**100.00**	**125,422**	**100.00**

Source: PSBank
Note: Loans breakdown is gross of unearned discounts and allowance for credit losses

Over the last three years, the Bank's loan portfolio has been concentrated with auto and real estate loans. As of 30 September 2016, auto loans have grown 18.60% and real estate loans have grown 10.26% from their respective levels in 30 September 2015. With the Bank's continued investments in information technology, greater automation and integration of processes have been achieved. This has also brought out improved efficiency through faster turn-around time for credit decisions, more uniform compliance with credit policies and better profit monitoring for its loan portfolio. As a result, the Bank offers one of the fastest turn-around times for mortgage and auto loan applications in the industry with a one day turn-around time for Auto Loans, five days for Home Loans and three days for Flexi/Personal Loans.

Maturity

The table below shows the Bank's gross loans by maturity.

(In ₱ millions)	31 December						30 September	
	2013	**%**	**2014**	**%**	**2015**	**%**	**2016**	**%**
Due within one year	10,796	12.32	11,460	11.56	10,380	8.93	9,882	7.88
Due within one to five years	46,501	53.06	50,992	51.42	65,745	56.59	75,024	59.82
Due after five years	30,335	34.62	36,707	37.02	40,058	34.48	40,516	32.30
Total	**87,632**	**100.00**	**99,159**	**100.00**	**116,183**	**100.00**	**125,422**	**100.00**

Source: PSBank
Note: Loans breakdown is gross of unearned discounts and allowance for credit losses

Loans due within one year consist of personal loans. Loans due within one to five years consist primarily of auto-loans. Loans due after five years consist primarily of real estate loans for housing purchases.

(In ₱ millions)	30 September 2016					
Breakdown of Loans by Type and Maturity	Due within 1 year	%	Due within 1-5 years	%	Due after 5 years	%
Auto	2,015	20.39	65,304	87.04	195	0.48
Commercial	2,514	25.44	3,372	4.49	5,186	12.80
Home Mortgage	3,043	30.80	5,344	7.12	34,873	86.07
Others	2,310	23.38	1,004	1.34	262	0.65
Total	**9,882**	**100.000**	**75,023**	**100.00**	**40,516**	**100.00**

(In ₱ millions)	31 December 2015					
Breakdown of Loans by Type and Maturity	Due within 1 year	%	Due within 1-5 years	%	Due after 5 years	%
Auto	1,832	17.64	58,370	88.78	69	0.17
Personal	3,095	29.81	1,056	1.61	7,480	18.67
Home Mortgage	3,111	29.97	5,318	8.09	32,252	80.51
Others	2,343	22.57	1,000	1.52	256	0.64
Total	**10,380**	**100.000**	**65,745**	**100.00**	**40,058**	**100.00**

Source: PSBank
Note: Loans breakdown is gross of unearned discounts and allowance for credit losses

Borrower

The table below shows the Bank's gross loans by type of borrower.

(In ₱ millions)	31 December						30 September	
	2013	%	2014	%	2015	%	2016	%
Individual	14,824	16.92	12,100	12.20	10,011	8.62	9,410	7.50
Corporation	72,807	83.08	87,059	87.80	106,172	91.38	116,011	92.50
Total	**87,632**	**100.00**	**99,159**	**100.00**	**116,183**	**100.00**	**125,422**	**100.00**

Source: PSBank
Note: Loans breakdown is gross of unearned discounts and allowance for credit losses

Size

The table below shows the Bank's gross loans by principal amount.

(In ₱ millions)	31 December		30 September	
	2015	%	2016	%
Less than 1,000,000	62,641	53.92	68,974	54.99
1,000,001 to 2,000,000	27,021	23.26	28,971	23.10
2,000,001 to 3,000,000	7,578	6.52	8,265	6.59
More than 3,000,000	18,943	16.30	19,212	15.32
Total	**116,183**	**100.00**	**125,422**	**100.00**

Source: PSBank
Note: Loans breakdown is gross of unearned discounts and allowance for credit losses

The BSP currently imposes a limit on the size of the Bank's financial exposure to any single person or entity or group of connected persons or entities to 25.0% of the Bank's net worth. As of 30 September 2016, the Bank has complied with the single borrower's limit for all of its loans.

Secured and Unsecured

The table below shows the Bank's secured and unsecured loans according to type of collateral.

(In ₱ millions)	31 December (audited)						30 September (unaudited)	
	2013	%	2014	%	2015	%	2016	%
Secured	70,389	80.32	73,970	74.60	90,373	77.78	98,005	78.47
Chattel	41,146	46.95	47,043	47.44	60,271	51.87	67,514	53.83
Real Estate	28,384	32.39	26,104	26.33	29,332	25.25	30,152	24.04

(In ₱ millions)	31 December (audited)						30 September (unaudited)	
	2013	%	2014	%	2015	%	2016	%
Deposit hold-out	439	0.50	422	0.43	407	0.35	339	0.27
Others	420	0.48	400	0.40	363	0.31	-	-
Unsecured	17,243	19.68	25,189	25.40	25,810	22.22	27,417	21.86
Total	**87,632**	**100.00**	**99,159**	**100.00**	**116,183**	**100.00**	**125,422**	**100.00**

Source: PSBank
Note: Loans breakdown is gross of unearned discounts and allowance for credit losses

Pricing and Rating

Pricing of loans follows the approved mechanics in the respective Product Manuals. The Bank utilizes credit scoring models for its loans. Upon booking of loans, the Bank rates accounts in a scale of 1 to 10, with 1 being the best. This scale is based on the board's approved interim credit rating system which utilizes both the credit scoring results and the BSP loan grading system. These are mapped to high grade, standard, substandard and impaired to meet PFRS requirements. In addition to credit scoring, the Bank carries out stress testing analyses using Board-approved statistical models relating the default trends to macroeconomic indicators.

Credit Policy and Loan Review

Credit proposals are approved at the Credit Committee level appropriate to the size and risk of each transaction in conformity with corporate policies and procedures in regulating credit risk activities. The Bank's Executive Committee may approve deviations or exceptions, while the Board approves material exceptions such as large exposures, loans to directors, officers, stockholders and other related interests ("DOSRI"), and loan restructuring. Credit delegation limits are identified, tracked and reviewed at least annually by the head of Credit Administration Group together with the Credit Risk Manager.

The credit risk policies and system infrastructure ensure that loans are monitored and managed at all times. The bank maintains credit records and documents on all borrowings and capture transaction details in its loan systems. Various credit portfolio analytics, including segmented customer delinquency trending, are tracked regularly to guide management strategy and decision making. The bank conducts regular loan review through the Credit MOS (Management Operating System) with the support of the RMO. The bank examines its exposures, credit risk ratios, provisions and customer segments.

Accounts that turn delinquent are monitored via the automated collections systems. Approved collection efforts and strategies are defined in the system. Delinquent accounts are outsourced to collection agencies which get paid based on amount-collected. Restructuring of loans may be pursued in order to improve recovery of loan, and not to delay recognition of losses. Loans are subjected to impairment allowance whenever there is evidence of difficulty in generating recovery of the loan.

The bank has an independent unit called Credit Supervision Unit under RMO which handles primarily the regular review of loan accounts in terms of loan classification, allowance for probable loss, restructuring, RPT and DOSRI.

The Bank employs product limits, single borrower limit, RPT limit, DOSRI limit and Metrobank Group lending limits in its exposures. The ROC oversees the system of limits to discretionary authority that the Board delegates to management and ensures that the system remains effective, the limits are observed, and that immediate corrective actions are taken whenever limits are breached. These limits are compliant with pertinent BSP regulations.

BSP Classification

In categorizing its loan portfolio, the Bank follows the BSP's categorization of risk assets according to their risk profile. All risk assets, in particular the Bank's loan portfolio, are either classified or unclassified. Those loans which do not have a greater than normal risk, and for which no loss on ultimate collection is anticipated, are unclassified. All other loan accounts, comprising those loan accounts which have a greater than normal risk, are classified as "especially mentioned", "substandard", "doubtful" or "loss" assets, and the appropriate loan loss allowance (in accordance with BSP guidelines) is made as follows:

BSP Risk Classification	% Reserves
Especially mentioned	5
Substandard (secured)	10
Substandard (unsecured)	25
Doubtful	50
Loss	100

The following is a summary of the risk classification of the Bank's gross loans and allowance for probable loan losses.

(In ₱ millions)	31 December						30 September	
	2013	%	2014	%	2015	%	2016	%
Risk Classifications								
Especially mentioned	5,332	6.08	5,280	5.32	5,380	4.63	5,677	4.53
Substandard (unsecured)	1,008	1.15	1,150	1.16	1,278	1.10	1,118	0.91
Substandard (secured)	1,427	1.63	2,130	2.15	1,243	1.07	854	0.68
Doubtful	1,152	1.31	1,175	1.18	1,188	1.02	972	0.78
Loss	1,555	1.78	920	0.93	927	0.80	1,080	0.86
Total Classified	10,474	11.95	10,655	10.75	10,015	8.62	9,724	7.75
Unclassified	77,158	88.05	88,503	89.25	106,168	91.38	115,698	92.25
Total	**87,632**	**100.00**	**99,159**	**100.00**	**116,183**	**100.00**	**125,422**	**100.00**
Allowance for Probable Losses								
Specific	3,454	80.61	3,319	77.61	2,939	71.64	3,097	71.09
General	831	19.39	957	22.39	1,164	28.36	1,260	28.91
Total	**4,285**	**100.00**	**4,276**	**100.00**	**4,103**	**100.00**	**4,356**	**100.00**

Note: Loans breakdown is gross of unearned discounts and allowance for credit losses

Non-Performing Loans

Unless otherwise stated, the presentation of the Bank's classification of its loan portfolio and related ratios in this section, including impairment losses and allowance for probable losses are on the basis of BSP guidelines.

Under BSP guidelines, loans are classified as non-accruing (or past due) if (i) any repayment of principal at maturity or any scheduled payment of principal or interest due quarterly (or longer) is not made when due and (ii) in the case of any principal or interest due monthly, if the amount due is not paid and has remained outstanding for three months. In the case of (i), such loans are treated as nonperforming if the payment is not made within a further 30 days. In the case of (ii), such loans are treated as non-performing upon the occurrence of the default in payment.

The following table shows the Bank's non-performing loans, non-performing assets, allowances and restructured loans.

	31 December			30 September
	2013	2014	2015	2016
Gross NPLs	3,655,420,773	3,865,679,321	4,397,573,101	4,475,439,320
Net NPLs	201,499,001	546,638,436	1,458,571,640	1,378,741,272
Gross Total Loan Portfolio (TLP)	100,194,336,858	100,708,954,019	118,579,227,317	125,447,434,560
Ratio of Gross NPLs to gross	3.65%	3.84%	3.71%	3.57%

	31 December			30 September
	2013	2014	2015	2016
TLP (%)				
Ratio of Net NPLs to gross TLP (%)	0.20%	0.54%	1.23%	1.10%
Real and other properties acquired (ROPOA, net of impairment & accumulated depreciation) - based on BSP formula	1,949,457,497	3,310,743,259	,3,800,438,963	2,747,691,574
Non-performing assets (NPA) - based on BSP formula	5,947,452,720	6,262,984,735	7,113,707,587	7,600,917,460
NPA as a percentage of total assets (%) * using total assets reported in the BSP Published Balance Sheet	4.61%	4.33%	4.23%	4.16%
NPA as a percentage of Gross Total Loan Portfolio (TLP) (%)	5.94%	6.22%	6.00%	6.06%
Allowance for probable loan losses (sum of general loan loss provision & specific allowance)	4,284,860,503	4,683,082,577	4,625,202,276	4,356,216,926
Allowance for probable losses (ROPA)	307,362,321	307,786,211	237,990,271	322,990,273
Allowance for probable loan losses as a percentage of total Gross NPL (%)	117.22%	110.62%	93.29%	97.34%
Total Allowance for probable losses (sum of allowance for probable loan losses & allowance for probable losses-ROPA) as a percentage of NPA (%)	77.21%	73.19%	61.02%	61.56%
Total restructured loans (gross of allowance)	577,881,557	715,478,658	633,087,101	215,508,323
Restructured loans to gross total loan portfolio (TLP)	0.58%	0.71%	0.53%	0.17%
Loans-written-off	2,064,640,992	1,082,671,159	831,783,772	616,789,300

** total assets reported in the BSP Published Balance Sheet*
Source: PSBank, based on BSP reports

The following table sets forth, as at the dates indicated, the Bank's gross NPLs by the respective borrowers' industry or economic activity and as a percentage of the Bank's gross NPLs:

(In ₱ millions)	31 December						30 September	
	2013	%	2014	%	2015	%	2016	%
Activities of households as employers and undifferentiated goods-and-services producing activities of households for own use	1,994	54.54	1,813	46.90%	2,124	48.30%	2,584	57.73%
Real estate activities	513	14.02	832	21.52%	964	21.93%	1,023	22.86%
Wholesale and retail trade, repair of motor vehicles and motorcycles	185	5.07	174	4.49%	253	5.76%	303	6.77%
Information and communication	8	0.23	11	0.27%	6	0.13%	2	0.05%
Financial and insurance activities	2	0.04	5	0.14%	5	0.10%	23	0.52%

(In ₱ millions)	31 December						30 September	
	2013	%	2014	%	2015	%	2016	%
Manufacturing	149	4.08	455	11.78%	430	9.78%	48	1.07%
Electricity, gas, steam and air-conditioning supply	30	0.82	30	0.78%	35	0.80%	66	1.46%
Transportation and storage	36	0.98	42	1.08%	50	1.13%	41	0.91%
Construction	31	0.84	34	0.87%	71	1.60%	31	0.68%
Water supply, sewerage, waste management and remediation activities	2	0.07	7	0.18%	6	0.14%	1	0.03%
Administrative and support service activities	29	0.79	7	0.17%	4	0.09%	67	1.50%
Accommodation and food service activities	6	0.16	12	0.30%	13	0.30%	13	0.29%
Human health and social work activities	1	0.02	2	0.05%	1	0.03%	8	0.18%
Education	2	0.05	1	0.03%	1	0.02%	9	0.19%
Professional, scientific and technical activities	6	0.18	25	0.65%	23	0.53%	-	-
Arts, entertainment and recreation	2	0.06	2	0.06%	1	0.01%	3	0.07%
Agriculture, forestry and fishing	1	0.03	1	0.02%	12	0.28%	24	0.53%
Mining and quarrying	1	0.02	0	0.00%	-	-	0	0.00%
Others	658	18.00	414	10.70%	398	9.04%	231	5.16%
Total	**3,655**	**100.00**	**3,866**	**100.00%**	**4,398**	**100.00%**	**4,475**	**100.00%**

Deposit Liabilities

The Bank offers a wide range of deposit products that primarily cater to consumer and retail customers. Deposit products include: Kiddie and Teen Savers Accounts, Instant ATM Savings, Regular Passbook Savings, Passbook with ATM, Overseas Filipino Savings, Regular Checking, Premium Checking, Prime Time Deposit, Peso Time Deposit, 1,2,and 3-Year Time Deposit, Dollar Savings, Dollar Time Deposit, Euro Savings, and Euro Time Deposit.

The following table shows the Bank's deposit liabilities according to type.

(in ₱ millions)	31 December (audited)			30 September (unaudited)
	2013	2014	2015	2016
Demand	9,051	10,609	12,907	14,417
Savings	16,181	18,503	22,836	26,149
Time	81,287	87,416	98,554	103,429
Total	**106,519**	**116,528**	**134,296**	**143,995**

Source: PSBank

As of 30 September 2016, Peso low-cost to total deposit ratio is 26.9% while total low-cost to total deposit ratio is 28.2%. The Bank's cost of deposit funds is typically at par with its competitors. The Bank lengthened the tenor of its funding liabilities by the introduction in 2001 of Prime TD for Peso Deposits and in 2008 of five-year USD TD for Dollar Deposits.

The following table shows the Bank's deposit liabilities by currency.

(in ₽ millions)	31 December						30 September	
	2013	%	2014	%	2015	%	2016	%
Current	**9,051**	**8.50**	**10,609**	**9.10**	**12,907**	**9.61**	**14,417**	**10.01**
Peso	9,051		10,609		12,907		14,417	
Foreign	-		-		-		-	
Savings	**16,181**	**15.19**	**18,503**	**15.88**	**22,836**	**17.00**	**26,149**	**18.16**
Peso	14,805		17,016		21,182		24,329	
Foreign	1,376		1,486		1,654		1,819	
Time	**81,287**	**76.31**	**87,416**	**75.02**	**98,554**	**73.39**	**103,429**	**71.83**
Peso	74,577		81,450		91,304		92,359	
Foreign	6,710		5,966		7,250		11,070	
Total	**106,519**	**100.00**	**116,528**	**100.00**	**134,296**	**100.00**	**143,995**	**100.00**

Source: PSBank

As of 30 September 2016, Peso deposits comprise 91.0% of the Bank's total deposit liabilities while the balance is from dollar deposits. Although the branch network is spread over the country, three-fourths of total deposit liabilities are from Metro Manila. Large fund providers (clients with deposits of at least ₽100.00 million) are monitored by Market Risk..

Subordinated Debt

The Bank obtains funds from the issuance of unsecured non-convertible subordinated debt securities which qualify as Tier II Capital under BSP guidelines for assessing capital adequacy. As of 30 September 2016, the Bank's outstanding subordinated debt was ₽5.96 billion. The following table sets forth information with respect to subordinated debt issued by the Bank as of 30 September 2016.

Particulars	**Issue Date**	**Maturity Date**	**Face Value**	**Carrying Value** ***(in ₽ millions)***		Coupon Rate/ Step-up
				31 December 2015 (audited)	**30 September 2016 (unaudited)**	
PSBank-2022**	February 20, 2012	February 20, 2022	3,000	2,978	2,980	5.75% p.a. until maturity
PSBank-2024*	May 23, 2014	August 23, 2024	3,000	2,974	2,976	5.50% p.a. until August 23, 2019; 5Y PDST-F + 1.4438% unless earlier redeemed
		TOTAL	**6,000**	**5,952**	**5,956**	

Notes:
** Recognized as qualifying capital only until December 31, 2015*
*** Qualified capital under Basel III*

The Bank's 2022 Peso notes qualified as capital instruments only until December 31, 2015 under the revised Basel III risk-based capital adequacy framework effective 2014. In its meeting held on July 22, 2016, the Board of Directors of Philippine Savings Bank, passed a resolution approving the exercise of the option to call on PSBank's 2022 Peso notes on February 21, 2017. The Bank received approval from the BSP to exercise its call option on the 2022 Peso notes on 13 September, 2016.

Capital Adequacy

The following table shows the Bank's capital base by category.

(in ₽ millions)	**31 December**			**30 September**
	2013*	**2014****	**2015****	**2016****
Tier 1 capital	15,292	16,869	18,174	16,213
Paid-up common stock	2,403	2,403	2,403	2,403
Additional paid-in capital	2,818	2,818	2,818	2,818
Retained earnings	7,221	9,395	10,903	12,669

(in ₱ millions)	31 December			30 September
	2013*	2014**	2015**	2016**
Undivided profits	2,892	2,224	2,369	1,791
Net unrealized gains or losses on AFS securities	-	71	37	156
Cumulative foreign currency translation	-41	-42	-43	-18
Others	-	-	-314	-471
Deductions from Tier 1 (applicable term used by BASEL II)	731			
Regulatory Adjustments to CET1 Capital (applicable term used by BASEL III)	-	2,268	2,878	3,136
Unsecured DOSRI	174	183	189	187
Deferred income tax	527	1,071	1,582	1,821
Goodwill	30	30	30	30
Other intangible assets		316	391	388
Significant minority investments (10%-50% of voting stock) in banks and quasi-banks, and other financial allied undertakings after deducting related goodwill, if any (for both solo and consolidated bases)	-	668	686	710
Total Tier 1 capital	14,561	-	-	-
Total Common Equity TIER 1 Capital	-	14,601	15,296	16,213
General loan loss provisions (limited to 1.00% of credit risk-weighted assets)	831	-	-	-
General loan loss provision, limited to a maximum of 1% of credit risk-weighted assets, and any amount in excess thereof shall be deducted from the credit risk-weighted assets in computing the denominator of the risk-based capital ratio	-	914	1,024	1,155
Tier 1 capital	14,561	-	-	-
Common Equity Tier 1 Capital	-	14,601	15,296	16,213
Tier 2 capital	3,799	6,851	6,962	4,131
Deduction from Tier 1 & Tier 2 Capital	1,341	-	-	-
Net Tier 1 Capital	13,891	14,601	15,296	16,213
Net Tier 2 Capital	3,128	6,851	6,962	4,131
Unsecured subordinated debt (Tier 2) under Basel II	2,968	-	-	-
Instruments issued by the bank that are eligible as Tier 2 capital under Basel III	-	5,938	5,938	2,976
Total qualifying capital	17,019	21,452	22,258	20,344

* using Basel II template / format
** using Basel III template / format
Source: PSBank

As of 30 September 2016, total capital adequacy ratio was at 15.01% while its Tier 1 capital adequacy ratio was at 11.96 %. As of 31 December 2013, 2014 and 2015, the Bank's total capital adequacy ratio stood at 16.92%, 19.57%, 18.04%, respectively. As of 31 December 2013, 2014 and 2015, the Bank's Tier 1 capital adequacy ratio stood at 13.81%, 13.32%, 12.40%, respectively.

As the thrift bank arm of Metrobank, the Bank is compliant with Basel III requirements and undergoes an annual ICAAP exercise. The target of the Bank is above 10.00% CAR even with the expansion of its loan portfolio.

Risk Management

Responsibility for managing risks rests on every employee of the Bank. The Bank's Board and senior management are actively involved in planning, approving, reviewing, and assessing risks through various committees. The parameters they set govern all their risk-taking activities. In 2016, the Bank continued to strengthen its credit practices and controls and developed its internal loan loss models in compliance with BSP Circular 855 for sound credit risk management. The Bank likewise enhanced its tools for operational and fraud risk management as required under BSP Circular 900. For Market Risk Management, we expanded our tools to include the Liquidity Coverage Ratio which complies with BSP Circular 905 to monitor liquidity risk.

Risk Management Structure

The Board of Directors takes the lead in all major initiatives. It approves broad risk management strategies and policies, and ensures that these are consistent with the Bank's overall objectives.

The Risk Oversight Committee (ROC) is comprised of at least three members of the Board, including at least one independent director, and a chairperson who is a non-executive member. They possess expertise and knowledge of the Bank's risk exposures, which enable them to develop appropriate strategies for preventing or minimizing the impact of losses.

The Board may also appoint non-Directors to the ROC as part of the Metrobank Group's risk oversight measures. However, only Bank Directors shall be considered as voting members of the ROC. Nonvoting members are appointed in an advisory capacity.

Overall responsibility for the Bank's risk management process rests with the ROC. It formulates policies and strategies to identify, measure, manage and limit the Bank's risks. The ROC ensures that the system of limits approved by the Board remains effective. It also makes certain that limits are observed and that immediate corrective actions are taken whenever needed. The Risk Management Office (RMO), together with the President, various committees and management, support the ROC in the fulfillment of its duties and responsibilities.

RMO is independent from executive functions and business line responsibilities, operations and revenue-generating functions. It reports directly to the Board through the ROC.

The RMO supports the ROC in carrying out its responsibilities by:

- Analyzing, communicating, implementing and maintaining the risk management policies approved by the ROC and the Board;
- Spearheading the regular review of the Bank's risk management policies and elevating recommendations that enhance the risk management process to the ROC and the Board, for their approval; and
- Ensuring that the risks arising from the Bank's activities are identified, measured, analyzed, reported and understood by risk takers, management, and the Board. It analyzes limit exceptions and recommends enhancements to the limits structure.

Risk Management is responsible for:

- identifying the key risk exposures and assessing and measuring the extent of risk exposures of the bank and its trust operations;
- monitoring the risk exposures and determining the corresponding capital requirement in accordance with the Basel III capital adequacy framework and based on the Bank's internal capital adequacy assessment on an ongoing basis;

- monitoring and assessing decisions to accept particular risks whether these are consistent with Board-approved policies on risk tolerance and the effectiveness of the corresponding risk mitigation measures; and
- reporting on a regular basis to Senior Management and the Board the results of assessment and monitoring.

Various Types of Risk

Credit Risk

This is the risk where a counterparty fails to meet its contractual obligation. The Bank's lending business follows credit policy guidelines set by the Board, ROC, and RMO. These guidelines serve as the Bank's minimum standards for extending credit. Everyone engaged in the credit process are required to understand and adhere to these policies.

The Bank's product manuals contain business plans and define the business parameters by which credit activity is to be performed. Before extending a loan, the Bank observes a system of checks and balances, including the approval of at least two credit officers through the Credit Committee (Crecom), Executive Committee (Excom), or the Board. The ROC reviews the Bank's business strategies and ensures that revenue-generating activities meet risk standards. The Bank holds regular audit across the organization. Its Board – through the Excom, Crecom, and ROC – ensures that all business segments follow sound credit policies and practices.

The Bank manages risk concentration by type of individual or group of borrowers, by geographical region, and by industry sector. It assesses the credit quality of financial assets using the BSP's credit classifications. The Bank uses credit scoring models and decision systems for consumer loans, and borrower risk rating and facility risk rating models for SME loans, as approved by the Board.

The Bank carries out stress testing analyses using Board-approved statistical models relating the default trends to macroeconomic indicators. In 2013, enhanced stress testing models and stress limits were implemented for consumer loans.

Market Risk

This covers the areas of trading, interest rate, and liquidity risks. Trading market risk is the risk to earnings and capital arising from changes in the value of traded portfolios of financial instruments. Interest rate risk arises from movements in interest rates. Liquidity risk is the inability to meet obligations when they fall due without incurring unacceptable losses.

The Bank's market risk policies and implementing guidelines are regularly reviewed by the Assets & Liabilities Committee (ALCO), ROC and the Board to ensure that these are up-to-date and in line with changes in the economy, environment and regulations.

The ROC and the Board set the comprehensive market risk limit structure and define the parameters of market activities that the Bank can engage in. The Bank utilizes various measurement and monitoring tools to ensure risk-taking activities are managed within instituted market risk parameters.

Trading Market Risk

The Bank's trading portfolios are currently composed of peso and dollar-denominated sovereign debt securities that are marked-to-market daily.

The Bank uses Value-at-Risk (VaR) to measure the extent of market risk exposure arising from these portfolios. VaR is a statistical measure that calculates the maximum potential loss from a portfolio over a holding period, within a given confidence level. The Bank's current VaR model is based on a historical simulation methodology with a one-day holding period and a 99% confidence level.

The Bank also performs back testing to validate the VaR model, and stress testing to determine the impact of extreme market movements on the Bank's portfolios. It has established position limits for its trading portfolios and closely monitors its daily profit and loss against loss triggers and stop-loss limits.

To a certain extent, the Bank also carries foreign exchange (FX) risk. It is the Bank's policy to maintain exposures within approved position, stop loss, loss trigger, VaR limits and to remain within regulatory guidelines. The Bank also uses VaR to measure market risk arising from its FX exposure.

Structural Interest Rate Risk

The interest rate sensitivity gap report measures interest rate risk by identifying gaps between repricing assets and liabilities. The Bank's sensitivity gap model calculates the effect of possible rate movements on its interest rate profile.

The Bank uses the sensitivity gap model to estimate its Earnings-At-Risk (EAR) should interest rates move against the Bank's interest rate profile. The Bank's EAR limits are based on a percentage of the Bank's projected earnings and capital for the year. The Bank also performs stress-testing analysis to measure the impact of various scenarios based on interest rate volatility and shift in the yield curve.

The ALCO is responsible for managing PSBank's structural interest rate exposure. Its goal is to achieve a desired overall interest rate profile while remaining flexible to interest rate movements and changes in economic conditions. RMO and ROC review and oversee its interest rate risks.

Liquidity Risk

In managing its liquidity position, the Bank ensures that it has more than adequate funds to meet its maturing obligations. The Bank uses the Maximum Cumulative Outflow (MCO) Model to measure liquidity risk arising from the mismatches of its assets and liabilities.

The Bank administers stress testing to assess its funding needs and strategies under different conditions. Stress testing enables the Bank to gauge its capacity to withstand both temporary and long-term liquidity disruptions.

The Liquidity Contingency Funding Plan (LCFP) helps the Bank anticipate how to manage a liquidity crisis under various stress scenarios. Liquidity limits for normal and stress conditions cap the projected outflows on a cumulative and per tenor basis.

The Bank also uses the Liquidity Coverage Ratio (LCR) to ensure that is has sufficient High Quality Liquid Assets to cover its net outflow within a 30 day period.

ALCO is responsible for managing the liquidity of the Bank while RMO and ROC review and oversee the Bank's overall liquidity risk management.

The tables below set forth the Bank's structural liquidity gap position as of 30 September 2016 (the maturity profile of financial instruments and gross-settled derivatives based on contractual undiscounted cash flows). The analysis is based on the remaining period from the end of the reporting period to the contractual maturity date, or if earlier, the expected date the asset will be realized on the earliest period in which the Bank can be required to pay its liabilities.

Performing Financial Assets and Financial Liabilities – Peso and Foreign Regular Accounts (amounts in ₱ millions)

Performing Financial Assets and Financial Liabilities – Peso and Foreign Regular Accounts (amounts in ₱ millions)								
Maturity	**Up to one month**	**Over one month to three months**	**Over three months to 12 months**	**Over one year to three years**	**Over three years to five years**	**Over five years to 15 years**	**Over 15 years**	**Total**
Asset Accounts								
Due from BSP	11,037	-	-	-	-	-	-	**11,037**
Due from Other Banks	265	-	-	-	-	-	-	**265**
Financial Assets Held for Trading (excluding equity securities)	36	-	-	-	-	-	-	**36**
(a) Held For Trading Securities	-	-	-	-	-	-	-	**0**
(i) National Government Securities	-	-	-	-	-	-	-	**0**
(ii) Other Securities	-	-	-	-	-	-	-	**0**

Performing Financial Assets and Financial Liabilities – Peso and Foreign Regular Accounts (amounts in ₱ millions)								
Maturity	**Up to one month**	**Over one month to three months**	**Over three months to 12 months**	**Over one year to three years**	**Over three years to five years**	**Over five years to 15 years**	**Over 15 years**	**Total**
(b) Derivatives with Positive Fair Value	36	-	-	-	-	-	-	**36**
Financial Assets Designated at Fair Value through Profit or Loss (excluding equity securities)	-	-	-	-	-	-	-	**-**
(a) National Government Securities	-	-	-	-	-	-	-	**-**
(b) Other Securities	-	-	-	-	-	-	-	**-**
Available-for-Sale Financial Assets (excluding equity securities)	-	-	40	1,574	1,020	1,588	1,972	**6,193**
(a) National Government Securities	-	-	40	540	102	1,124	1,972	**3,778**
(b) Other Securities	-	-	-	-	-	-	-	**-**
Held-to-Maturity Financial Assets	0	0	0	307	1,401	3,921	5,565	**11,193**
(a) National Government Securities	0	0	0	0	301	3,511	5,565	**9,376**
(b) Other Securities	0	0	0	307	1,100	410	0	**1,817**
Unquoted Debt Securities Classified as Loans	0	0	0	0	0	0	0	**0**
(a) National Government Securities	0	0	0	0	0	0	0	**0**
(b) Other Securities	0	0	0	0	0	0	0	**0**
Loans and Receivables	710	1,493	6,015	21,400	50,393	31,329	9,575	**120,915**
Disclosure: Of which Interbank Loans Receivable	0	0	0	0	0	0	0	**0**
Loans and Receivables Under Repurchase Agreements and Securities Lending and Borrowing Transactions	0	0	0	0	0	0	0	**0**
Derivatives with Positive Fair Value Held for Hedging	0	0	0	0	0	0	0	**0**
Sales Contract Receivable	0	0	0	20	64	42	0	**126**
Accrued Interest Income from Financial Assets	1,073	0	0	0	0	0	0	**1,073**
Due from H.O./Branches/Agencies Abroad - (Philippine branch of a foreign bank)	0	0	0	0	0	0	0	**0**
Others	0	0	0	0	0	0	0	**0**
Total Asset Accounts	13,121	1,493	6,055	23,301	52,878	36,879	17,111	**150,838**
Liability Accounts	0	0	0	0	0	0	0	**0**
Financial Liabilities Held for Trading	174	0	0	0	0	0	0	**174**
Financial Liabilities Designated at Fair Value through Profit or Loss	0	0	0	0	0	0	0	**0**

Performing Financial Assets and Financial Liabilities – Peso and Foreign Regular Accounts (amounts in ₱ millions)								
Maturity	**Up to one month**	**Over one month to three months**	**Over three months to 12 months**	**Over one year to three years**	**Over three years to five years**	**Over five years to 15 years**	**Over 15 years**	**Total**
Deposit Liabilities	62,526	44,358	4,868	206	7	19,140	0	**131,105**
Due to Other Banks	0	0	0	0	0	0	0	**0**
Bills Payable	900	0	0	0	0	0	0	**900**
Bonds Payable	0	0	0	0	0	0	0	**0**
Unsecured Subordinated Debt	0	0	4,468	0	0	1,488	0	**5,956**
Redeemable Preferred Shares	0	0	0	0	0	0	0	**0**
Financial Liabilities Associated with Transferred Assets	0	0	0	0	0	0	0	**0**
Derivatives with Negative Fair Value Held for Hedging	0	0	0	0	0	0	0	**0**
Accrued Interest Expense on Financial Liabilities	136	0	0	0	0	0	0	**136**
Finance Lease Payment Payable	0	0	0	0	0	0	0	**0**
Due to H.O./Branches/Agencies Abroad - (Philippine branch of a foreign bank)	0	0	0	0	0	0	0	**0**
Others	0	0	0	0	0	0	0	**0**
Total Liability Accounts	63,736	44,358	9,336	206	7	20,629	0	**138,271**
Net	**(50,614)**	**(42,864)**	**(3,281)**	**23,094**	**52,871**	**16,251**	**17,111**	**12,567**

Source: PSBank

Performing Financial Assets and Financial Liabilities – FCDU / EFCDU (in US$ millions)								
Maturity	**Up to one month**	**Over one month to three months**	**Over three months to 12 months**	**Over one year to three years**	**Over three years to five years**	**Over five years to 15 years**	**Over 15 years**	**Total**
Asset Accounts								
Due from BSP	0	0	0	0	0	0	0	**0**
Due from Other Banks	18	0	0	0	0	0	0	**18**
Financial Assets Held for Trading (excluding equity securities)	4	0	0	0	0	0	0	**4**
(a) Held For Trading Securities	4	0	0	0	0	0	0	**4**
(i) National Government Securities	4	0	0	0	0	0	0	**4**
(ii) Other Securities	0	0	0	0	0	0	0	**0**
(b) Derivatives with Positive Fair Value	0	0	0	0	0	0	0	**0**
Financial Assets Designated at Fair Value through Profit or Loss (excluding equity securities)	0	0	0	0	0	0	0	**0**
(a) National Government	0	0	0	0	0	0	0	**0**

Performing Financial Assets and Financial Liabilities – FCDU / EFCDU (in US$ millions)								
Maturity	**Up to one month**	**Over one month to three months**	**Over three months to 12 months**	**Over one year to three years**	**Over three years to five years**	**Over five years to 15 years**	**Over 15 years**	**Total**
Securities								
(b) Other Securities	0	0	0	0	0	0	0	**0**
Available-for-Sale Financial Assets (excluding equity securities)	0	0	0	0	4	131	57	**192**
(a) National Government Securities	0	0	0	0	0	72	57	**129**
(b) Other Securities	0	0	0	0	4	59	0	**63**
	0	0	0	0	0	0	0	**0**
Held-to-Maturity Financial Assets	0	0	7	3	5	144	31	**190**
(a) National Government Securities	0	0	0	0	0	133	31	**164**
(b) Other Securities	0	0	7	3	5	12	0	**26**
Unquoted Debt Securities Classified as Loans	0	0	0	0	0	0	0	**0**
(a) National Government Securities	0	0	0	0	0	0	0	**0**
(b) Other Securities	0	0	0	0	0	0	0	**0**
Loans and Receivables	0	0	0	0	0	0	0	**0**
Disclosure: Of which Interbank Loans Receivable	0	0	0	0	0	0	0	**0**
Loans and Receivables Under Repurchase Agreements and Securities Lending and Borrowing Transactions	0	0	0	0	0	0	0	**0**
Derivatives with Positive Fair Value Held for Hedging	0	0	0	0	0	0	0	**0**
Sales Contract Receivable	0	0	0	0	0	0	0	**0**
Accrued Interest Income from Financial Assets	4	0	0	0	0	0	0	**4**
Due from H.O./Branches/Agencies Abroad - (Philippine branch of a foreign bank)	0	0	0	0	0	0	0	**0**
Others	0	0	0	0	0	0	0	**0**
Total Asset Accounts	26	0	7	3	10	275	88	**409**
Liability Accounts	0	0	0	0	0	0	0	**0**
Financial Liabilities Held for Trading	0	0	0	0	0	0	0	**0**
Financial Liabilities Designated at Fair Value through Profit or Loss	0	0	0	0	0	0	0	**0**
Deposit Liabilities	83	143	38	2	0	0	0	**266**
Due to Other Banks	0	0	0	0	0	0	0	**0**
Bills Payable	123	0	0	0	0	0	0	**123**

Performing Financial Assets and Financial Liabilities – FCDU / EFCDU (in US$ millions)								
Maturity	**Up to one month**	**Over one month to three months**	**Over three months to 12 months**	**Over one year to three years**	**Over three years to five years**	**Over five years to 15 years**	**Over 15 years**	**Total**
Bonds Payable	0	0	0	0	0	0	0	**0**
Unsecured Subordinated Debt	0	0	0	0	0	0	0	**0**
Redeemable Preferred Shares	0	0	0	0	0	0	0	**0**
Financial Liabilities Associated with Transferred Assets	0	0	0	0	0	0	0	**0**
Derivatives with Negative Fair Value Held for Hedging	0	0	0	0	0	0	0	**0**
Accrued Interest Expense on Financial Liabilities	0	0	0	0	0	0	0	**0**
Finance Lease Payment Payable	0	0	0	0	0	0	0	**0**
Due to H.O./Branches/Agencies Abroad - (Philippine branch of a foreign bank)	0	0	0	0	0	0	0	**0**
Others	0	0	0	0	0	0	0	**0**
Total Liability Accounts	206	143	38	2	0	0	0	**389**
Net	**(179)**	**(143)**	**(31)**	**1**	**10**	**275**	**88**	**20**

Source: PSBank

Operational Risk

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. To mitigate these, the Bank constantly strives to maintain a strong "control culture," prudent use of technology and effective internal control system, which are key factors towards continuous self-improvement under a "no-surprise" operating environment.

The Bank's Board-approved bankwide organizational chart clearly establishes areas of management responsibility, accountability and reporting lines for all its senior officers. Operational risk management policies and frameworks are continuously reviewed and updated, subject to ROC and Board approvals to ensure that they remain relevant and effective.

The Bank's products and operating manuals, policies and procedures spell out internal controls implemented by its business and operating support units. Its Internal Audit Group (IAG) provides independent reasonable assurance on control adequacy and compliance with these manuals. The Bank continually identifies and assesses operational risks across the organization and develops controls to mitigate and manage them as part of continuing efforts to enhance its Operational Risk Management Framework.

To ensure that the Bank manages all operational risks adequately, specialized functions are engaged in risk management. These include Information Technology and Quality Assurance, Information Security, Financial Control, Legal, Compliance, Human Resources and Security Command. IAG regularly reports to the Board's Audit Committee on the effectiveness of internal controls.

The Bank likewise has a Business Continuity Plan and a Disaster Recovery Program that are reviewed and tested annually on a per segment and bankwide basis to ensure their effectiveness in case of business disruptions, system failures and disasters.

Technology Risk

Technology risk is the risk to earnings or capital arising from deficiencies in systems design, implementation, maintenance of systems or equipment and the failure to establish adequate security measures, contingency plans, testing and auditing standards.

To provide simpler, faster, more convenient and secured banking services to its growing clientele and to avail of an advanced management information system that enables the Bank to make fast and well-informed business decisions, it continually invests in Information Technology by venturing into core business process automations, key system enhancements, and information security solutions.

Given this heavily automated operating environment, the Bank makes sure that it continuously identifies and quantifies risks to the greatest extent possible and establishes controls to manage technology-associated risks through effective planning, proper implementation, periodic measurement and monitoring of performance.

Legal Risk

Legal risk is the potential loss due to nonexistent, incomplete, incorrect, and unenforceable documentation that the Bank uses to protect and enforce its rights under contracts and obligations.

A legal review process, which its Legal Department performs, is the primary control mechanism for this type of risk to ensure that the Bank's contracts and documentation adequately protects its interests and complies with applicable legal and regulatory requirements.

Regulatory Risk

Regulatory Risk, also known as Compliance Risk, covers the potential loss from non-compliance with laws, rules and regulations, policies and procedures, and ethical standards.

The Bank recognizes that compliance risk can diminish its reputation, reduce its franchise value, limit its business opportunities, and reduce its potential for expansion. Thus, the Bank, guided by its Compliance Office, continuously promotes a culture of compliance.

Strategic Risk

Strategic risk is the current and prospective impact on earnings or capital arising from adverse business decisions, improper resolution of conflicts, and slow response to industry changes.

Strategic risk can influence the Bank's long-term goals, business strategies, and resources. Thus, the Bank utilizes both tangible and intangible resources to carry out its business strategies. These include communication channels, operating systems, delivery networks, and managerial capacities and capabilities.

Reputational Risk

Reputational risk is the current and prospective impact on earnings or capital arising from negative public opinion. This affects the Bank's ability to establish new relationships or services, or manage existing relationships. The risk may expose the Bank to litigation, financial loss, or a decline in customer base.

All employees are responsible for building the Bank's reputation and exercising an abundance of caution when dealing with customers and communities.

Recent Fraud Cases or Money Laundering Cases

There have been no significant fraud nor any known money laundering cases recently encountered.

Research and Development

The Bank utilizes various consumer research studies to develop new or enhance existing products and marketing programs. It maximizes the use of customer surveys to measure customer satisfaction drivers such as speed in processing, complaint handling and problem resolution, and as a feedback mechanism, to improve customer service. The Bank also supports heavily its products and service delivery with relevant technology applications.

Involvement in Certain Legal Proceedings

Several suits and claims relating to the Bank's lending operations and labor-related cases remain unsettled. In the opinion of the management, these suits and claims, if decided adversely, will not involve sums having material effect on the financial statements.

Corporate Governance

The Bank has a strong commitment to excellence in corporate governance. The Bank continually strives for high standards and pursues new approaches that ensure greater transparency and integrity in what it does.

Governance culture

The Bank sees its compliance with applicable laws, rules and regulations as a minimum requirement. Going beyond such minimum is the true essence of good corporate governance. The Bank always aims to continually build the trust and confidence of its stakeholders by running its business in a prudent and sound manner, being fair and transparent in all its dealings, providing reliable and better service in response to the ever-growing expectations of its customers, and working with integrity and accountability.

Core governance policies

The policies and guidelines embodied in the Bank's annually updated Corporate Governance Manual, as posted in its website, www.psbank.com.ph, and in its intranet site, InfoChannel, for the guidance of all its stakeholders, primarily revolve around the following three basic values that the Bank observes.

Fairness

The Bank sees to it that all its dealings with counterparties and other stakeholders are fairly conducted. The Bank ensures that all such dealings, especially with its related parties, are made in the regular course of its business and upon terms not less favorable to us than those offered to others. It is for this particular reason that the Bank initiated the creation of its Board-level Related Party Transactions Committee (RPTC) to help ensure that its transactions with related parties are conducted at arm's length and that its resources are not misappropriated, in accordance with its Board-approved Related Party Transactions (RPT) policy and its specific guidelines and handling procedures.

The Bank also ensures that all its stockholders are treated equally and without discrimination by preserving all stockholders' rights and protecting its minority stockholders' interests including the latter's right to nominate candidates to its Board of Directors.

Integrity and Accountability

The Bank upholds at all times the value of honesty as a best policy. The Bank believes that its reputation precedes it in the business of trust and confidence. The Bank continues to enhance a working culture of integrity, guided by a Code of Conduct that defines the standards that the Bank must follow in all its business dealings and relationships.

Code of Conduct

Our Code of Conduct includes provisions on:
- Disciplinary process;

- General policies to establish a professional working environment and secure a favorable reputation for the Bank;
- Corrective measures for unacceptable behavior or failure to comply with its rules, such as on Financial Consumer Protection and on Anti-Money Laundering/Terrorism Financing, policies and procedures;
- Schedule of penalties for attendance and punctuality, attire requirements, conduct and behavior, dishonesty, health, safety and security, reporting of violations, and information security; and
- Provisions on management of personal finances, conflict of interest, anti-sexual harassment, non-disclosure of information and insider information.

Insider Trading

Under the Bank's Policy Against Insider Trading, reporting insiders are required to disclose their and their associates' initial beneficial ownership in PSBank shares and any changes thereof within two trading days after their election/ appointment in office and from date of said changes, respectively. They are likewise prohibited from selling or buying PSBank shares during "blackout periods," i.e., upon obtaining material non-public information up to two trading days after such information is disclosed. The Bank did not have any trading transactions with its reporting insiders and/or their associates in 2015.

Whistle-blowing

In addition, the Bank is also bound by a "whistle-blowing" policy that requires all employees to immediately report to their Group Heads, directly to the Human Resources Group Head, or to the Chief Audit Executive/ Internal Audit Group Head for investigation purposes, any noted impropriety or malpractice committed by a co-employee/s. Concealment or non-reporting is considered as an impropriety or malpractice in itself. The policy likewise requires the due protection of informants, i.e., employees reporting such incidents in good faith, from any form of harassment. Thus, it considers any attempt to determine their identities as a breach of confidentiality subject to disciplinary sanctions.

Transparency and Open Communication

The Bank abides by various disclosure requirements of the Bangko Sentral ng Pilipinas (BSP), the Securities and Exchange Commission (SEC), and the Philippine Stock Exchange (PSE) as a publicly listed company. The Bank ensures that it is transparent to its shareholders by posting the latest public disclosures on the Investor Relations section of its website and in its press releases. In compliance with SEC Memorandum Circular No. 11 s2014, the Bank has also updated its website since 2014 to include all required disclosures in accordance with the SEC-prescribed web template for its stakeholders to readily check its corporate governance practices.

The Bank also maintains an open communication line and uses feedback from its stakeholders to develop better policies, products and services. The Bank likewise accommodates requests for information pertaining to the management of the Bank, stockholders rights, or any other Bank-related matters, while remaining mindful of disclosure limitations under existing laws on bank deposits secrecy and data privacy.

The Bank's Corporate Governance Manual (CGM) serves as a valuable guide and reference in its implementation of corporate governance rules and regulations of both the BSP and the SEC. In 2015, the Bank updated its CGM primarily to incorporate recent regulatory issuances relative to corporate governance.

Board Oversight

Board of Directors. The Board of Directors sets the Corporate Governance tone in the organization by ensuring adherence to its principles and standards. It is accountable to its stakeholders in running the Bank in a prudent and sound manner. It is primarily responsible for approving and overseeing the implementation of its strategic objectives, risk strategy, corporate governance and corporate values.

There are a total of nine directors in its Board who are all qualified business professionals with the required expertise and experience in directing the Bank's strategic path. These directors were selected based on their qualifications (i.e. integrity/probity, physical/mental fitness, competence, relevant education/financial literacy/training, diligence and knowledge/experience) without discrimination on gender, age and ethnic/political/religious/cultural backgrounds.

In accordance with the Bank's By-Laws, directors are elected by the vote of the holders of common stock of the Bank in accordance with Section 24 of the Corporation Code and other pertinent applicable laws. Any stockholder may submit nominations for directorial positions to the Nominations Committee. The Committee then screens the qualifications of the nominees in accordance with screening policies & procedures and parameters including alignment with the Bank's strategic directions in order to come up with a Final List of Candidates. Only nominees whose names appear in the said list are considered for election as directors at the annual meeting of the stockholders. Any vacancies occurring in the Board of Directors may be filled by the vote of at least a majority of the remaining directors, if still constituting a quorum. Vacancies occurring by reason of removal by the stockholders, by expiration of term or by increase in the number of directors, however, shall be filled by the stockholders in a regular or special meeting called for that purpose.

The Bank has consistently maintained the presence of independent directors who provide independent judgment, outside experience and objectivity. Of the nine Board members, three are independent directors, including its Board Chairman. This is more than the required minimum number of independent directors. The Bank does not have any director holding more than five board seats in other publicly listed companies.

The Bank's Board Chairman provides active leadership by ensuring that the Board and its various committees function effectively, including maintaining a relationship of trust among Board members. The Chairman also ensures that its Board follows a sound decision-making process.

Individual directors are tasked to observe the fit and proper rule. They are expected to conduct fair business dealings, avoid conflict of interest, and observe confidentiality. They must act honestly, judiciously and in good faith, and uphold the best interest of its Bank and its stakeholders. They must also devote time and attention to their duties and responsibilities and contribute to its Board's decision-making process. They must exercise independent judgment and have a working knowledge of laws, rules and regulations applicable to the Bank.

All new members of the Board of Directors are provided with a comprehensive training on corporate governance as part of the Bangko Sentral's requirements in their confirmation of elected bank directors. Together with the Bank's principal officers, its directors attended in 2015 an annual refresher program on corporate governance (pursuant to SEC Memorandum Circular No. 20 s2013) conducted by SEC-accredited training providers as well as an Anti-Money Laundering (AML) seminar for Board of Directors and Senior Management conducted by the Anti-Money Laundering Council (AMLC).

The Board has access to its Corporate Secretary who manages the flow of information to the Board prior to the meetings. The Office of the Corporate Secretary plays a significant role in supporting the Board in discharging its responsibilities. It administers, attends and prepares minutes of board meetings and ensures that notices required under the By-Laws are given to all directors and stockholders.

The Board also reviews and approves all manuals to ensure that regulatory changes and best practices are included. They have access to a permanent compilation of documents related to past Board activities. They can readily seek clarification from Senior Management should they have concerns about its Bank or any item submitted for their consideration.

Board and Board Committee Meetings. In 2015, the Bank's Board had 12 regular meetings, in addition to the annual stockholders and organizational meetings. The Bank's directors recorded a 98% attendance rate.

Board Committees. A number of Board-level committees were created to aid the Board in its various tasks to ensure efficiency and provide greater focus. Four of these committees are in charge of governance oversight functions, as follows:

- The **Corporate Governance Committee** is tasked to assist the Board in fulfilling its duties and responsibilities and monitoring its adherence to the corporate governance principles and guidelines set forth in its Corporate Governance Manual. It also oversees the development and effective implementation of its compliance system. The Committee is composed of three Directors, two of whom are independent directors, including the committee chairperson. The Committee meets monthly and is supported by its Compliance Office (CO).

- The **Risk Oversight Committee (ROC)** is responsible for the development and oversight of the Bank's risk management program. The Committee is currently composed of four members of the Board of Directors and one non-voting member appointed as advisor. The incumbent Committee Chairperson is a non-executive member and is an independent director. The ROC members possess a range of expertise and adequate knowledge of the Bank's risk exposures, which is needed to develop appropriate strategies for preventing or minimizing losses. The Committee meets monthly and is supported by the Risk Management Office (RMO).

- The **AML Oversight Committee** was created in 2014 to assist the Board in fulfilling its oversight responsibility over the Bank's compliance management to make sure that the Bank complies with the provisions of the AMLA, as amended, its Revised Implementing Rules and Regulations (RIRRs) and BSP AML regulations to the end that the Bank shall not be used as a vehicle to legitimize the proceeds of unlawful activity or to facilitate or finance terrorism. This committee is composed of four Directors, one of whom is an independent director who is the committee chairperson. The committee meets monthly and is supported by the Compliance Office (CO).

- The **Audit Committee** is designated to provide independent oversight for the Bank's financial reporting process, corporate governance, system of internal control and risk management, internal and external audit functions, and monitoring of compliance with Bank policies, applicable laws, rules, regulations and Code of Conduct. It is composed of three Directors, two of whom are independent, including the committee chairperson. These members have auditing, accounting or related financial management expertise or experience commensurate with the size, complexity of operations and risk profile of the Bank. The Committee meets monthly and as needed; and is supported by its Internal Audit Group (IAG).

Other Board-level committees are as follows:

- The **Executive Committee** is tasked to regularly review and approve credit proposals within the Bank's limits. It recommends additional conditions and requirements on loan applications for Board approval. The Committee is composed of three Directors including the President, the Credit Administration Group (CAG) Head and a credit representative from the Bank's parent Metrobank.

- The **Related Party Transactions Committee** is tasked to assist the Board in ensuring that transactions with related parties are reviewed, appropriate restrictions are followed, and corporate resources are judiciously used. The Committee is composed of three Directors, two of whom are independent directors, including the committee chairperson. The Committee meets monthly and is also supported by the Compliance Office (CO).

- The **Trust Committee** is a special committee tasked to be primarily responsible for overseeing the fiduciary activities of the Bank. The Committee is composed of five members: the President, the non-voting Trust Officer, two non-executive directors and an independent director who is the committee chairperson. The Committee meets quarterly and is supported by the Trust Division.

- The **Nominations Committee** is tasked to review and evaluate all nominees to the Board. The Committee is composed of three Directors, two of whom are independent, including the committee chairperson. The Committee is duly guided by the Bank's charter, as well as BSP guidelines for the qualification and disqualification of directors found in the Manual of Regulations for Banks. The Committee meets at least once a year and is supported by the Corporate Affairs Office and Corporate Secretary.

- The **Compensation and Remuneration Committee** is tasked to establish a formal and transparent procedure for developing a policy on executive remuneration. The Committee is composed of three members of the Board, two of whom are independent directors, including the committee chairperson. The Human Resources Group (HRG) Head sits in the committee as a resource person. The Committee meets at least once a year and is supported by the Human Resources Group (HRG).

Senior Management Oversight

Senior Management. The Bank's Senior Management Team, headed by its President as the Chief Executive Officer (CEO), consists of a core group of senior officers who manage its day-to-day operations and business affairs. They exercise good governance by ensuring that line managers under their respective areas of responsibility execute their activities in a manner consistent with Board-approved policies and procedures. These should be aligned with applicable laws, rules and regulations as well as standards of good practice.

Management Committees. To achieve efficiency and provide greater focus for its Senior Management in overseeing key areas of banking operations, various Management-level committees were also created, as follows:

- The Assets and Liabilities Committee (ALCO) is tasked to manage the Bank's assets and liabilities consistent with its liquidity, capital adequacy, growth, risk tolerance and appetite and profitability goals.

- The Credit Committee (CRECOM) is tasked to regularly review and approve credit proposals within the authority and limits provided by the Board.

- Anti-Money Laundering Compliance Committee (AMLCC) is tasked to assist the Compliance Office in reviewing, managing and monitoring the effectiveness of the Bank's Money Laundering and Terrorism Financing Prevention Program (MLTFFP) and related policies and procedures to ensure the Bank's continuing compliance with the provisions of the Anti-Money Laundering Act (AMLA), as amended, the Bank's Revised Implementing Rules & Regulations (RIRRs), and BSP Anti-Money Laundering regulations.

- Outsourcing Oversight Committee (OOC) is tasked to oversee the accreditation of service providers, performance monitoring, post-implementation reviews and contract renewals in accordance with the Bank's Board-approved risk-based Outsourcing Policy Guidelines pursuant to existing BSP rules and regulations on outsourcing.

- IT Steering Committee (ITSC) is tasked to cohesively monitor IT performance and institute appropriate actions to ensure achievement of desired results. It is accountable for designing and implementing its Board-approved Information Technology Risk Management System (ITRMS).

- Emergency Committee (EMCOM) is tasked to manage and monitor the effective implementation of its Business Continuity Plan (BCP). It aims to provide the Bank with the capability to continue its critical functions and processes by identifying, assessing and managing emergency scenarios and other business interruptions.

- Policy Committee (POLCOM) is tasked to resolve policy- related issues which require escalation or cross-functional discussion for resolution.

- Personnel Committee (PERCOM) is tasked to assist Senior Management in evaluating the performance and career growth/advancement of the Bank's employees, deciding on employee offenses/administrative cases and in maintaining personnel policies and procedures including the Bank's Code of Conduct.

- Retirement Committee (RETCOM) is exclusively tasked to administer its Gratuity and Retirement Benefit Plan.

Governance Vanguards

The Bank's compliance, risk management and internal audit functions are the forerunners in its relentless drive to promote and uphold the noblest tenets and highest standards of good corporate governance across all its business operations.

Compliance

Ensuring the Bank's compliance with applicable laws, rules and regulations, as a minimum requirement, is a collective duty and team effort. It begins with its Board and Senior Management at the top and down the line to the various business and operating units in accordance with its Board-approved compliance system. The design and implementation of this program is administered and annually updated by the Compliance Office, led by the Chief Compliance Officer (CCO) who directly reports to the Corporate Governance Committee and to the Board.

The Bank's Compliance Program adopts a three-pronged, risk-based approach to effectively manage its business risks and ensure compliance with pertinent banking laws, rules and regulations, codes of conduct, policies and standards of good practice. Its priority, focus and compliance testing frequency depends on the pre-assessed level of risk a unit is exposed to risks relative to compliance with pertinent banking laws, rules and regulations, codes of conduct, sound policies and standards of good practice are concerned.

This three-pronged strategy is structured to be operated by three key players namely:

(1) The line units as the first line of defense being the business risk owners and managers;
(2) Compliance Office (CO) as the second line of defense as the business risk overseers; and
(3) Internal Audit Group (IAG) as the third line of defense as the independent assurance provider.

Aside from monitoring and controlling compliance risk, the Chief Compliance Officer (CCO) also tracks the Bank's adherence with its Corporate Governance Manual which is patterned after the Revised Code of Corporate Governance. Cases of non-compliance are required to be reported to the Board Chairman who ensures due process and determines appropriate sanctions. The Bank fully and continually complies with the requirements of said Corporate Governance Manual.

The Bank's Compliance Office continually strives to maintain its strong compliance culture amidst the ever-dynamic banking regulatory landscape. It proactively identifies, assesses, and addresses emerging compliance issues, vigorously promotes continuing education through formal/informal trainings, compliance awareness testing, compliance checking, and advisory service through a clear and open communication line; and fosters good corporate governance culture by benchmarking against industry best practices and standards.

Governance Evaluation

Every year, the Board, individual directors and their respective oversight committees conduct self-rating exercises on their performance through the use of scorecards to determine areas of improvement. The scorecard results are reviewed by the Corporate Governance Committee and reported to the Board.

Since 2014, the Bank has crafted a similar annual performance evaluation system for all other Board-level as well as Management-level committees for the Board to also gauge the performance and effectiveness of these committees vis- à-vis set performance standards. These are consistent with the Bank's strategic objectives and business plans which translate to continuously creating value to all its stakeholders.

Joint Venture

Sumisho Motor Finance Corporation

Sumisho Motor Finance Corporation (Sumisho) was incorporated in the Philippines on November 2009 and started commercial operations in March 2010. Sumisho is a joint venture between PSBank, PSBank Retirement Fund, Sumisho Corporation (Sumitomo) Japan and Sumitomo Philippines. PSBank and Sumitomo Japan each own 40% of Sumisho while PSBank Retirement Fund and

Sumitomo Philippines each own 10%. The primary purpose of the company is to lend to retail customers for their purchase of motorcycles in the Philippines.

As of December 2015, Sumisho has 16 branches including its head office. As of October 2016, it has opened three new branches to bring its total number of branches to 19. Its principal office is located at the 12th floor of PSBank Center.

MANAGEMENT, EMPLOYEES, AND SHAREHOLDERS

Organizational Chart

The figure in the next page shows the Bank's organizational chart as of 30 September 2016.

Directors

The names, positions, and educational attainment of the Bank's directors follow. The members of the Board of Directors are elected at the Annual Stockholders' Meeting and hold office until the next annual meeting and their respective successors have been elected.

Name	Position
Jose T. Pardo	Chairman / Independent Director
Arthur V. Ty	Vice Chairman
Vicente R. Cuna, Jr.	Director / President
Benedicto Jose R. Arcinas	Independent Director
Samson C. Lim	Independent Director
Amelia B. Cabal	Director
Ma. Soledad D.S. De Leon	Director
Jose Vicente L. Alde	Director

JOSE T. PARDO, Chairman / Independent Director

Chairman since 2003. Chairman/ Independent Director, Philippine Seven Corp., Philippine Stock Exchange, Securities Clearing Corporation of the Philippines, Bank of Commerce. Chairman, De La Salle University, Inc., ECOP Council of Business Leaders, PCCI Council of Business Leaders, Philippine Business Center, Inc., Foundation for Crime Prevention, Assumption (Antipolo), EDSA People Power Foundation. Co- Chairman, De La Salle Philippines. Vice Chairman, EDSA People Power Commission, Office of the President. Independent Director, JG Summit Holdings, Inc,. National Grid Corporation of the Philippines, ZNN Radio Veritas, and Monte Oro Grid Resources Corporation. First graduate of the Harvard-DLSU Advisory Program. BS Commerce-Accountancy and MBA, De La Salle University.

ARTHUR V. TY, Vice Chairman

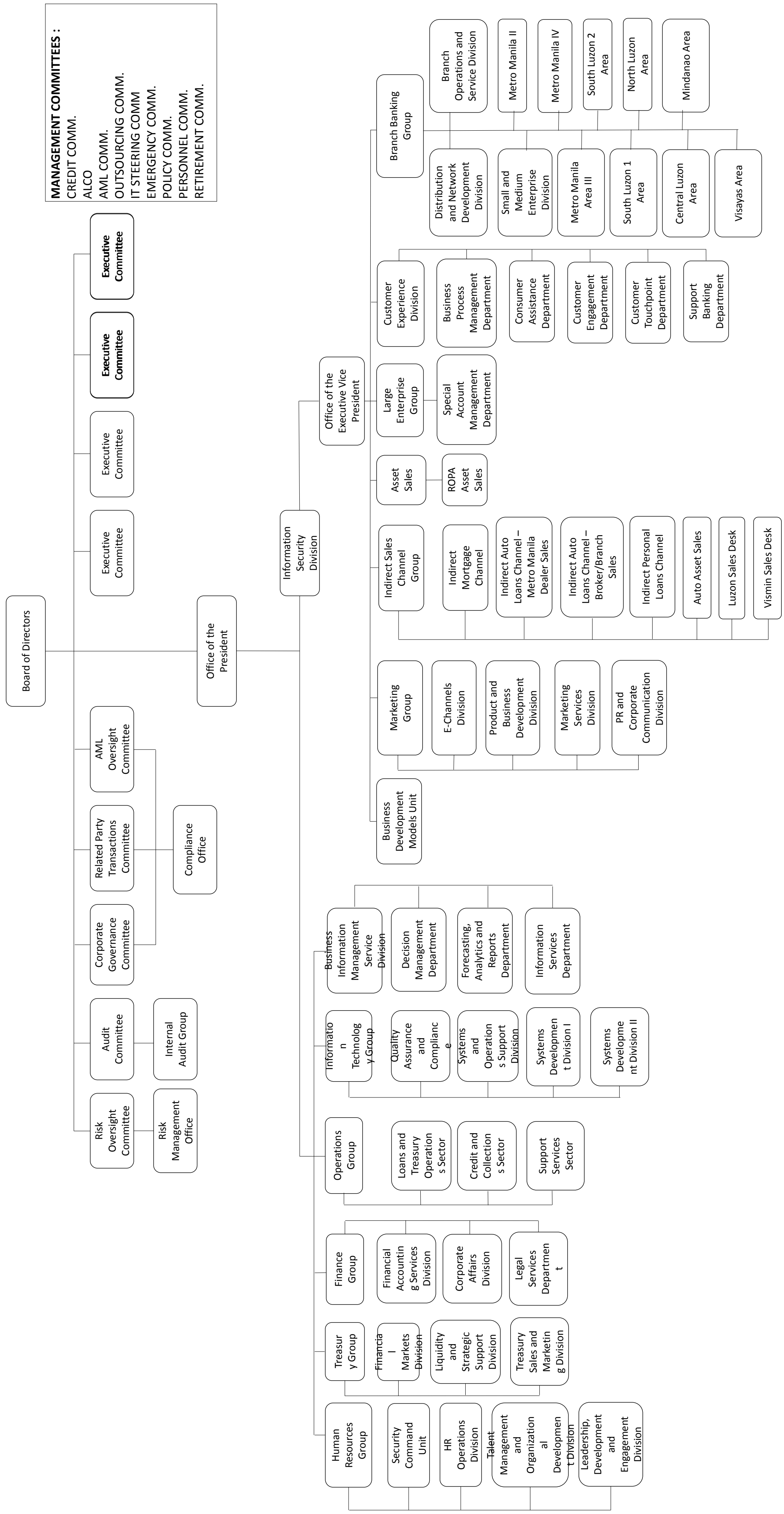
Vice Chairman/ Director since 2001. Chairman, Metropolitan Bank and Trust Company and Metropolitan Bank (China) Ltd.; GT Metro Foundation Inc., Ferum Cee, Inc., Great Mark Resources Corporation. Chairman/ Director, Global Treasure Holdings, Inc., Grand Titan Capital Holdings, Inc. Chairman/ President, Nove Ferum Holdings, Inc. Vice Chairman/ Director, First Metro Investment Corporation. Vice Chairman, Metrobank Foundation, Inc. and GT Capital Holdings, Inc. Director, Federal Land, Inc. President/ Director, Philippine Securities Corporation, Horizon Royale Holdings, Inc. BS Economics, University of California-Los Angeles. MBA, Columbia University.

VICENTE R. CUNA, JR., Director/President

Director/ President since 2013. Director, Metropolitan Bank and Trust Company. Chairman, Orix Metro Leasing & Finance Corp. A.B Economics, De La Salle University. Pursued further studies (MBA) at the Ateneo de Manila Graduate School of Business.

SAMSON C. LIM, Independent Director

Independent Director since 2008. Chairman, Blims Lifestyle Group, Collins International Trading Corporation and Francorp Philippine. Chairman Emeritus, International Relation, Philippine Franchise Association and Philippine Retailers Association. President, Canadian Tourism & Hospitality Institute. Vice President for Tourism, Philippine Chamber of Commerce and Industry. BS Liberal Arts, Cum Laude, Ateneo de Manila University. Masters in Business Economics, University of Asia and the Pacific. Exchange Student, Sophia University Tokyo , Japan . Special Training on International Business, Institute of International Studies and Training, Fujinomia , Japan . Top Management Program, Asian Institute of Management.


Board of Directors
MANAGEMENT COMMITTEES :
CREDIT COMM.
ALCO
AML COMM.
OUTSOURCING COMM.
IT STEERING COMM
EMERGENCY COMM.
POLICY COMM.
PERSONNEL COMM.
RETIREMENT COMM.
Executive Committee
Executive Committee
Executive Committee
Executive Committee
Risk Oversight Committee
Audit Committee
Corporate Governance Committee
Related Party Transactions Committee
AML Oversight Committee
Risk Management Office
Internal Audit Group
Compliance Office
Office of the President
Information Security Division
Office of the Executive Vice President
Branch Banking Group
Branch Operations and Service Division
Distribution and Network Development Division
Small and Medium Enterprise Division
Metro Manila II
Metro Manila Area III
Metro Manila IV
South Luzon 1 Area
South Luzon 2 Area
North Luzon Area
Central Luzon Area
Mindanao Area
Visayas Area
Customer Experience Division
Business Process Management Department
Consumer Assistance Department
Customer Engagement Department
Customer Touchpoint Department
Support Banking Department
Large Enterprise Group
Special Account Management Department
Asset Sales
ROPA Asset Sales
Indirect Sales Channel Group
Indirect Mortgage Channel
Indirect Auto Loans Channel – Metro Manila Dealer Sales
Indirect Auto Loans Channel – Broker/Branch Sales
Indirect Personal Loans Channel
Auto Asset Sales
Luzon Sales Desk
Vismin Sales Desk
Marketing Group
E-Channels Division
Product and Business Development Division
Marketing Services Division
PR and Corporate Communication Division
Business Development Models Unit
Business Information Management Service Division
Decision Management Department
Forecasting, Analytics and Reports Department
Information Services Department
Information Technology Group
Quality Assurance and Compliance
Systems and Operations Support Division
Systems Development Division I
Systems Development Division II
Operations Group
Loans and Treasury Operations Sector
Credit and Collection Sector
Support Services Sector
Finance Group
Financial Accounting Services Division
Corporate Affairs Division
Legal Services Department
Treasury Group
Financial Markets Division
Liquidity and Strategic Support Division
Treasury Sales and Marketing Division
Human Resources Group
Security Command Unit
HR Operations Division
Talent Management and Organizational Development Division
Leadership, Development and Engagement Division

BENEDICTO JOSE R. ARCINAS, Independent Director

Director since 2012. Director and General Manager, Arcinas Freres, Inc. BS Business Economics, University of the Philippines, Diliman. Master of Science in Management (Graduation with Distinction), Arthur D. Little Management Education Institute (now Hult International Business School). Certificate Courses in Small Enterprise Mgt., Operations Research, Economics, Computer Programming, Harvard University, Cambridge, Massachusetts.

AMELIA B. CABAL, Director

Director since April 2014. Independent Director, Deutsche Regis Partners, Inc., Ionics EMS, Inc. and Ionics Inc. Bank Supervisor, Metropolitan Bank (China) Ltd. BS Commerce Major in Accounting, Far Eastern University; Advanced Management Program, Harvard Business School and Asian Institute of Management; Pacific Rim Banking Program, Pacific Coast Banking School/ University of Washington, Seattle, USA; Top Management Program- Bangkok.

MA. SOLEDAD D.S. DE LEON, Director

Director since April 2016. Chairman/ Treasurer, Casa Medica, Inc., Sodel Milling Corp. Director, St. Patrick College., Yaman Lahi Foundation, Inc. (Emilio Aguinaldo College), University Physician Services, Inc., Property Holdings, Inc., Hospital Management Services, Inc. (Medical Center Manila), The Pearl Manila (Pearl of the Orient & Seas Hotel & Recreational Resort Inc.). President/ Treasurer, Sodel Realty, Inc., Vice President/ Treasurer, Candelaria Rural Bank, Fil-Homes Realty Development Corp. Vice President, Lipa Golden Land Development, Inc. BS in Business Administration, Major in Business Management, St. Paul College of Manila. International Management Studies, University of California, Los Angeles

JOSE VICENTE ALDE, Director

Director since April 2016. Joined the Bank in October 2007. Member, Assets and Liabilities, Credit, IT Steering, Anti-Money Laundering Compliance, Personnel and Retirement Committees. Board of Director, Metrobank Card Corp. Former Vice President for Treasury at ABN AMRO Bank. Held various positions in Treasury and Branch Banking in BA Savings Bank. Had stints in sales management at Johnson & Johnson and IT at World Health Organization. Bachelor in Computer Science with honors, University of the Philippines. MBA, Asian Institute of Management.

Executive Officers

The names, positions and educational attainment of the Bank's executive officers follow. The Executive Officers are appointed by the Board at the organizational meeting following the stockholders' meeting, each to hold office for a period of one year.

Name	Position
Vicente R. Cuna, Jr.*	President
Jose Vicente L. Alde	Executive Vice President
Jose Jesus B. Custodio	Senior Vice President
Perfecto Ramon Z. Dimayuga, Jr.	Senior Vice President
Neil C. Estrellado	Senior Vice President
Noli S. Gomez	Senior Vice President
Leandro G. Santillan*	Senior Vice President
Emmanuel A. Tuazon	Senior Vice President

*Seconded employee from Metrobank to PSBank

JOSE VICENTE L. ALDE, Executive Vice President

Director since April 2016. Joined the Bank in October 2007.The following businesses that report to him are: Branch Banking, Direct Sales Channel, Indirect Sales Channel, Asset Sales, Large Enterprises, Marketing and Customer Experience. Member, Assets and Liabilities, Credit, IT Steering, Anti-Money Laundering Compliance, Personnel and Retirement Committees. Board of Director, Metrobank Card Corp. Former Vice President for Treasury at ABN AMRO Bank. Held various positions in Treasury and Branch Banking in BA Savings Bank. Had stints in sales management at Johnson & Johnson and IT at World Health Organization. Bachelor in Computer Science with honors, University of the Philippines. MBA, Asian Institute of Management.

JOSE JESUS B. CUSTODIO, Senior Vice President

Joined the Bank in December 2001. Head, Indirect Sales Channel Group. Former Head of Auto Loans- Retails Sales, Citytrust Banking Corp. Former Fleet and Floorstock Department Head, BPI Family Savings Bank. BS Business Management, Ateneo de Manila University.

PERFECTO RAMON Z. DIMAYUGA, JR., Senior Vice President

Joined the Bank in January 2006. Head, Finance Group. Corporate Secretary, Sumisho Motor Finance Corp. Member, Assets and Liabilities, IT Steering, Personnel, Outsourcing Oversight and Retirement Committees. Held various Treasury positions in Development Bank of Singapore (DBS) Phils., Inc. , Bank of the Philippine Islands, Mindanao Development Bank, Citytrust Banking Corp. and Rizal Commercial Banking Corp. AB in Economics, Ateneo de Manila University. Masters in Business Management, University of the Philippines.

NEIL C. ESTRELLADO, Senior Vice President

Joined the Bank in March 2002. Head, Information Technology Division. Member, Outsourcing Oversight, IT Steering and Emergency Committees. Former Project Leader, Overseas Chinese Banking Corp. Ltd. Former Lead IT Analyst, Development Bank of Singapore. Former Project Manager, DBS Philippines. Former Systems Analyst, Bank of the Philippine Islands. BS Mathematics, Ateneo de Manila University.

NOLI S. GOMEZ, Senior Vice President

Joined the Bank in October 2001. Head, Operations Group. Member, Assets and Liabilities, Policy, Personnel, IT Steering, Anti- Money Laundering Compliance, Outsourcing Oversight, Emergency and Retirement Committees. Former Chief Risk Officer and Head of the Systems and Methods, DBS Bank Phils. and Systems Management Officer, Bank of the Philippine Islands. BS Civil Engineering, Mapua Institute of Technology. Licensed Civil Engineer with Distinction.

LEANDRO G. SANTILLAN, Senior Vice President

Joined the Bank in July 2015. Treasurer, Treasury Group. Former Senior Vice President and Head of Fixed Income Division and Financial Markets Division, Metropolitan Bank & Trust Co. Former Executive Director and Head of Flow Credit Trading at UBS AG Singapore. Former Director and Head of Credit Trading at ING Bank NV Singapore and ING Financial Markets LLC New York. AB Philosophy, University of the Philippines, Diliman. MBA, University of North Carolina, Chapel Hill.

EMMANUEL A. TUAZON, Senior Vice President

Joined the Bank in July 2014. Head, Marketing and Customer Experience Group. Member, Assets and Liabilities, and Credit Committees. Former Senior Vice President and Chief Marketing Officer, Philippine National Bank. Former Vice President for Marketing, ABN AMRO Bank, Former Vice President for Marketing and Sales, Jardine Pacific Finance. BS Mathematics, University of the Philippines.

Involvement in Certain Legal Proceedings of Directors and Executive Officers

None of the members of the Bank's Board nor its executive officers has been convicted in any criminal, bankruptcy or insolvency investigations or proceedings for the past five years and up to the date of this Offering Circular.

Number of Employees

PSBank's existing manpower complement is as follows:

	As of 31 December 2015	As of 30 September 2016
Senior Officers	52	53
Junior Officers	1,024	1,048
Staff	1,983	1,991
Total	**3,059**	**3,093**

The Bank continues to produce new officers for branch and head office positions through the Staff Professional Enhancement and Development (SPEED) program. In end-2015, the Bank and the PSBank Employees Union ("Union") successfully concluded Collective Bargaining Agreement (CBA) negotiations yielding improvements in almost all incentives, allowances and subsidies for the Rank and File employees. This CBA shall be for a period of three years from January 1, 2016 to December 31, 2018, with annual salary increases of ₱1,900.00, ₱1,500.00 and ₱1,400.00, in 2016, 2017 and 2018, respectively. The absence of a major dispute over the years is a testament to the harmonious relationship between the Bank and the Union. It also helps that the Labor- Management Council, where issues are immediately discussed in a dialogue and settled even before they turn to grievances, is in place.

Shareholders

The Bank's Top 10 shareholders as of 20 September 2016 are as follows:

	Name of Stockholders	No. of Shares	% of Total
1.	Metropolitan Bank & Trust Company	198,629,513*	82.68%
2.	Dolor, Danilo L.	12,610,891	5.25%
3.	Dolor, Erlinda L.	7,605,832	3.17%
4.	De Leon, Maria Soledad S.	4,000,000	1.66%
5.	De Leon, Gian Carlo S.	2,741,378	1.14%
6.	De Leon, Leonard Frederick S.	2,598,334	1.08%
7.	De Leon, Alvin Benjamin S.	2,437,887	1.01%
8.	PCD Nominee Corporation (Filipino)	2,420,440**	1.01%
9.	De Leon, Kevin Anthony S.	2,407,964	1.00%
10.	PCD Nominee Corporation (Non-Filipino)	1,652,670	0.69%

* includes shares lodged with PCD Nominee Corporation (Filipino)
** net of Metropolitan Bank & Trust Company lodged shares equivalent to 45,203,536 shares and Arthur Ty lodged shares equivalent to 17 shares

Total number of stockholders as of 30 September 2016 is 1,455.

The Bank's principal shareholders are comprised of three major groups with Metrobank, owning 82.68%, the Dolor Family collectively owning 8.42%, and De Leon Family owning 5.89%. Other minority shareholders hold the balance of 3.01%.

PHILIPPINE BANKING SECTOR

The following is a general discussion of the Philippine Banking Industry. It is based on the laws, regulations and administrative rulings in force as at the date of this Offering Circular and is subject to any changes in law occurring after such date, which changes could be made on a retroactive basis. It does not purport to be a comprehensive description of all of the aspects of the industry that may be relevant to a decision to purchase, own or dispose of the LTNCTDs. Prospective purchasers should consult their advisors as to the consequences of acquiring, holding and disposing of the LTNCTDs.

Overview

The Philippine banking industry is a ₱12.86 trillion industry composed of 41 Universal and Commercial Banks ("UB/KBs"), 64 thrift banks and 514 rural and cooperative banks (as of 30 June 2016). Out of the total banking industry assets, 90.02% are from UBs and KBs. Thrift banks account for 8.27%, while rural and cooperative banks account for the remaining 1.71%. Total assets of the banking system rose by 11.82% as of 30 June 2016 driven by a growth in loans and deposits.

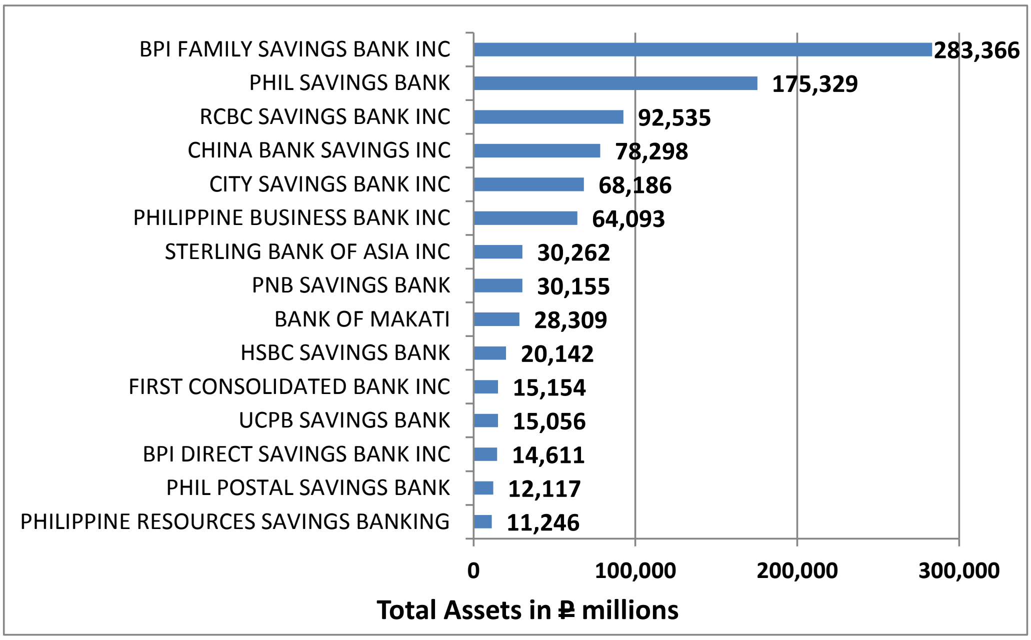
Philippine Thrift Banks

The Philippine thrift banking industry is dominated by BPI Family Savings Bank ("BPI Family"), Philippine Savings Bank ("PSBank"), and RCBC Savings Bank ("RCBC Savings"), which are subsidiaries of universal banks. As of 30 June 2016, these were the top three thrift banks in terms of total assets, loans, deposit liabilities and equity. The top three thrift banks accounted for about half (53.90%) of the thrift banking sector's total assets while the top 15 accounted for 91.81%; the remaining 8.19% is accounted for by 49 other thrift banks. The table below shows the top five thrift banks in the Philippines as of 30 June 2016.

(₱ millions)	Total Assets	Total Equity	Total Loans	Total Deposits
BPI Family Savings Bank	283,366	23,624	217,542	248,920
Philippine Savings Bank	175,329	18,888	117,986	139,341
RCBC Savings Bank	92,635	9,808	66,829	79,081
China Bank Savings Inc	78,298	7,055	54,382	68,199
City Savings Bank	68,186	9,648	52,981	45,910

Source: BSP reports

The chart below shows the top 15 Thrift Banks in the Philippines by Total Assets as of 30 June 2016.



BANKING REGULATIONS AND SUPERVISION

The following is a general discussion of the Philippine Banking Regulation and Supervision. It is based on the laws, regulations, and administrative rulings in force as at the date of this Offering Circular and is subject to any changes in law occurring after such date, which changes can be made on a retroactive basis. It does not purport to be a comprehensive description of all of the laws, regulations, and administrative rulings of the Philippine banking industry.

General

The New Central Banking Act of 1993 (Republic Act No. 7653) and the General Banking Law vest the Monetary Board of the BSP with the power to regulate and supervise financial intermediaries in the Philippines. Financial intermediaries include banks or banking institutions such as universal banks, commercial banks, thrift banks (composed of savings and mortgage banks, stock savings and loan associations, and private development banks), rural banks, cooperative banks as well as branches and agencies of foreign banks in the Philippines. Entities performing quasi-banking functions, trust companies, building and loan associations, non-stock savings and loan associations and other non-deposit accepting entities, while not considered banking institutions, are also subject to regulation by the Monetary Board of the BSP.

The BSP's Manual of Regulations for Banks (the "Manual") is the principal source of BSP rules that must be complied with by banks in the Philippines. The Manual contains BSP rules applicable to universal banks, commercial banks, thrift banks, rural banks and non-bank financial intermediaries performing quasi-banking functions. These BSP rules include those relating to the organization, management and administration, deposit and borrowing operations, loans, investments and special financing programme, and trust and other fiduciary functions. Supplementing the Manual are BSP rules disseminated through various circulars, memoranda, circular letters and other directives issued by the Monetary Board of the BSP.

The Manual and other BSP rules are principally implemented by the Supervision and Examination Sector (the "SES") of the BSP. The SES is responsible for monitoring the observance of applicable laws and BSP rules by banking institutions operating in the Philippines (including Government banks and their subsidiaries and affiliates, non-bank financial intermediaries performing quasi-banking functions, non-bank financial intermediaries performing trust and other fiduciary activities under the General Banking Law, non-stock and savings loans associations under Republic Act No. 3779, and pawnshops under Presidential Decree No. 114).

Permitted Activities

A thrift bank, such as the Bank, in addition to powers provided in other laws, has the authority to perform any or all of the following services: (i) grant loans, whether secured or unsecured, (ii) invest in readily marketable bonds and other debt securities, commercial papers and accounts receivable, drafts, bills of exchange, acceptances or notes arising out of commercial transactions, (iii) issue domestic letters of credit, (iv) extend credit facilities to private and government employees, (v) extend credit against the security of jewelry, precious stones and articles of similar nature, (vi) accept savings and time deposits, (vii) rediscount paper with the Land Bank of the Philippines, Development Bank of the Philippines and other government-owned or –controlled corporations, (viii) accept foreign currency deposits as provided under R.A. No. 6426, as amended, (ix) act as correspondent for other financial institutions, and (x) purchase, hold and convey real estate as specified under Sections 51 and 52 of R.A. No. 8791. Thrift Banks are also allowed to a certain extent to invest in allied (both financial and non-financial) undertakings.

Financial allied undertakings include leasing companies, banks, investment houses, financial companies, credit card companies, and financial institutions catering to small- and medium-scale industries, including venture capital companies, companies engaged in stock brokerage securities dealership and brokerage and companies engaged in foreign exchange dealership/brokerage. Non-financial allied undertakings include, warehousing companies, storage companies, safe deposit box companies, companies engaged in the management of mutual funds, insurance agencies, among others.

The total equity investments of a thrift bank in financial allied enterprises are not permitted to exceed 49.0% of the enterprise's net worth. Its equity investment in non-financial undertakings shall remain less than 50.0% of the voting shares in that enterprise, which is subject to the prior approval of the Monetary Board if the investment is in excess of 40.0%.

In addition to those functions specifically authorized by the General Banking Law and the Manual, banking institutions in general (other than building and loan associations) are allowed to (i) receive in custody funds, documents and valuable objects, (ii) act as financial agents and buy and sell, by order of and for the account of their customers, shares, evidences of indebtedness and all types of securities, (iii) make collections and payments for the account of others and perform such other services for their customers as are not incompatible with banking business, (iv) act as managing agent, adviser, consultant or administrator of investment management/advisory/consultancy accounts, upon prior approval of the Monetary Board and (vi) rent out safety deposit boxes.

Regulations

The Manual and various BSP regulations impose the following restrictions on thrift banks:

Minimum Capitalization

Under the Manual, Thrift banks with a Head Office in the National Capital Region (NCR) are required to have capital accounts of at least ₱500 million (for Head Office only); ₱750 million (for up to 10 branches); ₱1 billion (for 11 to 50 branches); and ₱2 billion (for more than 50 branches). Thrift Banks with Head Office in all other areas outside area are required to have capital accounts of at least ₱200 million (for Head Office only); ₱300 million (for up to 10 branches); ₱400 million (for 11 to 50 branches); and ₱800 million (for more than 50 branches). These minimum levels of capitalization may be changed by the Monetary Board from time to time.

For the purposes of these requirements, the Manual provides that capital shall be unimpaired capital and surplus, combined capital accounts, and net worth and shall refer to the combined total of the unimpaired paid-in capital, surplus, and undivided profits, net of: (a) such unbooked valuation reserves and other capital adjustments as may be required by the BSP, (b) total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI, (c) unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates; (d) deferred income tax, (e) appraisal increment reserve (revaluation reserve) as a result of appreciation or increase in the book value of bank assets, (f) equity investment of a bank in another bank or enterprise (foreign or domestic) if the other bank or enterprise has a reciprocal equity investment in the investing bank, although if such bank or enterprise has reciprocal equity investment in the investing bank, the lower figure of the investment of the bank or the reciprocal investment of the other bank or enterprise should be used; and (g) in the case of rural banks, the government counterpart equity, except those arising from conversion of arrears under BSP's Rehabilitation Program.

Capital Adequacy Requirements

The Basel III BSP rules include more stringent definitions of Tier 1 capital and Tier 2 capital instruments relating to their ability to absorb losses, the introduction of a leverage ratio, changes in the risk weighting of counterparty credit risk, a framework for counter-cyclical capital buffers, and short and medium-term quantitative liquidity ratios.
These reforms aim to increase the minimum quantity and quality of capital which the Bank will be obliged to maintain.

On January 15, 2013, the BSP published Circular No. 781, which prescribed the implementing guidelines on the risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for the Philippine banking system in accordance with the Basel III standards. The risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, will be required to be not less than 10 per cent. on an unconsolidated basis and consolidated basis. Banks will also be required to maintain a CET1 ratio and a Tier 1 capital ratio of 6.0 per cent and 7.5 per cent, respectively. A capital conversion buffer of 2.5 per cent comprised of CET1 capital shall also apply. The reforms were implemented beginning on January 1, 2014.

On October 29, 2014, the BSP issued Circular No. 856, or the "Implementing Guidelines on the Framework for Dealing with Domestic Systemically Important Banks ("DSIBs") under Basel III" to address systemic risk and interconnectedness by identifying banks which are deemed systemically important within the domestic banking industry. Banks that will be identified as DSIBs shall be required to have higher loss absorbency, on top of the minimum CET1 capital and capital conservation buffer. Compliance with this requirement shall be phased-in starting January 1, 2017, with full compliance on January 1, 2019.

Furthermore, banks face new liquidity requirements under Basel III's new liquidity framework, namely, the Liquidity Coverage Ratio ("LCR") and the Net Stable Funding Ratio ("NSFR"). The LCR requires banks to hold sufficient level of high-quality liquid assets to enable them to withstand a 30 day-liquidity stress scenario. Beginning 1 January 2018, the LCR threshold that banks will be required to meet will be 90 percent which will then be increased to 100 percent beginning 1 January 2019. Meanwhile, the NSFR requires that banks' assets and activities are structurally funded with long-term and more stable funding sources. This is being finalized and the BSP said that the exposure draft may be issued within the year. Compliance with these ratios may also further increase competition among banks for deposits as well as high quality liquid assets.

Reserve Requirements

Under the New Central Bank Act, the BSP requires banks to maintain cash reserves and liquid assets in proportion to deposits in prescribed ratios. If a bank fails to meet this reserve during a particular week on an average basis, it must pay a penalty to the BSP on the amount of any deficiency.

Under BSP Circular No. 832 (2014), thrift banks (including the Bank) are required to maintain regular reserves of 8.0% against demand deposits, "NOW" accounts, savings deposits, time deposits, negotiable CTDs, long-term non-negotiable tax exempt CTDs, and deposit substitutes, 4.0% against long-term negotiable certificate of time deposits issued under BSP Circular No. 304 (2001), 7.0% against long-term negotiable certificate of time deposits issued under BSP Circular No. 824 (2014), 4.0% against deposit substitutes evidenced by repo agreements, and 6.0% against bonds.

Loan Limit to a Single Borrower

Under the General Banking Law and its implementing BSP rules, the total amount of loans, credit accommodations and guarantees that may be extended by a bank to any borrower shall at no time exceed 20.0% of the net worth of such bank (or 30.0% of the net worth of the bank in the event that certain types and levels of security are provided). This ceiling may be adjusted by the Monetary Board of the BSP from time to time. Pursuant to BSP Circular No. 425 (2004), as amended by BSP Circular No. 779 (2013), the applicable ceiling is 25.0%.

Trust Regulation

The Manual contains the BSP rules governing the grant of authority to and the management, administration and conduct of trust, other fiduciary business and investment management activities of trust corporations and financial institutions allowed by law to perform such operations. Trust corporations, banks and investment houses may engage in trust and other fiduciary business after complying with the requirements imposed by the Manual. The Bank may, under its Articles, accept and manage trust funds and properties and carry on the business of a trust corporation.

Foreign Currency Deposit System

A FCDU is a unit of a local bank or of a local branch of a foreign bank authorized by the BSP to engage in foreign currency-denominated transactions. Commercial banks which meet the net worth or combined capital accounts and profitability requirements prescribed by the Monetary Board of the BSP may be authorized to operate an expanded FCDU. Thrift banks with a net worth or combined capital accounts of at least P1.0 billion if they are located in Metro Manila, and P250.0 million if they are located outside Metro Manila, may be authorized to operate FCDUs.

FCDUs are required to maintain a 100.0% cover for their foreign currency liabilities. FCDUs of universal and commercial banks and thrift banks have the option to maintain foreign currency deposits with the BSP equivalent to 15.0% of their foreign currency deposit liabilities as a form of foreign exchange cover.

Loans to DOSRI

The amount of individual outstanding loans, other credit accommodations and guarantees to DOSRI, of which 70.0% must be secured, should not exceed an amount equivalent to their unencumbered deposits and book value of their paid-in capital contribution in the bank. In the aggregate, outstanding loans, other credit accommodations and guarantees to DOSRI generally should not exceed 100.0% of the bank's combined capital accounts or 15.0% of the total loan portfolio of the bank, whichever is lower. In no case shall the total unsecured loans, other credit accommodations and guarantees to DOSRI exceed 30.0% of their outstanding loans, other credit accommodations and guarantees.

Anti-Money Laundering Law

The Anti-Money Laundering Act was passed on September 29, 2001 and was amended on March 23, 2003. Under its provisions, as amended, certain financial intermediaries including banks, offshore banking units, quasi-banks, trust entities, non-stock savings and loan associations, and all other institutions including their subsidiaries and affiliates supervised and/or regulated by the BSP, and insurance companies and/or institutions regulated by the Insurance Commission, are required to submit a "covered" transaction report involving a single transaction in cash or other equivalent monetary instruments in excess of P0.5 million within one banking day.

These institutions are also required to submit a "suspicious" transaction report if there is reasonable ground to believe that any amounts processed are the proceeds of money laundering activities.

TAXATION

The following is a general description of certain Philippine tax aspects of the LTNCTDs. It is based on the laws, regulations, and administrative rulings in force as at the date of this Offering Circular and is subject to any changes in law or regulation occurring after such date, which changes can be made on a retroactive basis. It does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own, or dispose of the LTNCTDs. Prospective purchasers should consult their tax advisors as to the laws of other applicable jurisdictions and the specific tax consequences of acquiring, holding, and disposing of the LTNCTDs.

As used in this section, the term "resident alien" refers to an individual whose residence is within the Philippines but who is not a citizen of the Philippines; a "non-resident alien" is an individual whose residence is not within the Philippines and who is not a citizen of the Philippines; a non-resident alien who is actually within the Philippines for an aggregate period of more than 180 days during any calendar year is considered a "non-resident alien doing business in the Philippines"; otherwise, such non-resident alien who is actually within the Philippines for an aggregate period of 180 days or less during any calendar year is considered a "non-resident alien not doing business in the Philippines." A "resident foreign corporation" is a foreign corporation engaged in trade or business within the Philippines; and a "non-resident foreign corporation" is a foreign corporation not engaged in trade or business within the Philippines. The term "foreign" when applied to a corporation means a corporation which is not domestic while the term "domestic" when applied to a corporation means a corporation created or organized in the Philippines or under its laws.

Taxation of Interest

The LTNCTDs will be treated as deposit substitute instruments. Consequently, interest income earned by individual citizens, resident aliens, and non-resident aliens engaged in trade or business in the Philippines as holders of the unsecured subordinated notes will generally be subject to a 20.0% final withholding tax. However, the LTNCTDs may qualify as long-term deposit or investment, in which case, pursuant to Revenue Regulations No. 14-2012 and Revenue Memorandum Circular No. 81-2012, interest income derived by said individuals may be exempt from the said 20.0% final withholding tax provided the following characteristics or conditions are present:

1. The depositor or investor is an individual citizen (resident or non-resident) or resident alien or non-resident alien engaged in trade or business in the Philippines;
2. The long-term deposits or investment certificates should be under the name of the individual and not under the name of the corporation or the bank or the trust department/unit of the bank;
3. The long-term deposits or investments must be in the form of savings, common or individual trust funds, deposit substitutes, investment management accounts and other investments evidenced by certificates in such form prescribed by the BSP;
4. The long-term deposits or investments must be issued by banks only and not by other financial institutions;
5. The long-term deposits or investments must have a maturity period of not less than five (5) years;
6. The long-term deposits or investments must be in denominations of Ten Thousand Pesos (₱10,000) and other denominations as may be prescribed by the BSP;
7. The long-term deposits or investments should not be terminated by the original investor before the fifth (5^{th}) year, otherwise they shall be subjected to the graduated rates of 5%, 12% or 20% on interest income earnings; and
8. Except those specifically exempted by law or BSP rules, any other income such as gains from trading, foreign exchange gain, shall not be covered by income tax exemption.

The exemption from interest income on long term investments is subject to full compliance with the above requisites. Nevertheless, should qualified investors of such instruments pre-terminate the deposit or investment before the fifth (5th) year, a final tax shall be imposed on the entire income and shall be deducted and withheld by the depository bank from the proceeds of the long term deposit or investment certificate based on the remaining maturity thereof:

Four (4) years to less than five (5) years: 5.00%;
Three (3) years to less than four (4) years: 12.00%; and
Less than three (3) years: 20.00%.

Interest Income received by domestic and resident foreign corporations shall be subject to the final withholding tax of 20.0%. Interest income received by non-resident aliens not engaged in trade or business in the Philippines shall generally be subject to a final withholding tax of 25.0%. The foregoing rates may be reduced under an applicable tax treaty.

No tax ruling has been issued by the BIR which clarifies the operation of Revenue Regulation No. 14-2012 vis-à-vis unsecured subordinated debt issuances such as the LTNCTDs.

Under Rep. Act No. 9337 (amending the National Internal Revenue Code), interest income received by a non-resident foreign corporation shall generally be subject to the 30.0% final withholding tax. This rate may also be reduced under an applicable tax treaty.

The BIR has also issued Revenue Memorandum Circular No. 8-2014 (RMC 8-2014) which applies to exemptions from withholding tax in general. Under BIR RMC 8-2014, taxpayers claiming exemption from withholding taxes shall be required by the concerned withholding agent to submit a copy of a valid, current and subsisting tax exemption certificate or ruling, as per existing administrative issuances and any issuance that may be issued from time to time, before payment of related income. If the taxpayer fails to submit the said proof of tax exemption, he or she shall be subjected to the payment of appropriate withholding taxes due on the transaction.

While the income from the LTNCTDs may be considered tax exempt under BIR Revenue Regulation No. 14-2012 (RR 14-2012) (although no categorical ruling has been issued by the BIR to this effect), there is no assurance that the BIR will not issue clarificatory regulations making RMC 8-2014 applicable to long term deposit or investment certificates. In such an event, it may be difficult for qualified individual CD Holders to avail of the tax-exempt nature of the LTNCTDs in accordance with RR 14-2012. In such an event, the Bank may be compelled to apply the prescribed rates of withholding tax and proceed withhold the necessary tax due on the LTNCTDs based on current BSP rules.

Documentary Stamp Taxes

The issuance of the LTNCTDs will be subject to documentary stamp tax at the rate of ₱1.00 for every ₱200.00 of the issue value of such notes. The Bank is liable for the payment of the documentary stamp tax on the original issuance of the LTNCTDs. No documentary stamp tax is imposed on the secondary transfer of the LTNCTDs.

Taxation on Sale or Other Disposition of LTNCTDs

A holder will recognize gains or losses upon the sale or other disposition (including a redemption at maturity) of a Note in an amount equal to the difference between the amount realized from such disposition and the value of such holders interest in the Note. Under the Tax Code, any gain realized from the sale, exchange, or retirement of bonds, debentures, and other certificates of indebtedness with an original maturity date of more than five years (as measured from the date of issuance of such bonds, debentures, or other certificates of indebtedness) is exempt from income tax. Since the LTNCTDs have a maturity of more than five years from the date of issuance, any gains realized by a holder from the sale of the LTNCTDs will be exempt from Philippine income tax.

Value-Added Tax/Gross Receipts Tax

The gross income from the sale or transfer of the LTNCTDs in the Philippines by dealers in securities is subject to VAT at the rate of 12.0% of the gross income. Banks and non-bank financial intermediaries performing quasi-banking functions are subject to gross receipts tax as the following rates:

(a) On interest, commissions and discounts from lending activities as well as income from financial leasing, on the basis of remaining maturities of instruments from which such receipts are derived:

Maturity period is 5 years or less — 5.0%
Maturity period is more than 5 years — 1.0%

(b) On dividends and equity shares and net income of subsidiaries — 0%
(c) On royalties, rentals of property, real or personal, profits, from exchange and all other items treated as gross income under the Tax Code — 7.0%
(d) On net trading gains within the taxable year on foreign currency, debt securities, derivatives, and other similar financial instruments — 7.0%

Other nonbank financial intermediaries are subject to gross receipts tax at the following rates:

(a) On interest, commissions, discounts and all other items treated as gross income under the Tax Code– 5.0%
(b) On interests, commissions and discounts from lending activities, as well as income from financial leasing, on the basis of remaining maturities of instruments from which such receipts are derived:

Maturity period is 5 years or less — 5.0%
Maturity period is more than 5 years — 1.0%

Estate and Donor's Tax

The transfer of LTNCTDs as part of the estate of a deceased individual to his heirs, whether or not such individual was a resident of the Philippines at the time of his death, will be subject to an estate tax which is levied on the net estate of the deceased at progressive rates ranging from 5.0% to 20.0% if the value of the net estate exceeds ₱200,000.00.

A holder of such LTNCTDs will be subject to donor's tax upon the donation of the LTNCTDs to strangers at a flat rate of 30.0% of the net gifts. A stranger is defined as any person who is not a brother, sister (whether by whole-or half-blood), spouse, ancestor and lineal descendant or relative by consanguinity in the collateral line within the fourth degree of relationship to the CD Holder. A donation to a non-stranger will be subject to a donor's tax at progressive rates ranging from 2.0% to 15.0% based on net gifts made during the calendar year in excess of ₱100,000.00.

The estate tax as well as the donor's tax in respect of the LTNCTDs shall not be collected (i) if the deceased at the time of death or the donor at the time of the donation was a citizen and resident of a foreign country which at the time of his death or donation did not impose a transfer tax of any character in respect of intangible personal property of citizens of the Philippines not residing in that foreign country or (ii) if the laws of the foreign country of which the deceased or the donor was a citizen and resident at the time of his death or donation allows a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in that foreign country.

OFFER PROCEDURE

Method of Distribution

The LTNCTDs are being issued pursuant to an approval by the BSP dated 8 December 2016 and subject to the terms and conditions of the Master Note, as well as BSP Circular Nos. 877 (2015), 834 (2014), 824 (2014), 810 (2013), 778 (2012) and 304 (2001) and Sections X233.9 of the Manual of Regulations for Banks, as may be amended.

The LTNCTDs are being issued by the Issuer with ING Bank N.V., Manila Branch as Arranger and Selling Agent, (b) the Bank, First Metro Investment Corp and Metropolitan Bank and Trust Company as Selling Agents, and (d) Philippine Depository & Trust Corp. as Registrar and Paying Agent.

No action has been or will be taken by the Issuer or the Arranger in any jurisdiction (other than the Philippines), that would permit a public offering of any of the LTNCTDs, or possession or distribution of this Offering Circular, or any amendment or supplement thereto issued in connection with the offering of the LTNCTDs, in any country or jurisdiction where action for that purpose is required.

The Arranger is required to comply with all laws, BSP rules and directives as may be applicable in the Philippines, including without limitation any BSP rules issued by the BSP, in connection with the offering and purchase of the LTNCTDs and any distribution and intermediation activities, whether in the primary or secondary markets, carried out by or on behalf of the Arranger in connection therewith. The Arranger is a third-party in relation to Bank, such that, (i) they have no subsidiary/affiliate relationship with Bank; (ii) they are not related in any manner to Bank as would undermine the objective conduct of due diligence on Bank. The Registrar and Paying Agent is likewise a third-party in relation to Bank, such that, (i) it has no subsidiary/affiliate relationship with Bank; (ii) it is not related in any manner to Bank as would undermine its independence.

Applications to Purchase the LTNCTDs during the Offer Period

Applicants may purchase the LTNCTDs during the Offer Period by submitting fully and duly accomplished Applications to Purchase the LTNCTDs, in quadruplicate together with all the required attachments and the corresponding payments to the Selling Agent from whom such application was obtained no later than 5:00 p.m. of the last day of the Offer Period. Applications received after said date or without the required attachments will be rejected. The Issuer and Arranger reserve the right to adjust the Offer Period as needed.

If the Applicant is an individual, the following documents must also be submitted:

a. A clear copy of at least one (1) valid photo-bearing identification document issued by an official authority in accordance with BSP Circular No. 608 (2008) as may be amended from time to time, and documents as may be required by to the Registrar and/or Selling Agent concerned;
b. Two (2) fully executed signature cards in the form attached to the application; and
c. For aliens residing in the Philippines or non-residents engaged in trade or business in the Philippines, consularized proof of tax domicile issued by the relevant tax authority of the Applicant.

If the Applicant is a corporation, partnership, trust, association or institution, the following documents must also be submitted:

a. SEC-certified or Corporate Secretary-certified true copy of the SEC Certificate of Registration, Articles of Incorporation and By-Laws or such other relevant organizational or charter documents;
b. Original or Corporate Secretary-certified true copy of the duly notarized certificate confirming the resolution of the Board of Directors and/or committees or bodies authorizing the purchase of the LTNCTDs and specifying the authorized signatories; and
c. Two (2) fully executed signature cards duly authenticated by the Corporate Secretary, in the form attached to the application.

Corporate applicants who are claiming tax exemption must also submit the following:

a. Certified true copy of a tax exemption certificate, ruling or opinion issued by the Bureau of Internal Revenue no more than one year prior to the date of submission of the same to the Selling Agents;
b. Original of the duly notarized undertaking, in the prescribed form, declaring and warranting its tax exempt status, undertaking to immediately notify the Issuer and the Registrar and Paying Agent of any suspension or revocation of its tax exempt status and agreeing to indemnify and hold the Issuer and the Registrar and Paying Agent free and harmless against any claims, actions, suits, and liabilities resulting from the non-withholding of the required tax; and
c. Such other documentary requirements as may be required by the Registrar as proof of the Applicant's tax-exempt status.

Allocation and Issue of the LTNCTDs

Applications to Purchase the LTNCTDs shall be subject to the availability of the LTNCTDs and acceptance by the Issuer. The Arranger, in consultation with the Issuer, reserves the right to accept, reject, scale down or reallocate any Application to purchase the LTNCTDs applied for.

In the event that payment supporting any Application is returned by the drawee bank for any reason whatsoever, the Application shall be automatically cancelled and any prior acceptance of the Application shall be deemed revoked. If any Application is rejected or accepted in part only, the application money or the appropriate portion thereof will be returned without interest by the relevant Selling Agent.

On the Issue Date, the Selling Agents shall, on behalf of the Issuer, accept the relevant Applications to Purchase. The acceptance of the Application to Purchase shall *ipso facto* convert such Application to Purchase into a purchase agreement between the Issuer and the relevant CD Holder.

Upon confirmation by the Issuer of acceptance of the relevant Applications and the respective amount of LTNCTDs, the Selling Agents shall issue the relevant purchase advice (the "Purchase Advice") to successful applicants confirming the acceptance of their offer to purchase the LTNCTDs and consequent ownership thereof and stating the pertinent details including the amount accepted, with copies to the Registrar.

The Registrar shall be entitled to rely solely on the Final Sales Reports submitted by the Selling Agents to the Registrar. Where PDTC discovers, after Issue Date, any inconsistency between the Final Sales Report and the Application to Purchase submitted by the CD Holder, PDTC reserves the right to rely subsidiarily on the Applications to Purchase, to the extent that the information in the Final Sales Report is noted to be inconsistent with the Application to Purchase. Within seven (7) Banking Days from the Issue Date, the Registrar shall distribute the Registry Confirmations directly to the CD Holders in the mode elected by the CD Holder as indicated in the Application to Purchase.

Transactions in the Secondary Market

All secondary trading of the LTNCTDs shall be coursed the trading facilities of PDEx, as applicable, subject to the payment by the CD Holder of fees to the connection with trading on PDEx, and the Registrar. Transfers shall be subject to the procedures of the BSP, the Registrar and PDEx, including but not limited to the guidelines on minimum trading lots, minimum holding denominations, and record dates.

The Bank shall list the LTNCTDs in PDEx for secondary market trading. Upon listing of the LTNCTDs with PDEx, investors shall course their secondary market trades through the trading participants of PDEx for execution in the PDEx Trading Platform in accordance with the PDEx Trading Rules, Conventions and Guidelines, as these may be amended or supplemented from time to time, and must settle such trades on a Delivery versus Payment (DvP) basis in accordance with PDEx Settlement Rules and Guidelines. The secondary trading of the LTNCTDs in PDEx may be subject to such fees and charges of PDEx, the trading participants of PDEx, and other providers necessary for the completion of such trades. Transactions on the LTNCTDs on PDEx will be subject to the duly approved and relevant rules of the exchange, including guidelines on minimum trading lots and other guidelines for holding and trading of the LTNCTDs as may be prescribed by the BSP.

For the avoidance of doubt, the minimum denomination for the LTNCTDs as prescribed by the BSP must be kept at all times. Consequently, no negotiation or secondary trading will be allowed if the result is that a remaining CD Holder of the LTNCTDs will hold less than the minimum denomination as prescribed or approved by the BSP.

No transfers will be effected for a period of two (2) Business Days preceding the due date for any payment of interest on the LTNCTDs, or during the period of two (2) Business Days preceding the due date for the payment of the principal amount of the LTNCTDs.

The Registrar shall register any transfer of the LTNCTDs upon presentation to it of the following documents in form and substance acceptable to it:

- The relevant Trade- Related Transfer Form or Non-Trade Transfer Form as the case may be, duly accomplished by the transferor CD holder and endorsed by the PDEx Trading Participant;
- the relevant Purchase Advice of the buyer/transferee (with the information provided therein duly set forth in typewritten form);
- duly accomplished Investor Registration Form of the buyer/transferee as prescribed by the Registrar as well as all supporting documents described for the original issuance of the LTNCTDs as described above (in case of a new holder);
- proof of the qualified tax-exempt status of the transferee, if applicable, and the covering Affidavit of Undertaking;
- the original duly endorsed signature cards of the buyer/transferee and such other original or certified true copies of other documents submitted by the buyer/transferee in support of the transfer or assignment of the LTNCTDs in its favor;
- the appropriate secretary's certificate attesting to the board resolutions authorizing the transfers and acceptances as well as designating the authorized signatories, together with specimen signature cards duly signed by the parties, and duly authenticated by each party's corporate secretary; and
- such other documents that may be required by the Registrar, including those for Non-Trade Transactions.

Transfers of the LTNCTDs made in violation of the restrictions on transfer under the Terms and Conditions shall be null and void and shall not be registered by the Registrar.

Interest and Principal Payment

On the relevant Payment Date, the Registrar shall, upon receipt of the corresponding funds from the Issuer, make available to the CD Holders the amounts due under the LTNCTDs, net of taxes and fees (if any), by way of credits to the bank accounts identified by the CD Holders in the Applications to Purchase.

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Financial Statements
December 31, 2015 and 2014
and for the Years Ended December 31, 2015,
2014 and 2013

and

Independent Auditors' Report

SGV
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Building a better working world

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ey.com/ph

BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Philippine Savings Bank

Report on the Financial Statements

We have audited the accompanying financial statements of Philippine Savings Bank, which comprise the statements of condition as at December 31, 2015 and 2014 and the statements of income, the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for each of the three years in the period ended December 31, 2015, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Philippine Savings Bank as at December 31, 2015 and 2014, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2015 in accordance with Philippine Financial Reporting Standards.

Report on the Supplementary Information Required Under Revenue Regulations 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 36 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Philippine Savings Bank. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Vicky Lee Salas

Vicky Lee Salas
Partner
CPA Certificate No. 86838
SEC Accreditation No. 0115-AR-3 (Group A),
February 14, 2013, valid until April 30, 2016
Tax Identification No. 129-434-735
BIR Accreditation No. 08-001998-53-2015,
March 17, 2015, valid until March 16, 2018
PTR No. 5321647, January 4, 2016, Makati City

February 19, 2016

PHILIPPINE SAVINGS BANK
STATEMENTS OF CONDITION

	December 31	
	2015	2014
ASSETS		
Cash and Other Cash Items	**₱3,934,496,578**	₱4,174,756,446
Due from Bangko Sentral ng Pilipinas (Note 16)	**11,143,781,766**	23,997,102,406
Due from Other Banks (Note 29)	**1,861,110,141**	3,382,662,578
Interbank Loans Receivable and Securities Purchased Under Resale Agreements (Notes 7 and 33)	**2,513,904,112**	2,186,320,000
Fair Value Through Profit or Loss Investments (Note 8)	**2,821,437,211**	278,909,438
Available-for-Sale Investments (Note 8 and 17)	**8,928,662,491**	6,083,317,341
Held-to-Maturity Investments (Note 8 and 17)	**14,946,668,457**	1,683,128,162
Loans and Receivables (Note 9)	**113,867,515,442**	95,759,749,830
Investment in a Joint Venture (Notes 10 and 29)	**690,333,838**	668,606,533
Property and Equipment (Note 11)	**2,746,074,371**	2,469,507,446
Investment Properties (Note 12)	**3,344,154,413**	2,933,068,849
Deferred Tax Assets (Note 27)	**1,194,416,550**	731,937,469
Goodwill and Intangible Assets (Note 13)	**444,460,121**	369,140,026
Other Assets (Note 14)	**894,231,737**	888,822,949
	₱169,331,247,228	₱145,607,029,473
LIABILITIES AND EQUITY		
Liabilities		
Deposit Liabilities (Note 16)		
Demand	**₱12,906,567,074**	₱10,609,490,126
Savings	**22,835,987,240**	18,502,557,268
Time	**98,553,753,813**	87,415,706,427
	134,296,308,127	116,527,753,821
Bills Payable (Notes 8, 17 and 33)	**4,494,845,747**	–
Subordinated Notes (Note 17)	**5,952,051,581**	5,946,901,321
Treasurer's, Cashier's and Manager's Checks	**1,348,621,410**	1,253,781,718
Accrued Taxes, Interest and Other Expenses (Note 18)	**1,050,769,312**	1,128,438,120
Income Tax Payable	**8,055,422**	7,134,677
Other Liabilities (Notes 19 and 24)	**3,005,540,869**	3,012,717,598
	150,156,192,468	127,876,727,255
Equity		
Common Stock (Note 21)	**2,402,524,910**	2,402,524,910
Capital Paid in Excess of Par Value	**2,818,083,506**	2,818,083,506
Surplus Reserves (Note 30)	**1,035,275,317**	1,035,275,317
Surplus (Note 21)	**13,433,426,596**	11,803,283,969
Net Unrealized Gain on Available-for-Sale Investments (Note 8)	**179,775**	26,600,463
Remeasurement Losses on Retirement Plan (Note 24)	**(471,371,011)**	(312,363,737)
Equity in Remeasurement Gains (Losses) on Retirement Plan of a Joint Venture (Note 10)	**67,642**	(1,445,728)
Cumulative Translation Adjustment	**(43,131,975)**	(41,656,482)
	19,175,054,760	17,730,302,218
	₱169,331,247,228	₱145,607,029,473

See accompanying Notes to Financial Statements.

PHILIPPINE SAVINGS BANK
STATEMENTS OF INCOME

	Years Ended December 31		
	2015	2014	2013
INTEREST INCOME			
Loans and receivables (Note 9)	**₱9,929,658,464**	₱8,814,815,985	₱8,122,435,842
Investment securities (Note 8)	**727,768,591**	363,963,140	375,404,035
Interbank loans receivable and securities purchased under resale agreements (Note 7)	**190,814,354**	858,982,128	478,936,597
Due from Bangko Sentral ng Pilipinas	**146,667,295**	57,292,813	42,216,693
Due from other banks	**7,818,217**	18,355,744	8,242,444
	11,002,726,921	10,113,409,810	9,027,235,611
INTEREST EXPENSE			
Deposit liabilities (Note 16)	**2,170,741,412**	2,115,632,785	2,157,685,611
Subordinated notes (Note 17)	**342,650,259**	276,587,317	175,251,074
Bills payable (Note 17)	**7,388,984**	10,807,483	7,479,125
	2,520,780,655	2,403,027,585	2,340,415,810
NET INTEREST INCOME	**8,481,946,266**	7,710,382,225	6,686,819,801
Service fees and commission income (Note 22)	**1,293,699,761**	1,151,818,925	1,040,395,077
Service fees and commission expense (Note 22)	**98,207,711**	73,928,520	77,836,620
NET SERVICE FEES AND COMMISSION INCOME	**1,195,492,050**	1,077,890,405	962,558,457
OTHER OPERATING INCOME (CHARGES)			
Gain on foreclosure and sale of chattel mortgage properties - net (Note 14)	**377,657,511**	316,813,642	378,583,708
Gain on foreclosure and sale of investment properties - net (Note 12)	**258,030,111**	298,854,312	269,751,500
Trading and securities gains (losses) - net (Note 8)	**(63,569,750)**	209,952,831	4,070,899,035
Foreign exchange gain (loss)	**18,823,668**	7,813,164	(3,877,015)
Gain on sale of property and equipment (Note 11)	**17,739,663**	45,013,382	138,464,473
Gain on sale of investment in an associate (Notes 10 and 29)	**–**	558,663,928	–
Miscellaneous (Notes 12, 23 and 25)	**515,413,451**	343,567,618	181,271,100
	1,124,094,654	1,780,678,877	5,035,092,801
TOTAL OPERATING INCOME	**10,801,532,970**	10,568,951,507	12,684,471,059
OTHER EXPENSES			
Compensation and fringe benefits (Note 24)	**2,613,867,706**	2,395,951,076	2,159,694,707
Provision for credit and impairment losses (Note 15)	**1,588,298,396**	1,743,821,080	2,649,072,916
Taxes and licenses (Note 27)	**961,093,132**	1,061,593,720	1,053,840,964
Occupancy and equipment-related costs (Note 25)	**671,728,902**	627,737,333	559,762,849
Depreciation (Note 11)	**501,311,146**	504,628,955	483,260,520
Security, messengerial and janitorial services	**334,030,017**	287,079,453	252,382,828
Amortization of intangible assets (Note 13)	**100,224,715**	82,368,321	68,454,285
Miscellaneous (Notes 12 and 26)	**1,742,754,431**	1,646,584,153	1,458,908,377
	8,513,308,445	8,349,764,091	8,685,377,446
INCOME BEFORE SHARE IN NET INCOME OF AN ASSOCIATE AND A JOINT VENTURE AND INCOME TAX	**2,288,224,525**	2,219,187,416	3,999,093,613
SHARE IN NET INCOME OF AN ASSOCIATE AND A JOINT VENTURE (Notes 10 and 29)	**20,213,935**	76,956,073	109,569,160
INCOME BEFORE INCOME TAX	**2,308,438,460**	2,296,143,489	4,108,662,773
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 27)			
Current	**351,871,466**	408,948,263	358,673,718
Deferred	**(394,333,106)**	(431,481,389)	821,500,247
	(42,461,640)	(22,533,126)	1,180,173,965
NET INCOME	**₱2,350,900,100**	₱2,318,676,615	₱2,928,488,808
Basic/Diluted Earnings Per Share (Note 28)	**₱9.79**	₱9.65	₱12.19

See accompanying Notes to Financial Statements.

PHILIPPINE SAVINGS BANK
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2015	2014	2013
NET INCOME	**₱2,350,900,100**	₱2,318,676,615	₱2,928,488,808
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that recycle to profit or loss in subsequent periods:			
Net unrealized gain (loss) from AFS investments (Note 8)	**(26,420,688)**	4,310,948	(183,863,692)
Equity in net unrealized gain (loss) on available-for-sale investments of an associate	–	(25,000)	25,000
Equity in cash flow hedge reserve of an associate	–	335,158	(335,158)
Cumulative translation adjustment	**(1,475,493)**	(561,527)	26,316,053
	(27,896,181)	4,059,579	(157,857,797)
Items that do not recycle to profit or loss in subsequent periods:			
Remeasurement losses on retirement plan (Note 24)	**(227,153,249)**	(191,122,777)	(132,829,377)
Equity in remeasurement gains (losses) on retirement plan of a joint venture (Note 10)	**1,513,370**	(966,038)	(298,348)
Income tax effect	**68,145,975**	57,336,833	39,848,813
	(157,493,904)	(134,751,982)	(93,278,912)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	**(185,390,085)**	(130,692,403)	(251,136,709)
TOTAL COMPREHENSIVE INCOME, NET OF TAX	**₱2,165,510,015**	₱2,187,984,212	₱2,677,352,099

See accompanying Notes to Financial Statements.

PHILIPPINE SAVINGS BANK
STATEMENTS OF CHANGES IN EQUITY

	Common Stock (Note 21)	Capital Paid in Excess of Par Value	Surplus Reserves (Note 30)	Surplus (Note 21)	Net Unrealized Gain on Available-for-Sale Investments (Note 8)	Remeasurement Losses on Retirement Plan (Note 24)	Equity in Net Unrealized Gain (Loss) on Available-for-Sale Investments of an Associate (Note 10)	Equity in Remeasurement Gains (Losses) on Retirement Plan of a Joint Venture (Note 10)	Equity in Cash Flow Hedge Reserve of an Associate (Note 10)	Cumulative Translation Adjustment	Total
Balance at January 1, 2015	**₱2,402,524,910**	**₱2,818,083,506**	**₱1,035,275,317**	**₱11,803,283,969**	**₱26,600,463**	**(₱312,363,737)**	**₱–**	**(₱1,445,728)**	**₱–**	**(₱41,656,482)**	**₱17,730,302,218**
Total comprehensive income (loss) for the year	**–**	**–**	**–**	**2,350,900,100**	**(26,420,688)**	**(159,007,274)**	**–**	**1,513,370**	**–**	**(1,475,493)**	**2,165,510,015**
Cash dividends (Note 21)	**–**	**–**	**–**	**(720,757,473)**	**–**	**–**	**–**	**–**	**–**	**–**	**(720,757,473)**
Balance at December 31, 2015	**₱2,402,524,910**	**₱2,818,083,506**	**₱1,035,275,317**	**₱13,433,426,596**	**₱179,775**	**(₱471,371,011)**	**₱–**	**₱67,642**	**₱–**	**(₱43,131,975)**	**₱19,175,054,760**
Balance at January 1, 2014	₱2,402,524,910	₱2,818,083,506	₱1,035,275,317	₱10,205,364,827	₱22,289,515	(₱178,577,793)	₱25,000	(₱479,690)	(₱335,158)	(₱41,094,955)	₱16,263,075,479
Total comprehensive income (loss) for the year	–	–	–	2,318,676,615	4,310,948	(133,785,944)	(25,000)	(966,038)	335,158	(561,527)	2,187,984,212
Cash dividends (Note 21)	–	–	–	(720,757,473)	–	–	–	–	–	–	(720,757,473)
Balance at December 31, 2014	₱2,402,524,910	₱2,818,083,506	₱1,035,275,317	₱11,803,283,969	₱26,600,463	(₱312,363,737)	₱–	(₱1,445,728)	₱–	(₱41,656,482)	₱17,730,302,218
Balance at January 1, 2013	₱2,402,524,910	₱2,818,083,506	₱1,035,275,317	₱8,718,390,965	₱206,153,207	(₱85,597,229)	₱–	(₱181,342)	₱–	(₱67,411,008)	₱15,027,238,326
Total comprehensive income (loss) for the year	–	–	–	2,928,488,808	(183,863,692)	(92,980,564)	25,000	(298,348)	(335,158)	26,316,053	2,677,352,099
Cash dividends (Note 21)	–	–	–	(1,441,514,946)	–	–	–	–	–	–	(1,441,514,946)
Balance at December 31, 2013	₱2,402,524,910	₱2,818,083,506	₱1,035,275,317	₱10,205,364,827	₱22,289,515	(₱178,577,793)	₱25,000	(₱479,690)	(₱335,158)	(₱41,094,955)	₱16,263,075,479

See accompanying Notes to Financial Statements.

PHILIPPINE SAVINGS BANK
STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2015	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱2,308,438,460**	₱2,296,143,489	₱4,108,662,773
Adjustments to reconcile income before income tax to net cash used in operations:			
Accretion of premium (discount) on available-for-sale and held-to-maturity investments	**2,024,746,125**	(118,028,620)	40,050,334
Provision for credit and impairment losses (Note 15)	**1,588,298,396**	1,743,821,080	2,649,072,916
Depreciation (Note 11)	**501,311,146**	504,628,955	483,260,520
Gain on foreclosure and sale of:			
Chattel mortgage properties (Note 14)	**(377,657,511)**	(316,813,642)	(378,583,708)
Investment properties (Note 12)	**(258,030,111)**	(298,854,312)	(269,751,500)
Amortization of:			
Intangible assets (Note 13)	**100,224,715**	82,368,321	68,454,285
Debt issuance costs (Note 17)	**5,150,260**	3,963,190	2,568,682
Realized gain on sale of available-for-sale investments (Note 8)	**(36,343,321)**	(99,084,970)	(4,101,920,941)
Unrealized trading loss on fair value through profit or loss investments (Note 8)	**24,171,844**	1,108,328	69,370,851
Share in net income of an associate and a joint venture (Notes 10 and 29)	**(20,213,935)**	(76,956,073)	(109,569,160)
Gain on sale of property and equipment (Note 11)	**(17,739,663)**	(45,013,382)	(138,464,473)
Gain on sale of investment in an associate (Notes 10 and 29)	**–**	(558,663,928)	–
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Fair value through profit or loss investments	**(2,566,807,850)**	(95,418,879)	(133,230,508)
Loans and receivables	**(21,526,724,867)**	(16,072,062,154)	(16,277,467,836)
Other assets	**73,185,939**	(171,483,937)	31,368,117
Increase (decrease) in:			
Deposit liabilities	**17,768,068,631**	10,008,975,239	11,907,147,369
Accrued taxes, interest and other expenses	**(77,668,853)**	21,703,285	45,518,923
Treasurer's, cashier's and manager's checks	**94,839,692**	143,264,488	353,887,876
Other liabilities	**(57,443,347)**	582,183,755	374,312,509
Cash used in operations	**(450,194,250)**	(2,464,219,767)	(1,275,312,971)
Income taxes paid	**(350,950,721)**	(401,945,925)	(358,541,379)
Net cash used in operating activities	**(801,144,971)**	(2,866,165,692)	(1,633,854,350)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of:			
Held-to-maturity investments	**(15,183,881,903)**	(1,683,973,367)	–
Available-for-sale investments	**(13,996,913,431)**	(3,247,058,476)	(9,442,031,365)
Property and equipment (Note 11)	**(639,489,221)**	(458,939,120)	(341,390,933)
Other intangible assets (Note 13)	**(175,544,810)**	(158,676,293)	(129,544,501)
Proceeds from sale of:			
Available-for-sale investments (Note 8)	**11,056,542,556**	3,034,958,920	24,316,107,434
Chattel mortgage properties (Note 14)	**1,378,234,489**	1,235,235,293	898,623,700
Investment properties (Note 12)	**437,934,888**	478,248,446	616,169,468
Property and equipment (Note 11)	**39,834,213**	89,695,109	240,849,912
Investment in an associate (Note 10)	**–**	1,312,500,000	–
Decrease (increase) in interbank loans receivable (Notes 7 and 32)	**1,386,320,000**	(1,386,320,000)	–
Proceeds from redemption of held-to-maturity investments at maturity date	**–**	–	227,265,497
Net cash provided by (used in) investing activities	**(15,696,963,219)**	(784,329,488)	16,386,049,212

(Forward)

	Years Ended December 31		
	2015	2014	2013
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of bills payable (Note 17)	**₱4,494,600,572**	₱–	₱–
Dividends paid (Note 21)	**(897,647,381)**	(542,898,772)	(1,615,857,451)
Issuance of subordinated notes (Note 17)	–	2,970,572,107	–
Net cash provided by (used in) financing activities	**3,596,953,191**	2,427,673,335	(1,615,857,451)
Effect of exchange rate differences	**(73,834)**	(154,493)	12,824,117
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(12,901,228,833)**	(1,222,976,338)	13,149,161,528
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Cash and other cash items	**4,174,756,446**	3,157,499,370	2,811,064,294
Due from Bangko Sentral ng Pilipinas (Note 16)	**23,997,102,406**	7,401,657,444	5,514,832,823
Due from other banks	**3,382,662,578**	8,491,340,954	6,002,439,123
Interbank loans receivable and securities purchased under resale agreements (Notes 7 and 32)	**800,000,000**	14,527,000,000	6,100,000,000
	32,354,521,430	33,577,497,768	20,428,336,240
CASH AND CASH EQUIVALENTS AT END OF YEAR			
Cash and other cash items	**3,934,496,578**	4,174,756,446	3,157,499,370
Due from Bangko Sentral ng Pilipinas (Note 16)	**11,143,781,766**	23,997,102,406	7,401,657,444
Due from other banks	**1,861,110,141**	3,382,662,578	8,491,340,954
Interbank loans receivable and securities purchased under resale agreements (Notes 7 and 32)	**2,513,904,112**	800,000,000	14,527,000,000
	₱19,453,292,597	₱32,354,521,430	₱33,577,497,768

OPERATIONAL CASH FLOWS FROM INTEREST			
Interest paid	**₱2,483,813,667**	₱2,423,202,798	₱2,384,095,368
Interest received	**12,478,341,350**	9,808,205,933	9,089,387,982

See accompanying Notes to Financial Statements.

1. Corporate Information

Philippine Savings Bank (the Bank) was incorporated in the Philippines primarily to engage in savings and mortgage banking. The Bank's shares are listed in the Philippine Stock Exchange (PSE). The Bank offers a wide range of products and services such as deposit products, loans, treasury and trust functions that mainly serve the retail and consumer markets. On September 6, 1991, the Bank was authorized to perform trust functions.

As of December 31, 2015 and 2014, the Bank had 248 and 245 branches, respectively. In 2015, the Bank added 19 Automated Tellering Machines (ATMs) in Metro Manila and in provincial locations, bringing its total number of ATMs to 614 as of December 31, 2015 from 595 as of December 31, 2014.

The Bank's original Certificate of Incorporation was issued by the Securities and Exchange Commission (SEC) on June 30, 1959. On March 28, 2006, the board of directors (BOD) of the Bank approved the amendment of Article IV of its Amended Articles of Incorporation to extend the corporate term of the Bank, which expired on June 30, 2009, for another 50 years or up to June 30, 2059. This was subsequently approved by stockholders representing at least two-thirds of the outstanding capital stock of the Bank on April 25, 2006. The Amended Articles of Incorporation was approved by the SEC on September 27, 2006.

On April 27, 2010, by majority vote of the BOD and by stockholders representing two-thirds of the outstanding capital stock approved the amendment of Article VI of its Amended Articles of Incorporation reducing the number of directors from a maximum of eleven (11) to a maximum of nine (9). This was approved by the SEC on August 26, 2010.

On March 24, 2014, the BOD approved Article III of Articles of Incorporation to specify its principal address from Makati City to PS Bank Center, 777 Paseo de Roxas corner Sedeño Street, Makati City 1226. The Amended Articles of Incorporation was approved by the SEC on December 22, 2014.

As of December 31, 2015, the Bank is seventy-six percent (76%) owned by Metropolitan Bank & Trust Company (MBTC), its ultimate parent company.

2. Significant Accounting Policies

Basis of Preparation

The accompanying financial statements have been prepared under the historical cost basis except for fair value through profit or loss (FVPL) investments and available-for-sale (AFS) investments that have been measured at fair value. All values are rounded to the nearest peso unless otherwise stated.

The accompanying 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 the FCDU is the Philippine Peso and United States Dollar (USD), respectively. For financial reporting purposes, FCDU accounts and foreign currency-denominated accounts in the RBU are translated into their equivalents in Philippine peso (see accounting policy on Foreign Currency Translation). The financial statements of these units are combined after eliminating inter-unit accounts.

The financial statements provide comparative information in respect of the previous period. In addition, the Bank presents an additional statement of condition at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in financial statements.

Statement of Compliance
The financial statements of the Bank have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Presentation of Financial Statements
The Bank presents its statement of condition in order of liquidity. An analysis regarding recovery of assets or settlement of liabilities within twelve (12) months after the statement of condition date (current) and more than 12 months after the statement of condition date (non-current) is presented in Note 20.

Financial assets and financial liabilities are offset and the net amount reported in the statement of condition only when there is a legally enforceable 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 liability simultaneously. Income and expenses are not offset in the statement of income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended PFRSs and Philippine Accounting Standards (PAS), which were adopted as of January 1, 2015.

The following new and amended did not have any material impact on the accounting policies, financial position or performance of the Bank:

- PAS 19, *Employee Benefits – Defined Benefit Plans: Employee Contributions* (Amendments)

Annual Improvements to PFRSs (*2010-2012 cycle)*
- PFRS 2, *Share-based Payment – Definition of Vesting Condition*
- PFRS 3, *Business Combinations – Accounting for Contingent Consideration in a Business Combination*
- PFRS 8, *Operating Segments – Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
- PAS 16, *Property, Plant and Equipment* and PAS 38, *Intangible Assets – Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization*
- PAS 24, *Related Party Disclosures – Key Management Personnel*

Annual Improvements to PFRSs (*2011-2013 cycle)*
- PFRS 3, *Business Combinations – Scope Exceptions for Joint Arrangements*
- PFRS 13, *Fair Value Measurement – Portfolio Exception*
- PAS 40, *Investment Property*

Summary of Significant Accounting Policies

Foreign Currency Translation
The financial statements are presented in Philippine Peso, which is the Bank's functional and presentation currency.

The books of accounts of the RBU are maintained in Philippine Peso, while those of the FCDU are maintained in USD.

RBU
As at reporting date, foreign currency monetary assets and liabilities of the RBU are translated in Philippine Peso based on the Philippine Dealing System (PDS) closing rate prevailing at end of the year, and foreign currency-denominated income and expenses, at the exchange rates as at the dates of the transactions. Foreign exchange differences arising from restatements of foreign currency-denominated assets and liabilities in the RBU are credited to or charged against profit or loss in the year in which the rates change. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

FCDU
As at the reporting date, the assets and liabilities of the FCDU are translated to the Bank's presentation currency (the Philippine Peso) at the PDS closing rate prevailing at the statement of condition date, and its income and expenses are translated using the exchange rates as at the dates of the transactions. Exchange differences arising on translation to the presentation currency are taken to the statement of comprehensive income under 'Cumulative translation adjustment'. Upon disposal of the FCDU or upon actual remittance of FCDU profits to RBU, the deferred cumulative amount recognized in the statement of comprehensive income is recognized in the statement of income.

Fair Value Measurement
The Bank measures financial instruments, such as FVPL investments, AFS investments and derivatives, at fair value at each statement of condition date. Also, fair values of financial instruments measured at amortized cost and non-financial assets such as investment properties are disclosed in Note 4.

Fair value is the estimated price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or most advantageous market must be accessible to the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

If an asset or a liability measured at fair value has a bid price and an ask price (e.g., an input from a dealer market), the price between the bid-ask spread that is most representative of fair value in the circumstances shall be used to measure fair value regardless of where the input is categorized within the fair value hierarchy.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 − Quoted (unadjusted) market prices in active markets 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

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset and liability and the level of the fair value hierarchy as explained above.

Financial Instruments - Initial Recognition and Subsequent Measurement

Date of recognition

Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date. Deposits, amounts due to banks and loans are recognized when cash is received by the Bank or advanced to the borrowers.

Initial recognition of financial instruments

All financial instruments, including trading and investment securities and loans and receivables, are initially measured at fair value. Except for FVPL investments and liabilities, the initial measurement of financial instruments includes transaction costs. The Bank classifies its financial assets in the following categories: FVPL investments, AFS investments, held-to-maturity (HTM) investments, and loans and receivables. Financial liabilities are classified into liabilities at FVPL and other financial liabilities at amortized cost. The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management’s intention in acquiring them. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every statement of condition date. As of December 31, 2015 and 2014, the Bank had no financial liabilities at FVPL.

Derivatives recorded at FVPL
Derivative financial instruments are initially recorded at fair value on the date at which the derivative contract is entered into and are subsequently remeasured at fair value. Any gains or losses arising from changes in fair values of derivatives (except those accounted for as cash flow hedges) are taken directly to the statement of income and are included in 'Trading and securities gain - net'. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. As of December 31, 2015 and 2014, derivatives consist of Republic of the Philippines (ROP) paired warrants acquired to lower the risk weighted assets and improve the capital adequacy ratio of the Bank.

For purposes of hedge accounting, hedges, if any, are classified primarily as either: a) a hedge of the fair value of an asset, liability or a firm commitment (fair value hedge); or b) a hedge of the exposure to variability in cash flows attributable to an asset or a liability or a forecasted transaction (cash flow hedge). Hedge accounting is applied to derivatives designated as hedging instruments in a fair value, cash flow, or net investment hedge provided certain criteria are met.

At the inception of a hedge relationship, the Bank formally designates and documents the hedge relationship to which the Bank wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Bank will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Cash flow hedge
The effective portion of the gain or loss on the hedging instrument is recognized directly as 'Cash flow hedge reserve' in the statement of comprehensive income. Any gain or loss in fair value relating to an ineffective portion is recognized immediately in the statement of income.

Amounts recognized as other comprehensive income (OCI) are transferred to the statement of income when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognized in the statement of comprehensive income are transferred to the statement of income. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognized in other comprehensive income remains in other comprehensive income until the forecast transaction or firm commitment affects profit or loss. If the related transaction is no longer expected to occur, the amount is recognized in the statement of income.

Hedge effectiveness testing
To qualify for hedge accounting, the Bank requires that at the inception of the hedge and throughout its life, each hedge must be expected to be highly effective (prospective effectiveness), and demonstrate actual effectiveness (retrospective effectiveness) on an ongoing basis. The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed. The method that the Bank adopts for assessing hedge effectiveness will depend on its risk management strategy.

For prospective effectiveness, the hedging instrument must be expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated.

Financial assets or financial liabilities held-for-trading (HFT)
Other financial assets or financial liabilities held for trading (classified as FVPL investments) are recorded in the statement of condition at fair value. Changes in fair value relating to the HFT positions are recognized in 'Trading and securities gains (losses) - net'. Interest earned or incurred is recorded as interest income or expense, respectively, while dividend income is recorded in other operating income under 'Miscellaneous' when the right to receive payment has been established.

Included in this classification are debt securities which have been acquired principally for the purpose of selling in the near term.

Designated financial assets or financial liabilities at FVPL
Designated financial assets or financial liabilities classified in this category are those that have been designated by management upon initial recognition. Management may only designate an instrument at FVPL upon recognition when the following criteria are met, and designation is determined on an instrument-by-instrument basis:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis;
- the assets and liabilities are part of a group of financial assets, financial 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; and
- the financial instrument contains one or more embedded derivatives which significantly modify the cash flow that would otherwise be required by the contract.

Designated financial assets and financial liabilities at FVPL are recorded in the statement of condition at fair value. Changes in fair value are recorded in 'Trading and securities gains - net'. Interest earned or incurred is recorded in interest income or interest expense using the effective interest rate (EIR), while any dividend income is recorded in other operating income under 'Miscellaneous' according to the terms of the contract, or when the right of the payment has been established.

As of December 31, 2015 and 2014, the Bank had no designated financial assets or financial liabilities at FVPL.

Embedded derivatives
An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid or combined instrument is not recognized at fair value through profit or loss.

The Bank assesses whether embedded derivatives are required to be separated from host contracts when the Bank first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. The Bank determines whether a modification to the cash flows is significant by considering the extent to which the expected future cash flows associated with the embedded derivative and the host contract has changed, and whether the change is significant relative to the previously expected cash flow on the contract.

As of December 31, 2015 and 2014, the Bank does not have any embedded derivatives required to be separated from the host contract.

AFS investments
AFS investments include equity and debt securities. Equity investments classified as AFS are those which are neither classified as HFT nor designated at FVPL. Debt securities in this category are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or in response to changes in market conditions. The Bank has not designated any loans and receivables as AFS.

After initial measurement, AFS investments are subsequently measured at fair value. The effective yield component of AFS debt securities as well as the impact of restatement on foreign currency-denominated AFS debt securities is reported in other operating income. The unrealized gains and losses arising from the fair valuation of AFS investments are excluded, net of tax, from reported income and are reported as 'Net unrealized gain (loss) from AFS investments' in OCI.

When the security is disposed of, the cumulative gain or loss previously recognized in OCI is recognized as 'Trading and securities gains - net' in the statement of income. Where the Bank holds more than one investment in the same security, these are deemed to be disposed on a weighted average basis. Interest earned on holding AFS debt investments are reported as interest income using the EIR. Dividends earned on holding AFS equity investments are recognized in the statement of income as other operating income under 'Miscellaneous' when the right of the payment has been established. The losses arising from impairment of such investments are recognized as 'Provision for credit and impairment losses' in the statement of income and removed from 'Net unrealized gain (loss) from AFS investments' in OCI.

HTM investments
HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Bank's management has the positive intention and ability to hold until maturity. After initial measurement, HTM investments are subsequently measured at amortized cost using the effective interest amortization method, less 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 EIR. The amortization is included in 'Interest income on investment securities' in the statement of income. The losses arising from impairment of such investments are recognized in the statement of income under 'Provision for credit and impairment losses'. The effects of restatement on foreign currency-denominated HTM investments are recognized in the statement of income.

If the Bank were to sell or reclassify more than an insignificant amount of HTM investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would be reclassified as AFS investments. Furthermore, the Bank would be prohibited from classifying any financial asset as HTM investments during the following two years.

Loans and receivables
This accounting policy relates to the Bank's 'Due from Bangko Sentral ng Pilipinas (BSP)', 'Due from Other Banks', 'Interbank Loans Receivable and Securities Purchased Under Resale Agreements (SPURA)', 'Loans and Receivables', 'Security Deposits', 'Returned Checks and Other Cash Items (RCOCI)', and 'Shortages'. These are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market, other than:

- those that the Bank intends to sell immediately or in the near term and those that the Bank, upon initial recognition, designates as at FVPL;
- those that the Bank, upon initial recognition, designates as AFS; and
- those for which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial measurement, 'Due from BSP', 'Due from Other Banks', 'Interbank Loans Receivable and SPURA', 'Loans and Receivables', 'Security Deposits', 'RCOCI', and 'Shortages' are subsequently measured at amortized cost using the effective interest amortization method, less allowance for credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in 'Interest income' in the statement of income. The losses arising from impairment are recognized in 'Provision for credit and impairment losses' in the statement of income.

Other financial liabilities carried at amortized cost
This category represents issued financial instruments or their components, which are not designated at FVPL and comprises 'Deposit Liabilities', 'Bills Payable', 'Subordinated Notes', 'Treasurer's, Cashier's and Manager's Checks', 'Accrued Interest Payable', 'Accrued Other Expenses', 'Accounts Payable', 'Bills Purchased-Contra', 'Other credits', 'Due to BSP', 'Dividends Payable', 'Due to the Treasurer of the Philippines', 'Deposits for Keys-Safety Deposit Boxes (SDB)', and 'Overages', where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, financial liabilities not qualified and not designated as FVPL are subsequently measured at amortized cost using the effective interest amortization method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

A compound financial instrument which contains both a liability and an equity component is separated at the issue date. A portion of the net proceeds of the instrument is allocated to the debt component on the date of issue based on its fair value (which is generally determined based on quoted market prices for similar debt instruments). The residual amount determined after deducting the fair value of the debt component is assigned to the equity component. The value of any derivative features (such as a call option) embedded in the compound financial instrument other than the equity component is included in the debt component.

Derecognition of Financial Assets and Liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is primarily derecognized when:

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

Where the Bank has transferred its rights to receive cash flows from an asset or has entered into a 'pass-through' arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control over the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset. In this case, the Bank also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

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 repay.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of income.

Repurchase and Reverse Repurchase Agreements

Securities sold under agreements to repurchase (SSURA) at a specified future date ('repos') are not derecognized from the statement of condition as the Bank retains substantially all the risks and rewards of ownership. The corresponding cash received, including accrued interest, is recognized in the statement of condition as a loan to the Bank under 'Bills Payable', reflecting the economic substance of such transaction.

Conversely, securities purchased under agreements to resell at a specified future date ('reverse repos') are not recognized in the statement of condition. The consideration paid, including accrued interest, is recognized in the statement of condition as SPURA, and is considered a loan to the counterparty. The difference between the purchase price and resale price is treated as interest income and is accrued over the life of the agreement using the effective interest amortization method.

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.

A financial asset that is reclassified out of the FVPL category is reclassified at its fair value on the date of reclassification. Any gain or loss already recognized in the statement of comprehensive income is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

If, as a result of a change in intention or ability, it is no longer appropriate to classify an investment as held to maturity, it shall be reclassified as available for sale and remeasured at fair value on the date of reclassification, and the difference between its carrying amount and fair value shall be recognized in other comprehensive income.

Impairment of Financial Assets
The Bank assesses at each statement of condition date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred '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 they will enter bankruptcy or other financial reorganization; and where observable data indicate that there is a 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, which includes loans and receivables, due from banks and HTM investments, the Bank first assesses individually at each statement of condition date whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment. Assets individually assessed for impairment for which no impairment loss was measured are also collectively assessed for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged to the statement of income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Loans and receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral have been realized. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited to 'Recovery from charged-off assets' in the statement of income.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, 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.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of credit risk characteristics such as industry and age of receivables.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for 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 that did not affect the period in 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 period to period (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

The details of credit and impairment losses on financial assets carried at amortized cost are disclosed in Note 15.

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 on new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due.

Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subjected to an individual or collective impairment assessment, calculated using the loan's original EIR if the original loan has a fixed interest rate and the current repriced rate if the original loan is repriceable. The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the applicable interest rate, is recognized in 'Provision for credit and impairment losses' in the statement of income.

AFS investments
For AFS investments, the Bank assesses at each statement of condition date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In the case of debt instruments classified as AFS 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 recorded as impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of income.

Future interest income continues to be accrued based on the reduced carrying amount using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of 'Interest income' in the statement of income. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed through the statement of income.

In the case of equity investments classified as AFS investments, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investments below its cost. The Bank treats 'significant' generally as 20.00% and 'prolonged' generally as greater than twelve (12) months. When there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statement of income - is removed from equity and recognized in the statement of income. Impairment losses on equity investments are not reversed through the statement of income. Increases in fair value after impairment are recognized in the statement of comprehensive income.

Collateral valuation
The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as hold-out on deposits, real estate, receivables and other non-financial assets. The fair value of collateral is generally assessed, at a minimum, at inception. Non-financial collateral, such as real estate and chattel, is valued based on data provided by independent external and in-house appraisers.

Revenue Recognition
Revenue is recognized to the extent that it is probable that future economic benefits will flow to the Bank and revenue can be measured reliably, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms and payment excluding taxes or duty. The Bank assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Bank concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

Interest income and expense
For all financial instruments measured at amortized cost and interest-bearing financial assets classified as AFS and financial instruments designated at FVPL, interest income or expense is recorded using the EIR. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Interest income' for financial assets and 'Interest expense' for financial liabilities.

Once the recorded value of a financial asset or group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original EIR used to discount future cash flows for the purpose of measuring the impairment loss.

Service fees and commission income
Fees earned for the provision of services over a period of time are accrued over that period. These fees include fiduciary fees, credit-related fees and other service and management fees.

Income from sale of property and equipment, investment property and chattel mortgage properties
Income from sale of properties is recognized upon completion of the earning process and the collectibility of the sales price is reasonably assured.

Trading and securities gains (losses)
Trading and securities gain (loss) represents results arising from trading activities, including all gains and losses from changes in the fair values of financial assets held for trading.

Unrealized gains and losses arise from changes in the fair value of financial instruments for the period and from reversal of prior period's unrealized gains and losses for financial instruments which were realized in the reporting period.

Realized gains and losses on disposals of financial instruments at FVPL are calculated using weighted average method. It represents the difference between an instrument's initial carrying amount and disposal amount.

Rental income
Rental income arising from leased properties is accounted for on a straight-line basis over the lease terms of ongoing leases and is recorded in the statement of income under 'Other operating income'.

Dividends
Dividend income is recognized when the Bank's right to receive payment is established, which is generally when shareholders approve the dividend.

Expense Recognition
Expenses are recognized when it is probable that a decrease in future economic benefit related to a decrease in an asset or an increase in liability has occurred and the decrease in economic benefits can be measured reliably. Revenues and expenses that relate to the same transaction or other event are recognized simultaneously.

Cash and Cash Equivalents
For purposes of reporting cash flows, cash and cash equivalents include cash on hand and in banks, amounts due from BSP and interbank loans receivable and SPURA with original maturities of three months or less from dates of placements and that are subject to insignificant risk of changes in value. Due from BSP includes the statutory reserves required by the BSP which the Bank considers as cash equivalents wherein drawings can be made to meet the Bank's cash requirements, as allowed by the BSP.

Business Combination and Goodwill

Business combinations are accounted for using the acquisition method. This involves recognizing identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognized as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognized directly in the statement of income in the year of acquisition.

Goodwill is initially measured at cost being the excess of the acquisition cost over the share in the net fair value of the acquired identifiable assets, liabilities and contingent liabilities. The Bank's goodwill arose from past purchases of branch business/offices from the Parent Company.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired is, from the acquisition date, allocated to each of the CGU or group of CGUs that are expected to benefit from the synergies of the combination, irrespective of whether the acquired other assets or liabilities are assigned to those units.

Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

Investment in a Joint Venture

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. The Bank's investment in a joint venture represents its 40.00% interest in Sumisho Motor Finance Corporation (SMFC), an entity not listed in the PSE.

The considerations made in determining significant influence or joint controls are similar to those necessary to determine control over subsidiaries.

The Bank's investment in its joint venture is accounted for using the equity method.

Under the equity method, the investment in a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Bank's share of net assets of the joint venture since the acquisition date. Goodwill relating to the joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The statement of income reflects the Bank's share of the results of operations of the joint venture. Any change in OCI of those investees is presented as part of the Bank's OCI. In addition, when there has been a change recognized directly in the equity of the joint venture, the Bank recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Bank and joint venture are eliminated to the extent of the interest in the joint venture.

The aggregate of the Bank's share of profit or loss of a joint venture is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the joint venture.

The financial statements of a joint venture are prepared for the same reporting period as the Bank. The length of the reporting period is the same from period to period. When necessary, adjustments are made to bring the accounting policies in line with those of the Bank.

After application of the equity method, the Bank determines whether it is necessary to recognize an impairment loss on its investment in its joint venture. At each reporting date, the Bank determines whether there is objective evidence that the investment in the joint venture is impaired. If there is such evidence, the Bank calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value, then recognizes the loss as 'Share in net income (loss) of a joint venture' in the statement of income.

Upon loss of significant influence over the joint control over the joint venture, the Bank measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

Property and Equipment

Land is stated at cost less any impairment in value and depreciable properties, including building, furniture, fixtures and equipment, and leasehold improvements, are stated at cost less accumulated depreciation and any accumulated impairment losses. The initial cost of property and equipment consists of its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the assets have been put into operation, such as repairs and maintenance, are normally charged against profit or loss in the year in which 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 property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional cost of property and equipment.

Depreciation is calculated using the straight-line method to write down the cost of the property and equipment to their residual values over their estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

Buildings	25-50 years
Furniture, fixtures and equipment	3-5 years depending on the type of assets
Leasehold improvements	5 years or the term of the related leases, whichever is shorter

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 the statement of income in the year the asset is derecognized.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the asset or CGU are written down to their recoverable amount (see policy on Impairment of Non-financial Assets).

The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year-end to ensure that these are consistent with the expected pattern of economic benefits from the items of property and equipment.

Investment Properties

Investment properties are measured initially at cost, including transaction costs. An investment property acquired through an exchange transaction is measured at the fair value of the asset acquired unless the fair value of such asset cannot be measured, in which case the investment property acquired is measured at the carrying amount of the asset given up. Foreclosed properties are classified under investment properties from foreclosure date. Expenditures incurred after the investment properties are recognized, such as repairs and maintenance costs, are normally charged to income in the period in which the costs are incurred.

Subsequent to initial recognition, investment properties are carried at cost less accumulated depreciation and impairment in value, except for land which is stated at cost less impairment in value. Depreciation is calculated using the straight-line method over the remaining useful lives from the time of acquisition of the investment properties.

The estimated useful life of building and condominium units ranges from 10 to 40 years.

Investment properties are derecognized when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the statement of income in 'Gain on foreclosure and sale of investment properties - net' in the year of retirement or disposal.

Transfers are made to investment properties when, and only when, there is a change in use evidenced by ending of owner occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment properties when, and only when, there is a change in use evidenced by commencement of owner occupation or commencement of development with a view to sale.

Chattel Mortgage Properties

Chattel mortgage properties comprise repossessed vehicles. Chattel mortgage properties are stated at cost less accumulated depreciation and impairment in value. Chattel mortgage properties acquired are initially recognized at fair value. Depreciation is calculated using the straight-line method over the remaining useful lives from the time of acquisition of the vehicles. The useful lives of chattel mortgage properties are estimated to be five years.

Intangible Assets

The Bank's intangible assets include branch licenses and computer software. An intangible asset is recognized only when the cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the statement of income in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and they are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of income under 'Amortization of intangible assets'.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the CGU level. Such intangibles are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

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

Branch licenses
Branch licenses arise from the acquisition of branches from local banks and licenses to operate new branches from the BSP. Branch licenses have indefinite useful lives and are tested for impairment on an annual basis.

Software costs
Software costs are carried at cost less accumulated amortization and any impairment in value. Given the history of rapid changes in technology, computer software are susceptible to technological obsolescence. Therefore, it is likely that their useful life is short. Software costs are amortized on a straight-line basis over five years but maybe shorter depending on the period over which the Bank expects to use the asset.

Impairment of Non-financial Assets

Property and equipment, investment properties and chattel mortgage properties
At each statement of condition date, the Bank assesses whether there is any indication that its non-financial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Bank makes a formal estimate of the recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU'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, in which case the recoverable amount is assessed as part of the CGU to which it belongs. Where the carrying amount of an asset or CGU 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 assessments of the time value of money and the risks specific to the asset. In determining fair value less cost to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples and other available fair value indicators.

An impairment loss is charged to operations in the year in which it arises.

An assessment is made at each statement of condition 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 Bank estimates the asset's or CGU's recoverable amount. 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. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been previously recognized. Such reversal is recognized in the statement of income. After such reversal, the depreciation expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Goodwill
Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the CGU (or group of CGU) to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGU) is less than the carrying amount of the CGU (or group of CGU) to which goodwill has been allocated, an impairment loss is recognized immediately in the statement of income. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods. The Bank performs its annual impairment test of goodwill as at December 31 of each year.

Intangible assets
Intangible assets with indefinite useful lives are tested for impairment annually as at December 31 of each year, either individually or at the CGU level, as appropriate.

Intangible assets with finite lives are assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Investment in a joint venture
After application of the equity method, the Bank determines whether it is necessary to recognize an impairment loss on the Bank's investment in a joint venture. The Bank determines at each statement of condition date whether there is any objective evidence that the investment a joint venture is impaired. If this is the case, the Bank calculates the amount of impairment as being the difference between the fair value of the investment in the joint venture and the carrying amount and recognizes such amount in the statement of income.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or 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. a 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 fulfillment is dependent on a specified asset; or,
d. there is a substantial change to the asset.

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

Bank as a lessee

Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognized as an expense in the statement of income on a straight-line basis over the lease term.

Bank as a lessor

Leases where the Bank does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as income in the period in which they are earned.

Retirement Cost

The Bank has a funded, non-contributory defined benefit retirement plan, administered by the Retirement Committee, covering their permanent employees.

Defined Benefit Plan

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plan is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:
a. service cost;
b. net interest on the net defined benefit liability or asset; and
c. remeasurements of net defined benefit liability or asset.

Service costs, which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

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 liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Bank, nor can they be paid directly to the Bank. The fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Bank’s right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Termination benefits
Termination benefits are employee benefits provided in exchange for the termination of an employee’s employment as a result of either an entity’s decision to terminate an employee’s employment before the normal retirement date or an employee’s decision to accept an offer of benefits in exchange for the termination of employment.

A liability and expense for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognizes related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefit, as either post-employment benefits, short-term employee benefits, or other long-term employee benefits.

Employee leave entitlement
Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

Provisions
Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event and 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. Where the Bank expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of income, net of any reimbursement. If the effect of the time value of money is

material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as 'Interest expense'.

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

Debt Issue Costs
Issuance, underwriting and other related expenses incurred in connection with the issuance of debt instruments are included in the measurement basis of the underlying debt instruments and are amortized as an adjustment to the interest on the underlying debt instruments using the effective interest method.

Income Taxes
Income tax on profit or loss for the year comprises current and deferred tax. Income tax is determined in accordance with Philippine tax law. Income tax is recognized in the statement of income, except to the extent that it relates to OCI items recognized directly in the statement of comprehensive income.

Current tax
Current income tax is the expected tax payable on the taxable income for the period, using the tax rates enacted at the statement of condition date, together with adjustments to tax payable in respect to prior years.

Deferred tax
Deferred income tax is provided, using the balance sheet liability method, on all temporary differences at the statement of condition date 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 and carry forward of unused tax losses and tax credits from excess minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT), to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and carry forward of unused tax losses and MCIT can be utilized.

The carrying amount of deferred tax assets is reviewed at each statement of condition date 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 reassessed at each statement of condition date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are applicable to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of condition date.

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

Current income tax and deferred income tax relating to items recognized directly in OCI is also recognized in OCI and not in the statement of income.

Earnings Per Share
Basic earnings per share (EPS) is computed by dividing net income for the year by the weighted average number of common shares issued and outstanding during the year, after giving retroactive effect to stock dividends declared, stock rights exercised and stock splits, if any, declared during the year. As of December 31, 2015 and 2014, there were no potential common shares with dilutive effect on the basic EPS of the Bank.

Dividends on Common Shares
Dividends on common shares are recognized as a liability and deducted from equity when approved by the BOD of the Bank. Dividends for the year that are approved after the statement of condition date are dealt with as subsequent events.

Subsequent Events
Post year-end events that provide additional information about the Bank's position at the statement of condition date (adjusting events) are reflected in the financial statements.

Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

Segment Reporting
The Bank's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on business segments is presented in Note 6. The Bank's assets generating revenues are all located in the Philippines (i.e., one geographical location). Therefore, geographical segment information is no longer presented.

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

New Accounting Standards, Interpretations and Amendments to Existing Standards Effective Subsequent to December 31, 2015
The standards and interpretations that are issued but not yet effective, up to the date of issuance of the Bank's financial statements are listed below. The Bank intends to adopt these standards when they become effective. Adoption of these standards and interpretations are not expected to have any significant impact on the financial statements of the Bank.

No definite adoption date prescribed by the SEC and FRSC

- Philippine Interpretation IFRC 15, *Agreements for Construction of Real Estate*

Effective January 1, 2016

- PAS 1, *Presentation of Financial Statements* – Disclosure Initiative (Amendments)
- PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets* – Clarification of Acceptable Methods of Depreciation and Amortization (Amendments)
- PAS 16, *Property, Plant and Equipment*, and PAS 41, *Agriculture* – Bearer Plants (Amendments)
- PAS 27, *Separate Financial Statements* – Equity Method in Separate Financial Statements (Amendments)
- PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures* – Investment Entities: Applying the Consolidation Exception (Amendments)
- PFRS 11, *Joint Arrangements* – Accounting for Acquisitions of Interests in Joint Operations (Amendments)
- PFRS 14, *Regulatory Deferral Accounts*
- Annual Improvements to PFRSs (2012-2014 cycle)
  - PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations – Changes in Methods of Disposal*
  - PFRS 7, *Financial Instruments: Disclosures – Servicing Contracts*
  - PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
  - PAS 19, *Employee Benefits – regional market issue regarding discount rate*
  - PAS 34, *Interim Financial Reporting – disclosure of information 'elsewhere in the interim financial report'*

Effective January 1, 2018

PFRS 9, *Financial Instruments*
In July 2014, the IASB issued the final version of IFRS 9, *Financial Instruments*. The new standard (renamed as PFRS 9) reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. Early application of previous versions of PFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before February 1, 2015. The Bank did not early adopt PFRS 9.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Bank's financial assets, but will potentially have no impact on the classification and measurement of the Bank's financial liabilities. The adoption will also have an effect on the Bank's determination of the amount of its credit losses. The Bank is currently assessing the impact of adopting this standard.

In addition, the International Accounting Standards Board has issued the following new standards that have not yet been adopted locally by the SEC and FRSC. The Bank is currently assessing the impact of these new standards and plans to adopt them on their required effective dates once adopted locally.

IFRS 15, *Revenue from Contracts with Customers*
IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted.

IFRS 16, *Leases*
On January 13, 2016, the IASB issued its new standard, IFRS 16, Leases, which replaces International Accounting Standards (IAS) 17, the current leases standard, and the related Interpretations.

Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with IAS 17. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under IAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

The new standard is effective for annual periods beginning on or after January 1, 2019. Entities may early adopt IFRS 16 but only if they have only adopted IFRS 15. When adopting IFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the financial statements in accordance with PFRS requires the management to make judgments, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent assets and contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets and liabilities affected in future periods. The effects of any change in judgments, estimates and assumptions are reflected in the financial statements as they become reasonably determinable.

Judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments
In the process of applying the Bank's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the financial statements:

(a) *Classification of operating leases*

Bank as lessor
The Bank has entered into leases on its properties. The Bank has determined based on an evaluation of the terms and conditions of the arrangements (i.e., the lease does not transfer ownership of the asset to the lessee by the end of the lease term, the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable, and the lease term is not for the major part of the asset's economic life), that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Bank as lessee
The Bank has entered into leases on the premises it uses for its operations. The Bank has determined, based on an evaluation of the terms and conditions of the lease agreements, that all significant risks and rewards of ownership of the properties it leases on operating lease are not transferable to the Bank.

(b) *Fair value of financial instruments*
When the fair values of financial assets and financial liabilities recorded in the statement of condition cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility for longer-dated derivatives and discount rates, prepayments and default rates assumptions. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

The fair values of the Bank's financial instruments are disclosed in Note 4.

(c) *Classification of HTM investments*
The classification to HTM investment requires significant judgment. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than in certain specific circumstances - for example, selling an insignificant amount close to maturity - it will be required to reclassify the entire portfolio to AFS investments. The investments would therefore be measured at fair value and not at amortized cost.

(d) *Financial assets not quoted in an active market*
The Bank classifies financial assets by evaluating, among others, 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 quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

(e) *Functional currency*
PAS 21, *The Effects of Changes in Foreign Exchange Rates,* requires management to use its judgment to determine the entity's 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:

a. the currency that mainly influences sales prices for financial instruments and services (this will often be the currency in which sales prices for its financial instruments and services are denominated and settled);
b. the currency in which funds from financing activities are generated; and
c. the currency in which receipts from operating activities are usually retained.

(f) *Change in use of assets*
PAS 40 requires management to use its judgment to determine whether a property qualifies as an investment property. The Bank has developed criteria so it can exercise its judgment consistently. A property that is held to earn rentals or for capital appreciation or both and which generates cash flows largely independently of the other assets held by the Bank is accounted for as investment property. On the other hand, a property that is used for operations or in the process of providing services or for administrative purposes and which do not directly generate cash flows as a stand-alone asset are accounted for as property and equipment.

The Bank assesses on an annual basis the accounting classification of its properties taking into consideration the current use of such properties.

Estimates and Assumptions
The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of condition date, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next period, are described below. The Bank based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Bank. Such changes are reflected in the assumptions when they occur.

(a) *Going concern*
The Bank's management has made an assessment of its ability to continue as a going concern and is satisfied that it 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.

(b) *Credit losses on loans and receivables*
The Bank reviews its loans and receivables at each statement of condition date to assess whether an impairment loss should be recorded in the statement of income. In particular, judgment made by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, at which event, the Bank adjusts the impairment loss and ensures that allowance for it remains adequate.
In addition to specific allowance against individually significant loans and receivables, the Bank also provides a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than

when originally granted. This collective allowance is based on changes in factors that are indicative of incurred losses, such as deterioration in payment status and underlying property prices, among others.

The carrying value of loans and receivables and allowance for credit losses on loans and receivables are disclosed in Notes 9 and 15, respectively.

(c) Impairment of non-financial assets

Property and equipment, investment properties and chattel mortgage properties
The Bank assesses impairment on its non-financial assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Bank considers important which could trigger an impairment review include 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.

The Bank recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is computed using the fair value less costs to sell for property and equipment, investment properties and chattel mortgage properties. Recoverable amounts are estimated for individual assets or, if it is not possible, for the CGU to which the asset belongs.

The carrying values of the Bank's property and equipment, investment properties and chattel mortgage properties are disclosed in Notes 11, 12 and 14, respectively.

Investment in a joint venture
The Bank assesses impairment on its investment in a joint venture whenever events or changes in circumstances indicate that the carrying amount of said asset may not be recoverable. Among others, the factors that the Bank considers important which could trigger an impairment review on its investments in a joint venture include the following:

- deteriorating or poor financial condition;
- recurring net losses; and
- significant changes (i.e., technological, market, economic, or legal environment in which the joint venture operates with an adverse effect on the joint venture have taken place during the period, or will take place in the near future).

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is determined based on the asset's value in use. As of December 31, 2015 and 2014, the carrying values of the Bank's investment in a joint venture amounted to ₱690.3 million and ₱668.6 million, respectively (Note 10).

(d) *Fair value of investment properties*
The fair values of the Bank's investment properties have been derived on the basis of recent sales of similar properties in the same areas where the investment properties are located, and taking into account the economic conditions prevailing at the time the valuations were made.

The fair value of the Bank's investment properties are disclosed in Note 12.

(e) *Present value of retirement obligation*
The cost of defined benefit pension plans and other post-employment medical benefits as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates 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.

The details of assumptions used in the actuarial valuation are disclosed in Note 24.

As of December 31, 2015 and 2014, the net pension liability of the Bank amounted to ₱799.8 million and ₱620.2 million, respectively (Note 24).

(f) *Recognition of deferred tax assets*
Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Estimates of future taxable income indicate that temporary differences will be realized in the future. Net deferred tax assets as of December 31, 2015 and 2014 amounted to ₱1.2 billion and ₱0.7 billion, respectively (Note 27).

(g) *Contingent liabilities*
The Bank is a defendant in legal actions arising from its normal business activities. Management believes that the ultimate liability, if any, resulting from these cases will not have a material effect on the Bank's financial statements (Note 31).

4. **Fair Value Measurement**

The following describes the methodologies and assumptions used to determine the fair values of financial instruments:

Cash and other cash items, due from BSP, due from other banks, interbank loans receivable and SPURA, accounts receivable, accrued interest receivable, bills purchased, RCOCI, shortages, and petty cash fund - Carrying amounts approximate fair values due to the relatively short-term maturities of these assets.

Debt investments - Fair values are generally based on quoted market prices. If the market prices are not readily available, fair values are estimated using either values obtained from independent parties offering pricing services, or adjusted quoted market prices of comparable investments or using the discounted cash flow methodology, using rates currently available for debt on similar terms, credit risk and remaining maturities.

Quoted AFS equity investments - Fair values are based on quoted prices published in markets.

Unquoted AFS equity investments - Fair values could not be reliably determined due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value. Hence, these investments are carried at cost less allowance for impairment losses.

Currently, there is no available market to sell these unquoted AFS equity investments. The Bank will hold onto these investments until management decides to sell them when there will be offers to buy out such investments or the appearance of an available market where the investments can be sold.

Derivative instruments (included under FVPL) - Fair values are estimated based on quoted market prices, prices provided by independent parties, or prices derived using acceptable valuation models.

Receivable from customers and other receivables except accounts receivable, accrued interest receivable, bills purchased and security deposits - Fair values are estimated using the discounted cash flow methodology, using the Bank's current lending rates for similar types of loans.

Demand deposits, savings deposits, bills payable, treasurer's, cashier's and manager's checks, accrued interest payable, accounts payable, bills purchased-contra, other credits, due to the Treasurer of the Philippines, deposits for keys-SDB, payment orders payable and overages - Carrying amounts approximate fair values due to either the demand nature or the relatively short-term maturities of these liabilities.

Subordinated notes and time deposits - Fair values are estimated using the discounted cash flow methodology using the Bank's borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued. The Bank's nonperformance risk as at December 31, 2014 and December 31, 2015 was assessed to be insignificant.

Investment properties - Fair values of the investment properties have been determined based on valuations performed by independent external and in-house appraisers using valuation technique with significant inputs that are not based on observable market data (Level 3). The valuation of investment properties was based on the Sales Comparison Approach and considered recent sales similar or substitute properties in the same areas where the investment properties are located, taking into account the economic conditions prevailing at the time of the valuation. Other factors considered were the location and shape of the properties, environmental issues, development controls such as the height restriction, building coverage and floor area ratio restrictions among others. Other significant unobservable inputs include shape, location, time element, discount and corner influence. The fair value of investment properties is based on its highest and best use, which is its current use.

The following tables summarize the carrying amount and fair values of the financial assets and liabilities, analyzed based on the hierarchy described in Note 2 for determining and disclosing the fair value of financial instruments by valuation technique (in thousands):

	December 31, 2015				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets measured at fair value:					
Financial Assets					
FVPL investments					
HFT - government securities	**₱2,821,437**	**₱2,821,437**	**₱–**	**₱–**	**₱2,821,437**
AFS investments					
Government debt securities	**4,472,650**	**3,695,329**	**777,321**	**–**	**4,472,650**
Private debt securities	**4,449,702**	**4,449,702**	**–**	**–**	**4,449,702**
Quoted equity securities	**4,893**	**4,893**	**–**	**–**	**4,893**
	₱11,748,682	**₱10,971,361**	**₱777,321**	**₱–**	**₱11,748,682**
Assets for which fair values are disclosed:					
Financial Assets					
HTM investments					
Government	**₱12,088,362**	**₱7,863,667**	**₱3,735,724**	**₱–**	**₱11,599,391**
Private	**2,858,306**	**2,833,262**	**–**	**–**	**2,833,262**
Loans and receivables					
Receivables from customers					
Consumption loans	**59,321,191**	**–**	**72,561,154**	**–**	**72,561,154**
Real estate loans	**40,109,194**	**–**	**41,156,371**	**–**	**41,156,371**
Commercial loans	**9,847,098**	**–**	**11,655,376**	**–**	**11,655,376**
Personal loans	**2,993,330**	**–**	**6,132,689**	**–**	**6,132,689**
Other receivables					
Sales contract receivable	**180,849**	**–**	**199,546**	**–**	**199,546**
Other assets					
Security deposits	**172,433**	**–**	**171,050**	**–**	**171,050**
Non-Financial Assets					
Investment properties	**3,344,154**	**–**	**–**	**4,202,167**	**4,202,167**
	₱130,914,917	**₱10,696,929**	**₱135,611,910**	**₱4,202,167**	**₱150,511,006**
Liabilities for which fair values are disclosed:					
Financial Liabilities					
Deposit liabilities					
Time	**₱98,553,754**	**₱–**	**₱100,248,431**	**₱–**	**₱100,248,431**
Subordinated notes	**5,952,052**	**–**	**5,646,627**	**–**	**5,646,627**
	₱104,505,806	**₱–**	**₱105,895,058**	**₱–**	**₱105,895,058**

	December 31, 2014				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets measured at fair value:					
Financial Assets					
FVPL investments					
HFT - government securities	₱278,909	₱278,909	₱–	₱–	₱278,909
AFS investments					
Government debt securities	3,068,906	2,531,241	537,665	–	3,068,906
Private debt securities	3,010,068	3,010,068	–	–	3,010,068
Quoted equity securities	2,925	2,925	–	–	2,925
	₱6,360,808	₱5,823,143	₱537,665	₱–	₱6,360,808
Assets for which fair values are disclosed:					
Financial Assets					
HTM investments					
Private	₱1,683,128	₱1,648,500	₱–	₱–	₱1,648,500
Loans and receivables					
Receivables from customers					
Consumption loans	45,501,498	–	48,490,205	–	48,490,205
Real estate loans	33,992,035	–	36,757,985	–	36,757,985
Commercial loans	12,015,811	–	13,292,661	–	13,292,661
Personal loans	3,120,326	–	3,605,699	–	3,605,699

(Forward)

	December 31, 2014				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Other receivables					
Sales contract receivable	₱232,266	₱–	₱250,251	₱–	₱250,251
Other assets					
Security deposits	114,005	–	115,974	–	115,974
Non-Financial Assets					
Investment properties	2,933,069	–	–	3,372,177	3,372,177
	₱99,592,138	₱1,648,500	₱102,512,775	₱3,372,177	₱107,533,452
Liabilities for which fair values are disclosed:					
Financial Liabilities					
Deposit liabilities					
Time	₱87,415,706	₱–	₱91,696,880	₱–	₱91,696,880
Subordinated notes	5,946,901	–	5,785,495	–	5,785,495
	₱93,362,607	₱–	₱97,482,375	₱–	₱97,482,375

As of December 31, 2015 and 2014, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

As of December 31, 2015 and 2014, the fair value of the Bank's ROP warrants is classified as Level 3. Due to the absence of an active market for the Bank's ROP warrants, as evidenced by the unavailability of quoted market prices, the Bank determined the market value of its warrants to be zero.

5. Financial Risk Management Policies and Objectives

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

- Credit risk
- Market risk
- Liquidity risk

Organization risk management structure continues to be a top-down organization, with the BOD at the helm of all major initiatives.

Discussed below are the relevant sections on roles and responsibilities from the Risk Oversight Committee (ROC) Charter:

BOD
The corporate powers of the Bank are vested in and are exercised by the BOD, who conducts its business and controls its property. The BOD approves broad risk management strategies and policies and ensures that risk management initiatives and activities are consistent with the Bank's overall objectives. The BOD appoints the members of the ROC.

ROC
The ROC is composed of at least three members of the Board, including at least one (1) independent director, and a chairperson who is a non-executive member. Members of the ROC possess a range of expertise and adequate knowledge of the Bank's risk exposures to be able to develop appropriate strategies for preventing losses and minimizing the impact of losses when they occur.

The BOD may also appoint non-directors to the ROC as part of the Metrobank Group risk oversight measures. However, only Bank directors shall be considered as voting members of the ROC. Non-voting members are appointed in an advisory capacity.

The ROC oversees the system of limits to discretionary authority that the BOD delegates to the management and ensures that the system remains effective, the limits are observed, and that immediate corrective actions are taken whenever limits are breached.

The ROC meets on a monthly basis and is supported by the Risk Management Office (RMO). In the absence of the ROC Chairman, a non-executive director shall preside. ROC resolutions, which require the concurrence of the majority of its voting members, are presented to the BOD for confirmation.

RMO
The RMO, headed by the Chief Risk Officer, is a function that is independent from executive functions and business line responsibilities, operations and revenue-generating functions. It reports directly to the BOD, through the ROC. The RMO assists the ROC in carrying out its responsibilities by:
- analyzing, communicating, implementing, and maintaining the risk management policies approved by the ROC and the BOD;
- spearheading the regular review of the Bank's risk management policy manual and making or elevating recommendations that enhance the risk management process to the ROC and the BOD, for their approval; and
- ensuring that the risks arising from the Bank's activities are identified, measured, analyzed, reported to and understood by risk takers, management, and the board. The RMO analyzes limit exceptions and recommends enhancements to the limits structure.

The RMO does not assume risk-taking accountability nor does it have approving authority. The RMO's role is to act as liaison and to provide support to the BOD, ROC, the President, management committees, risk takers and other support and control functions on risk-related matters.

The Risk Management Function is responsible for:
- identifying the key risk exposures and assessing and measuring the extent of risk exposures of the Bank and its trust operations;
- monitoring the risk exposures and determining the corresponding capital requirement in accordance with the Basel capital adequacy framework and based on the Bank's internal capital adequacy assessment on an on-going basis;
- monitoring and assessing decisions to accept particular risks whether these are consistent with BOD-approved policies on risk tolerance and the effectiveness of the corresponding risk mitigation measures; and
- reporting on a regular basis to Senior Management and the BOD the results of assessment and monitoring.

President
The President is the Chief Executive Officer of the Bank and has the primary responsibility of carrying out the policies and objectives of the BOD. The President exercises the authorities delegated to him by the BOD and may recommend such policies and objectives he deems necessary for the continuing progress of the Bank.

Risk management
The risk management framework aims to maintain a balance between the nature of the Bank's businesses and the risk appetite of the BOD. Accordingly, policies and procedures are reviewed regularly and revised as the organization grows and as financial markets evolve. New policies or proposed changes in current policies are presented to the ROC and the BOD for approval.

a. Credit risk and concentration of assets and liabilities and off-balance sheet items

Credit risk is the risk that a counterparty will not settle its obligations in accordance with the agreed terms.

The Bank's lending business follows credit policy guidelines set by the BOD, ROC and RMO. These policies serve as minimum standards for extending credit. The people engaged in the credit process are required to understand and adhere to these policies.

Product manuals are in place for all loans and deposit products that actually or potentially expose the Bank to all types of risks that may result in financial or reputational losses. They define the product and the risks associated with the product plus the corresponding risk-mitigating controls. They embody the business plans and define the business parameters within which the product or activity is to be performed.

The system of checks around extension of credit includes approval by at least two credit approvers through the Credit Committee (CreCom), Executive Committee (ExCom) or BOD. The ROC reviews the business strategies and ensures that revenue-generating activities are consistent with the risk tolerance and standards of the Bank. The Internal Audit Group conducts regular audit across all functional units. The BOD, through the ExCom, CreCom and ROC, ensure that sound credit policies and practices are followed through all the business segments.

Credit Approval
Credit approval is the documented acceptance of credit risk in the credit proposal or application.

The Bank's credit decision-making for consumer loans utilizes the recommendation of the credit scoring and is performed at the CreCom level appropriate to the size and risk of each transaction, in conformity with corporate policies and procedures in regulating credit risk activities. The Bank's ExCom may approve deviations or exceptions, while the BOD approves material exceptions such as large exposures, loans to directors, officers, stockholders and other related interests (DOSRI), and loan restructuring.

Credit delegation limits are identified, tracked and reviewed at least annually by the Bank's Senior Credit Officer together with the Credit Risk Manager.

Borrower Eligibility
The Bank's credit processing commences when a customer expresses his intention to borrow through a credit application. The Bank gathers data on the customer; ensures they are accurate, up-to-date and adequate to meet the minimum regulatory requirements and to render credit decision. These data are used for the intended purpose only and are managed in adherence to the customer information secrecy law.

The customer's credit worthiness, repayment ability and cash flow are established before credit is extended. The Bank independently verifies critical data from the customer, ensuring compliance with Know Your Customer requirements under the anti-money laundering laws. The Bank requires that customer income be derived from legitimate sources and supported with government-accepted statements of income, assets and liabilities.

The Bank ascertains whether the customer is legally capable of entering a credit contract and of providing a charge over any asset presented as collateral for a loan. Guarantors or sureties may be accepted, provided they are a relative, partner, and have financial interest in the transaction, and they pass all credit acceptance criteria applied to the borrower.

Loan Structure

The Bank structures loans for its customers based on the customer's capability to pay, the purpose of the loan, and for a collateralized loan, the collateral's economic life and liquidation value over time.

The Bank establishes debt burden guidelines and minimum income requirements to assess the customer's capacity to pay.

The Bank utilizes credit bureau data, both external and internal, to obtain information on a customer's current commitments and credit history. These are sourced from the databases of the Banker's Association of the Philippines and the Credit Management Association of the Philippines.

The Bank takes into account environmental and social issues when reviewing credit proposals of small businesses and commercial mortgage customers. The Bank ensures that all qualified securities pass through the BOD for approval. Assignments of securities are confirmed and insurance are properly secured.

The Bank uses credit scoring models and decision systems for consumer loans as approved by the BOD. Borrower risk rating model and facility risk rating model, on the other hand, are available for SME loans, and supported with qualitative evaluation. Regular monitoring of all these tools and their performance is carried out to ensure that they remain effective.

Initial loan limits are recommended by the CreCom and ExCom and approved by the BOD. The Bank ensures that secured loans are within ceilings set by local regulators. Succeeding loan availments are based on account performance and customer's credit worthiness.

Credit Management

The Bank maintains credit records and documents on all borrowings and captures transaction details in its loan systems. The credit risk policies and system infrastructure ensure that loans are monitored and managed at all times.

The Bank's Management Information System provides statistics that its business units need to identify opportunities for improving rewards without necessarily sacrificing risk. Statistical data on product, productivity, portfolio, profitability, performance and projection are made available regularly.

The Bank conducts regular loan review through the ROC, with the support of the RMO. The Bank examines its exposures, credit risk ratios, provisions and customer segments. The Bank's unique customer identification and unique group identification methodology enables it to aggregate credit exposures by customer or group of borrowers. Aggregate exposures of at least ₱0.1 billion are put on a special monitoring.

The ROC assesses the adequacy of provisions for credit losses regularly. The Bank's automated loan grading system enables the Bank to set up provision per account. The Bank also performs impairment analyses on loans and receivables, whether on an individual or collective basis, in accordance with PFRS.

The Bank carries out stress testing analyses using Board-approved statistical models relating the default trends to macroeconomic indicators.

In 2015, gap analysis and action plan for compliance with BSP Circular 855 were completed. Projects were laid down to maintain sound credit risk management in accordance with the requirements of the circular. For consumer loans, the Bank implemented new credit scoring model and new cut off score to address credit risks associated with changing borrower risk profiles.

Maximum Exposure to Credit Risk

The tables below show the analysis of the maximum exposure to credit risk of the Bank's financial instruments, excluding those where the carrying values as reflected in the statement of condition and related notes already represent the financial instrument's maximum exposure to credit risk, after taking into account collateral held or other credit enhancements (in thousands):

	2015			
	Carrying Amount	**Fair Value of Collateral**	**Maximum Exposure to Credit Risk**	**Financial Effect of Collateral or Credit Enhancement**
Due from other banks	**₱1,034,706**	**₱3,034,441**	**₱–**	**₱1,034,706**
SPURA	**2,500,000**	**3,003,833**	**–**	**2,500,000**
Receivables from customers				
Consumption loans	**59,321,191**	**73,852,935**	**1,747**	**59,319,444**
Real estate loans	**40,109,194**	**71,680,705**	**–**	**40,109,194**
Commercial loans	**5,444,393**	**8,630,989**	**2,258,822**	**3,185,571**
Other receivables				
Accrued interest receivable	**1,301,362**	**1,583,623**	**–**	**1,301,362**
Sales contract receivable	**180,849**	**276,123**	**–**	**180,849**
Total credit exposure	**₱109,891,695**	**₱162,062,649**	**₱2,260,569**	**₱107,631,126**

	2014			
	Carrying Amount	Fair Value of Collateral	Maximum Exposure to Credit Risk	Financial Effect of Collateral or Credit Enhancement
Due from other banks	₱815,107	₱3,110,919	₱–	₱815,107
Interbank loans receivable and SPURA	2,186,320	2,923,182	–	2,186,320
Receivables from customers				
Consumption loans	45,501,498	65,022,102	12,845	45,488,653
Real estate loans	33,992,035	64,126,090	–	33,992,035
Commercial loans	4,057,917	7,733,953	1,366,720	2,691,197
Other receivables				
Accrued interest receivable	762,560	1,362,296	–	762,560
Sales contract receivable	232,266	515,454	–	232,266
Total credit exposure	₱87,547,703	₱144,793,996	₱1,379,565	₱86,168,138

Collateral and Other Credit Enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding acceptability of types of collateral and valuation parameters.

The main types of collaterals obtained are as follows:

- For Due from other banks: investment securities
- For SPURA: investment securities
- For commercial lending: mortgages over real estate properties, deposit accounts and securities
- For consumer lending: mortgages over real estate and chattel

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for credit and impairment losses.

It is the Bank's policy to dispose of repossessed properties in an orderly fashion and proceeds are used to repay or reduce the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

The Bank holds collateral against loans and receivables in the form of real estate and chattel mortgages, guarantees, and other registered securities over assets. Estimates of fair value are based on the value of the collateral assessed at the time of borrowing and generally are updated every two years and when a loan is assessed to be impaired, whenever applicable. Generally, collateral is not held over loans and advances to banks except for SPURA. The Bank is not allowed to sell or re-pledge collateral held under SPURA in the absence of default by the counterparty. Collateral usually is not held against holdings in investment securities, and no such collateral was held as of December 31, 2015 and 2014.

Concentration of risk is managed by borrower, by group of borrowers, by geographical region and by industry sector. As of December 31, 2015 and 2014, the maximum credit exposure to any borrower amounted to ₱1.9 billion and ₱2.6 billion, respectively, before taking into account any collateral or other credit enhancement.

The distribution of the Bank's financial assets before taking into account any collateral held or other credit enhancements can be analyzed by the following geographical regions (in thousands):

	2015				
	Loans and Receivables	**Loans and Advances to Banks***	**Investment Securities****	**Others*****	**Total**
Luzon	**₱102,789,526**	**₱15,276,382**	**₱26,698,957**	**₱275,578**	**₱145,040,443**
Visayas	**8,517,846**	**105,144**	**–**	**–**	**8,622,990**
Mindanao	**7,185,345**	**137,270**	**–**	**–**	**7,322,615**
	118,492,717	**15,518,796**	**26,698,957**	**275,578**	**160,986,048**
Less allowance for credit and impairment losses	**4,625,202**	**–**	**2,189**	**–**	**4,627,391**
Total	**₱113,867,515**	**₱15,518,796**	**₱26,696,768**	**₱275,578**	**₱156,358,657**

* Composed of due from BSP, due from other banks, interbank loans receivable and SPURA.
** Composed of FVPL investments, AFS investments and HTM investments.
*** Composed of financial assets classified under other assets (such as RCOCI, security deposits and shortages) and stand-by credit lines.

	2014				
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Others***	Total
Luzon	₱87,377,291	₱29,330,701	₱8,047,544	₱276,897	₱125,032,433
Visayas	7,131,581	108,165	–	–	7,239,746
Mindanao	5,933,960	127,219	–	–	6,061,179
	100,442,832	29,566,085	8,047,544	276,897	138,333,358
Less allowance for credit and impairment losses	4,683,082	–	2,189	–	4,685,271
Total	₱95,759,750	₱29,566,085	₱8,045,355	₱276,897	₱133,648,087

* Composed of due from BSP, due from other banks, interbank loans receivable and SPURA.
** Composed of FVPL investments, AFS investments and HTM investments.
*** Composed of financial assets classified under other assets (such as RCOCI, security deposits and shortages) and stand-by credit lines.

Additionally, the tables below show the distribution of the Bank's financial assets and off-balance sheet items before taking into account any collateral or other credit enhancements analyzed by industry sector as of December 31, 2015 and 2014 (in thousands):

	2015				
	Loans and Receivables	**Loans and Advances to Banks***	**Investment Securities****	**Others*****	**Total**
Activities of private households as employers and undifferentiated goods and services and producing activities of households for own use	**₱66,541,078**	**₱–**	**₱–**	**₱–**	**₱66,541,078**
Real estate activities	**36,822,242**	**–**	**–**	**–**	**36,822,242**
Financial and insurance activities	**2,698,016**	**15,518,796**	**26,698,957**	**197,170**	**45,112,939**
Wholesale and retail trade; repair of motor vehicles and motorcycles	**1,784,507**	**–**	**–**	**–**	**1,784,507**
Information and communication	**1,729,521**	**–**	**–**	**–**	**1,729,521**
Manufacturing	**827,991**	**–**	**–**	**–**	**827,991**
Electricity, gas, steam and air-conditioning supply	**611,868**	**–**	**–**	**–**	**611,868**
Transportation and storage	**604,008**	**–**	**–**	**–**	**604,008**
Construction	**370,676**	**–**	**–**	**54,000**	**424,676**
Water supply, sewage, waste management and remediation activities	**295,308**	**–**	**–**	**–**	**295,308**
Administrative and support service activities	**285,443**	**–**	**–**	**–**	**285,443**
Accommodation and food service activities	**276,803**	**–**	**–**	**–**	**276,803**
Human health and social work activities	**216,313**	**–**	**–**	**–**	**216,313**
Education	**163,330**	**–**	**–**	**–**	**163,330**
Professional, scientific and technical services	**153,535**	**–**	**–**	**–**	**153,535**
Arts, entertainment and recreation	**31,904**	**–**	**–**		**31,904**
Agricultural, forestry and fishing	**30,993**	**–**	**–**	**–**	**30,993**
Mining and quarrying	**2,853**	**–**	**–**	**–**	**2,853**
Other service activities	**5,046,328**	**–**	**–**	**24,408**	**5,070,736**
	118,492,717	**15,518,796**	**26,698,957**	**275,578**	**160,986,048**
Less allowance for credit and impairment losses	**4,625,202**	**–**	**2,189**	**–**	**4,627,391**
Total	**₱113,867,515**	**₱15,518,796**	**₱26,696,768**	**₱275,578**	**₱156,358,657**

* Composed of due from BSP, due from other banks, interbank loans receivable and SPURA.
** Composed of FVPL investments, AFS investments and HTM investments.
*** Composed of financial assets classified under other assets (such as RCOCI, security deposits and shortages) and stand-by credit lines.

	2014				
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Others***	Total
Activities of private households as employers and undifferentiated goods and services and producing activities of households for own use	₱52,228,173	₱–	₱–	₱–	₱52,228,173
Real estate activities	32,205,553	–	–	–	32,205,553
Financial and insurance activities	3,523,586	29,566,085	8,047,544	198,273	41,335,488

(Forward)

	2014				
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Others***	Total
Wholesale and retail trade; repair of motor vehicles and motorcycles	₱1,939,562	₱–	₱–	₱–	₱1,939,562
Information and communication	1,758,612	–	–	–	1,758,612
Manufacturing	875,967	–	–	–	875,967
Electricity, gas, steam and air-conditioning supply	257,760	–	–	–	257,760
Transportation and storage	530,595	–	–	–	530,595
Construction	361,617	–	–	54,000	415,617
Water supply, sewage, waste management and remediation activities	223,656	–	–	–	223,656
Administrative and support service activities	170,648	–	–	–	170,648
Accommodation and food service activities	230,777	–	–	–	230,777
Human health and social work activities	231,011	–	–	–	231,011
Education	144,616	–	–	–	144,616
Professional, scientific and technical services	145,693	–	–	–	145,693
Arts, entertainment and recreation	15,555	–	–		15,555
Agricultural, forestry and fishing	16,052	–	–	–	16,052
Mining and quarrying	2,210	–	–	–	2,210
Other service activities	5,581,189	–	–	24,624	5,605,813
	100,442,832	29,566,085	8,047,544	276,897	138,333,358
Less allowance for credit and impairment losses	4,683,082	–	2,189	–	4,685,271
Total	₱95,759,750	₱29,566,085	₱8,045,355	₱276,897	₱133,648,087

* Composed of due from BSP, due from other banks, interbank loans receivable and SPURA.

** Composed of FVPL investments, AFS investments and HTM investments.

*** Composed of financial assets classified under other assets (such as RCOCI, security deposits and shortages) and stand-by credit lines.

Credit Quality

Description of the loan grades for loans, receivables and stand-by credit lines:

Interim Credit Rating System

The Bank rates accounts on a scale of 1 to 10, with 1 being the best, based on the Board-approved interim credit rating system which utilizes both the credit scoring results and BSP loan grading system.

Neither Past Due nor Individually Impaired

The Bank classifies those accounts under current status having the following loan grades:

High Grade (ICRS 1 - 4)

1 - Excellent

This is considered as normal risk by the Bank. An excellent rating is given to a borrower who has the ability to meet credit obligation in full and is never delinquent.

2 - Strong

This is also considered as normal risk by the Bank. Borrower has the ability to meet credit obligation in full, except that the borrower had history of 1-29 days delinquency at worst.

3 - Good

This rating is given to a borrower who has the ability to meet credit obligation in full, except that the borrower had history of rating of Loans Especially Mentioned (ICRS=7) at worst.

4 - Satisfactory
This rating is given to a borrower who has the ability to meet credit obligation in full, except that the borrower had history of rating of Substandard (ICRS=8) at worst.

Standard Grade (ICRS 5 - 7)
5 - Acceptable
An acceptable rating is given to a borrower who meets present obligations, except that the borrower had history of Doubtful (ICRS=9) at worst.

6 - Watchlist
This rating is given to a borrower who meets present obligations, except that the borrower had history of Loss (ICRS=10) at worst.

7 - Loan Especially Mentioned
This rating is given to a borrower who has potential weaknesses which when left uncorrected, may affect the repayment of the loan and thus increase credit risk to the Bank.

Substandard Grade (ICRS 8)
8 - Substandard
A substandard rating is given to a borrower whose loan or portion thereof involves a substantial and an unreasonable degree of risk to the Bank because of unfavorable record or unsatisfactory characteristics. These loans show possibility of future loss to the Bank unless given closer supervision and well-defined weaknesses that jeopardize the loan liquidation.

Past Due but Not Individually Impaired
These are accounts which are classified as delinquent but are not subject to individual impairment as of statement of condition date.

9 - Doubtful
This rating is given to a borrower whose loans have characteristics where collection and liquidation in full is highly improbable and in which substantial loss is probable.

10 - Loss
This rating is given to a borrower whose loans or portions thereof are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted.

Unrated grade
Other credit assets which cannot be classified as High, Standard or Sub-standard are tagged as Unrated.

Individually Impaired
Accounts which are subject to individual impairment as of statement of condition date.

The tables below show the credit quality per class of financial assets under loans and receivables (in thousands)*:

	2015						
	Neither Past Due nor Individually Impaired				Past Due but not Individually Impaired	Individually Impaired	Total
	High Grade	Standard Grade	Substandard Grade	Unrated			
Loans and advances to banks							
Due from BSP	**₱11,143,782**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱11,143,782**
Due from other banks	**–**	**1,861,110**	**–**	**–**	**–**	**–**	**1,861,110**

(Forward)

	2015						
	Neither Past Due nor Individually Impaired				**Past Due but not**		
	High Grade	**Standard Grade**	**Substandard Grade**	**Unrated**	**Individually Impaired**	**Individually Impaired**	**Total**
Interbank loans receivable and SPURA	**₱2,500,000**	**₱13,904**	**₱–**	**₱–**	**₱–**	**₱–**	**₱2,513,904**
Receivables from customers							
Consumption loans	**50,437,345**	**535,215**	**80,356**	**–**	**9,047,575**	**–**	**60,100,491**
Real estate loans	**34,246,129**	**727,987**	**189,088**	**–**	**4,501,525**	**1,016,359**	**40,681,088**
Commercial loans	**10,055,824**	**462,836**	**364,958**	**–**	**116,111**	**631,824**	**11,631,553**
Personal loans	**2,773,631**	**106,834**	**76,714**	**–**	**642,379**	**–**	**3,599,558**
Other receivables							
Accrued interest receivable	**1,024,086**	**98,352**	**2,896**	**–**	**201,516**	**356,277**	**1,683,127**
Accounts receivable	**51,512**	**155**	**112**	**–**	**294,319**	**183,484**	**529,582**
Sales contract receivable	**169,352**	**940**	**444**	**–**	**25,636**	**18,313**	**214,685**
Bills purchased	**–**	**–**	**–**	**52,633**	**–**	**–**	**52,633**
Other assets							
Security deposits	**–**	**–**	**–**	**172,433**	**–**	**–**	**172,433**
RCOCI	**–**	**–**	**–**	**19,561**	**–**	**–**	**19,561**
Shortages	**–**	**–**	**–**	**5,177**	**–**	**–**	**5,177**
Total	**₱112,401,661**	**₱3,807,333**	**₱714,568**	**₱249,804**	**₱14,829,061**	**₱2,206,257**	**₱134,208,684**

*Shown gross of allowance for credit and impairment losses, net of unearned discount

	2014						
	Neither Past Due nor Individually Impaired				Past Due but not		
	High Grade	Standard Grade	Substandard Grade	Unrated	Individually Impaired	Individually Impaired	Total
Loans and advances to banks							
Due from BSP	₱23,997,102	₱–	₱–	₱–	₱–	₱–	₱23,997,102
Due from other banks	–	3,382,663	–	–	–	–	3,382,663
Interbank loans receivable and SPURA	–	2,186,320	–	–	–	–	2,186,320
Receivables from customers							
Consumption loans	37,697,997	553,663	61,922	–	7,676,887	335,197	46,325,666
Real estate loans	27,537,182	831,210	867,136	–	4,273,636	1,135,546	34,644,710
Commercial loans	11,751,661	667,539	266,540	–	253,125	760,404	13,699,269
Personal loans	2,834,322	96,382	101,463	–	700,073	37,906	3,770,146
Other receivables							
Accrued interest receivable	489,886	145,025	6,269	–	172,594	320,221	1,133,995
Accounts receivable	41,322	170	159	–	266,576	211,874	520,101
Sales contract receivable	211,161	–	874	–	35,754	18,313	266,102
Bills purchased	–	–	–	82,844	–	–	82,844
Other assets							
Security deposits	–	–	–	114,005	–	–	114,005
RCOCI	–	–	–	82,867	–	–	82,867
Shortages	–	–	–	1,401	–	–	1,401
Total	₱104,560,633	₱7,862,972	₱1,304,363	₱281,117	₱13,378,645	₱2,819,461	₱130,207,191

*Shown gross of allowance for credit and impairment losses, net of unearned discount

External Ratings

In ensuring quality investment portfolio, the Bank uses the credit risk rating based on the rating of Moody's Investors Service (Moody's rating) as follows:

Credit Quality	**External Rating**								
High grade	Aaa	Aa1	Aa2	Aa3	A1	A2	A3	Baa1	Baa2	Baa3
Standard grade	Ba1	Ba2	Ba3	B1	B2	B3				
Substandard grade	Caa1	Caa2	Caa3	Ca	C					

High grade - represents those investments which fall under any of the following grade:

Aaa - fixed income obligations are judged to be of the highest quality, with the smallest degree of risk.

Aa1, Aa2, Aa3 - fixed income are judged to be of high quality and are subject to very low credit risk, but their susceptibility to long-term risks appears somewhat greater.

A1, A2, A3 - fixed income obligations are considered upper-medium grade and are subject to low credit risk, but have elements present that suggest a susceptibility to impairment over the long term.

Baa1, Baa2, Baa3 - fixed income obligations are subject to moderate credit risk. They are considered medium grade and as such protective elements may be lacking or may be characteristically unreliable.

Standard grade - represents those investments which fall under any of the following grade:

Ba1, Ba2, Ba3 - obligations are judged to have speculative elements and are subject to substantial credit risk.

B1, B2, B3 - obligations are considered speculative and are subject to high credit risk.
Substandard grade - represents those investments which fall under any of the following grade:

Caa1, Caa2, Caa3 - are judged to be of poor standing and are subject to very high credit risk.

Ca - are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.

C - are the lowest rated class of bonds and are typically in default, with little prospect for recovery of principal or interest.

The tables below show the credit quality per class of investment securities (in thousands)*:

	2015						
	Neither Past Due nor Individually Impaired				Past Due but not Individually Impaired	Individually Impaired	Total
	High Grade	**Standard Grade**	**Substandard Grade**	**Unrated**			
FVPL investments							
HFT - government securities	**₱2,821,437**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱2,821,437**
AFS investments							
Government debt securities	**4,472,650**	–	–	–	–	–	**4,472,650**
Private debt securities	**2,106,530**	**2,343,172**	–	–	–	–	**4,449,702**
Quoted equity securities	–	–	–	–	–	**7,082**	**7,082**
Unquoted equity securities	–	–	–	–	–	**1,418**	**1,418**
HTM investments							
Government debt securities	**12,088,362**	–	–	–	–	–	**12,088,362**
Private debt securities	**518,276**	**2,340,030**	–	–	–	–	**2,858,306**
Total	**₱22,007,255**	**4,683,202**	**₱–**	**₱–**	**₱–**	**₱8,500**	**₱26,698,957**

*Shown gross of allowance for credit and impairment losses

	2014						
	Neither Past Due nor Individually Impaired				Past Due but not Individually Impaired	Individually Impaired	Total
	High Grade	Standard Grade	Substandard Grade	Unrated			
FVPL investments							
HFT - government securities	₱278,909	₱–	₱–	₱–	₱–	₱–	₱278,909
AFS investments							
Government debt securities	3,068,907	–	–	–	–	–	3,068,907
Private debt securities	–	3,010,068	–	–	–	–	3,010,068
Quoted equity securities	–	–	–	–	–	5,114	5,114
Unquoted equity securities	–	–	–	–	–	1,418	1,418
HTM investments							
Private debt securities	–	1,683,128	–	–	–	–	1,683,128
Total	₱3,347,816	₱4,693,196	₱–	₱–	₱–	₱6,532	₱8,047,544

*Shown gross of allowance for credit and impairment losses

Impairment Assessment

Impairment losses are recognized based on the results of a specific (individual) and collective assessment of credit exposures. Impairment has taken place when there is a presence of known difficulties in the payments of obligation by counterparties, a significant credit rating downgrade takes place, infringement of the original terms of the contract has happened or when there is inability to pay principal or interest overdue beyond a threshold (e.g., 90 days). These and other factors, either singly or in tandem with other factors, constitute observable events or data that meet the definition of objective evidence of impairment.

Individually assessed allowances

The Bank determines the allowances appropriate for each significant loan or advance on an individual basis. Items considered when determining amounts of allowances include an account's age, payment and collection history, timing of expected cash flows and realizable value of collateral.

The Bank sets criteria for specific loan impairment testing and uses the discounted cash flow methodology to compute for impairment loss. Accounts subjected to specific impairment and that are found to be impaired shall be excluded from the collective impairment computation.

Collectively assessed allowances

Allowances are assessed collectively for losses on commercial loans and advances that are not individually significant or are found to be not individually impaired. Impairment losses are estimated by taking into consideration the historical losses using a look back period of five years on the portfolio and the expected receipts and recoveries once impaired. The Bank is responsible for deciding the length of historical loss period which can extend for as long as five years. The impairment allowance is then reviewed by the Bank to ensure alignment with the Bank's overall policy.

The Bank uses the Net Flow Rate method to determine the credit loss rate of a particular delinquency age bucket based on historical data of flow-through and flow-back of loans across specific delinquency age buckets. The method applies to consumer loans, as well as salary and home equity loans granted to employees of the Bank. For commercial loans, the Bank uses Historical Loss Rate method in determining the credit loss rate based on the actual historical loss experienced by the Bank on each specific industry type.

Aging Analysis of Past Due but not Individually Impaired Loans per Class of Financial Assets

The succeeding tables show the total aggregate amount of gross past due but not individually impaired loans and receivables per delinquency bucket. Under PFRS, a financial asset is past due when the counterparty has failed to make a payment when contractually due (in thousands)*:

	2015					
	Past Due but not Individually Impaired					
	Less than 30 days	31 to 60 days	61 to 90 days	91 to 180 days	Over 180 days	Total
Loans and receivables						
Receivables from customers						
Consumption loans	₱4,446,935	₱2,036,225	₱879,025	₱963,326	₱722,064	₱9,047,575
Real estate loans	2,953,252	1,052,255	405,102	50,868	40,048	4,501,525
Commercial loans	48,238	44,887	450	–	22,536	116,111
Personal loans	164,544	60,172	26,752	58,893	332,018	642,379
Other receivables						
Accounts receivable	4,775	5,203	3,124	3,136	278,081	294,319
Accrued interest receivable	73,779	44,097	23,656	28,658	31,326	201,516
Sales contract receivable	7,549	11,156	–	190	6,741	25,636
Total	₱7,699,072	₱3,253,995	₱1,338,109	₱1,105,071	₱1,432,814	₱14,829,061

*Shown gross of allowance for impairment and credit losses

	2014					
	Past Due but not Individually Impaired					
	Less than 30 days	31 to 60 days	61 to 90 days	91 to 180 days	Over 180 days	Total
Loans and receivables						
Receivables from customers						
Consumption loans	₱4,076,702	₱1,639,227	₱697,052	₱675,595	₱588,311	₱7,676,887
Real estate loans	2,915,657	931,654	311,813	76,920	37,592	4,273,636
Commercial loans	158,696	25,749	17,497	19,220	31,963	253,125
Personal loans	245,868	51,242	29,532	72,277	301,154	700,073
Other receivables						
Accounts receivable	7,309	842	2,262	254,228	1,935	266,576
Accrued interest receivable	65,019	31,818	18,068	34,153	23,536	172,594
Sales contract receivable	14,203	4,271	4,766	1,767	10,747	35,754
Total	₱7,483,454	₱2,684,803	₱1,080,990	₱1,134,160	₱995,238	₱13,378,645

*Shown gross of allowance for impairment and credit losses

b. *Market risk*

Market risk management covers the areas of trading and interest rate risks. The Bank utilizes various measurement and monitoring tools to ensure that risk-taking activities are managed within instituted market risk parameters. The Bank revalues its trading portfolios on a daily basis and checks the revenue or loss generated by each portfolio in relation to their level of market risk. The Bank's risk policies and implementing guidelines are regularly reviewed by the Assets and Liabilities Committee (ALCO), ROC and BOD to ensure that these are up-to-date and in line with changes in the economy, environment and regulations. The ROC and the BOD set the comprehensive market risk limit structure and define the parameters of market activities that the Bank can engage in.

Market risk is the risk to earnings and capital arising from changes in the value of traded portfolios of financial instruments (trading market risk) and from movements in interest rates (interest rate risk). The Bank's market risk originates primarily from holding peso and dollar-denominated debt securities. The Bank utilizes Value-at-Risk (VaR) to measure and manage market risk exposure. VaR estimates the potential decline in the value of a portfolio, under normal market conditions, for a given confidence level over a specified holding period.

Trading activities
The Bank's trading portfolios are currently composed of peso and dollar-denominated sovereign debt securities that are marked-to-market daily. The Bank also uses VaR to measure the extent of market risk exposure arising from these portfolios.

VaR is a statistical measure that calculates the maximum potential loss from a portfolio over a holding period, within a given confidence level. The Bank's current VaR model uses historical simulation for Peso and USD HFT portfolios with confidence level at 99.00% and a 1 day holding period. It utilizes a 260 days rolling data most recently observed daily percentage changes in price for each asset class in its portfolio.

VaR reports are prepared on a daily basis and submitted to Treasury and RMO. VaR is also reported to the ROC and BOD on a monthly basis. The President, ROC and BOD are advised of potential losses that exceed prudent levels or limits.

When there is a breach in VaR limits, Treasury is expected to close or reduce their position and bring it down within the limit unless approval from the President is obtained to retain the same. All breaches are reported to the President for regularization. In addition to the regularization and approval of the President, breaches in VaR limits and special approvals are likewise reported to the ROC and BOD for their information and confirmation.

Back-testing is employed to verify the effectiveness of the VaR model. The Bank performs back-testing to validate the VaR model and stress testing to determine the impact of extreme market movements on the portfolios. Results of back testing are reported to the ROC and BOD on a monthly basis. Stress testing is also conducted, based on historical maximum percentage daily movement and on an ad-hoc rate shock to estimate potential losses in a crisis situation.

The Bank has established limits, VaR, stop loss limits and loss triggers, for its trading portfolios. Daily profit or losses of the trading portfolios are closely monitored against loss triggers and stop-loss limits.

Responsibility for managing the Bank's trading market risk remains with the ROC. With the support of RMO, the ROC recommends to the BOD changes in market risk limits, approving authorities and other activities that need special consideration.

Discussed below are the limitations and assumptions applied by the Bank on its VaR methodology:

a. VaR is a statistical estimate and thus, does not give the precise amount of loss;
b. VaR is not designed to give the probability of bank failure, but only attempts to quantify losses that may arise from a bank's exposure to market risk;
c. Historical simulation does not involve any distributional assumptions, scenarios that are used in computing VaR are limited to those that occurred in the historical sample; and
d. VaR systems are backward-looking. It attempts to forecast likely future losses using past data. As such, this assumes that past relationships will continue to hold in the future. Major shifts therefore (i.e., an unexpected collapse of the market) are not captured and may inflict losses much bigger than anything the VaR model may have calculated.

The Bank's interest rate VaR follows (in thousands):

	December 31, 2015 [2]		January 1 to March 31, 2014 [1]		April 1 to December 31, 2014[2]	
	Peso	**USD**	Peso	USD	Peso	USD
Year-end	**18,866**	**6,705**	–	–	1,469	639
Average	**12,755**	**3,605**	5,631	424	3,460	805
High	**56,331**	**12,519**	24,695	1,089	9,125	3,145
Low	**1,331**	**152**	320	267	645	197

[1]*Using Spreadsheet-based model Historical Simulation VaR*
[2]*Using METRISK Historical Simulation VaR*

Non-trading activities

Interest Rate Risk

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

One method by which the Bank measures the sensitivity of its assets and liabilities to interest rate fluctuations is by way of "gap" analysis. This analysis provides the Bank with a static view of the maturity and repricing characteristics of the positions in its statement of condition. An interest rate gap report is prepared by classifying all assets and liabilities into various time period categories according to contracted maturities or anticipated repricing dates, whichever is earlier. Non-maturing deposits are considered as non-interest rate sensitive liabilities; no loan pre-payments assumptions are used. The difference in the amount of assets and liabilities maturing or being repriced in any time period category would then give the Bank an indication of the extent to which it is exposed to the risk of potential changes in net interest income.

The interest rate sensitivity gap report measures interest rate risk by identifying gaps between the repricing dates of assets and liabilities. The Bank's sensitivity gap model calculates the effect of possible rate movements on its interest rate profile.

The Bank uses sensitivity gap model to estimate Earnings-at-Risk (EaR) should interest rates move against its interest rate profile. The Bank's EaR limits are based on a percentage of the Bank's projected earnings for the year and capital. The Bank also performs stress-testing to measure the impact of various scenarios based on interest rate volatility and shift in the yield curve. The EAR and stress testing reports are prepared on a monthly basis.

The ALCO is responsible for managing the Bank's structural interest rate exposure. The ALCO's goal is to achieve a desired overall interest rate profile while remaining flexible to interest rate movements and changes in economic conditions. The RMO and ROC review and oversee the Bank's interest rate risks.

The tables below demonstrate the sensitivity of net interest income and equity to reasonably possible changes in interest rates. Net interest income sensitivity was calculated by assuming interest rate shifts upon repricing of floating-rate financial instruments. Equity sensitivity was computed by calculating mark-to-market changes of AFS debt instruments, assuming a parallel shift in the yield curve.

2015

			Sensitivity of Equity				
	Change in basis points	**Sensitivity of net interest income**	**0 up to 6 months**	**Over 6 months to 1 year**	**Over 1 year to 5 years**	**More than 5 years**	**Total**
			(Amounts in Pesos)				
Currency							
PHP	**+10**	**(49,218,355)**	**(9,574)**	**–**	**(6,291,754)**	**(13,302,570)**	**(19,603,898)**
USD	**+10**	**(9,200,930)**	**–**	**–**	**411,384**	**(14,797,345)**	**(14,385,961)**
Currency							
PHP	**-10**	**49,218,355**	**9,580**	**–**	**2,556,121**	**20,409,784**	**22,975,485**
USD	**-10**	**9,200,930**	**–**	**–**	**3,101,381**	**53,519,086**	**56,620,467**

2014

			Sensitivity of Equity				
	Change in basis points	Sensitivity of net interest income	0 up to 6 months	Over 6 months to 1 year	Over 1 year to 5 years	More than 5 years	Total
			(Amounts in Pesos)				
Currency							
PHP	+10	(32,521,348)	–	36,712	(84,054)	(14,943,066)	(14,990,408)
USD	+10	(1,828,640)	–	–	(269,545,472)	3,258,555	(266,286,917)
Currency							
PHP	-10	32,521,348	–	49,546	14,474,228	(2,966,865)	11,556,909
USD	-10	1,828,640	–	–	(259,793,377)	4,494,810	(255,298,567)

The impact on the Bank's equity excludes the impact on transactions affecting the statement of income.

Foreign Currency Risk

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

The Bank's policy is to maintain foreign currency exposure within the approved position, stop loss, loss trigger, VaR limits and to remain within existing regulatory guidelines. To compute for VaR, the Bank uses historical simulation model for USD/PHP FX position, with confidence level at 99.00% and a 1 day holding period. The Bank's VaR for its foreign exchange position for trading and non-trading activities are as follows (in thousands):

	2015[2]	January 1 to March 31, 2014[1]	April 1 to December 31, 2014[2]
As of year-end	**₱632**		₱1,535
Average	**532**	₱991	443
High	**1,908**	2,025	1,917
Low	**.98**	196	2

[1] *Using Spreadsheet-based model Historical Simulation VaR*
[2] *Using METRISK Historical Simulation VaR*

The table below summarizes the Bank's exposure to foreign exchange risk as of December 31, 2015 and 2014. Included in the table are the Bank's assets and liabilities at carrying amounts (in thousands):

	2015	2014
Assets		
Cash	**$1,947**	$1,505
Due from other banks	**26,521**	61,039
Interbank Loans	**42,165**	31,000
FVPL investments	**112,335**	5,171
AFS investments	**99,531**	66,014
HTM investments	**295**	3,940
Other assets	**5,171**	2,335
Total assets	**287,965**	171,004
Liabilities		
Deposit liabilities		
Savings	**35,149**	33,231
Time	**154,057**	133,392
Bills Payable	**95,513**	–
Accrued taxes, interest and other expenses	**765**	912
Other liabilities	**1,277**	2,179
Total liabilities	**286,761**	169,714
Net exposure	**$1,204**	$1,290

c. *Liquidity Risk*

The Bank's policy on liquidity management emphasizes on three elements of liquidity, namely, cash flow management, ability to borrow in the interbank market, and maintenance of a stock of high quality liquid assets. These three approaches complement one another with greater weight being given to a particular approach, depending upon the circumstances. The Bank's objective in liquidity management is to ensure that the Bank has sufficient liquidity to meet obligations under normal and adverse circumstances and is able to take advantage of lending and investment opportunities as they arise.

The main tool that the Bank uses for monitoring its liquidity is the Maximum Cumulative Outflow (MCO) reports, which is also called liquidity gap or maturity matching gap reports. The MCO is a useful tool in measuring and analyzing the Bank's cash flow projections and monitoring liquidity risks. The liquidity gap report shows the projected cash flows of assets and liabilities representing estimated funding sources and requirements under normal conditions, which also forms the basis for the Bank's Contingency Funding Plan (CFP). The CFP projects the Bank's funding position during both temporary and long-term liquidity changes to help evaluate the Bank's funding needs and strategies under changing market conditions.

The Bank discourages dependence on Large Funds Providers (LFPs) and monitors the deposit funding concentrations so that it will not be vulnerable to a substantial drop in deposit level should there be an outflow of large deposits. ALCO is responsible for managing the liquidity of the Bank while RMO and ROC review and oversee the Bank's overall liquidity risk management.

To mitigate potential liquidity problems caused by unexpected withdrawals of significant deposits, the Bank takes steps to cultivate good business relationships with clients and financial institutions, maintains high level of liquid assets, monitors the deposit funding concentrations and regularly updates the Liquidity Contingency Funding Plan.

Financial assets
Analysis of equity and debt securities at FVPL and AFS investments into maturity groupings is based on the expected date on which these assets will be realized. For other assets, the analysis into maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date or if earlier, the expected date the assets will be realized.

Financial liabilities
The maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date and does not consider the behavioral pattern of the creditors. When the counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the Bank can be required to pay.

Analysis of Financial Assets and Liabilities by Remaining Maturities
The tables below show the maturity profile of the Bank's financial assets and liabilities based on contractual undiscounted repayment obligations (in millions):

	2015							
	On demand	**Up to 1 month**	**Over 1 to 3 months**	**Over 3 to 6 months**	**Over 6 to 12 months**	**Total within 1 year**	**Beyond 1 year**	**Total**
Financial Assets								
FVPL investments								
HFT - government securities	**₱–**	**₱70**	**₱22**	**₱–**	**₱92**	**₱184**	**₱3,522**	**₱3,706**
AFS investments								
Government securities	**–**	**43**	**73**	**6**	**122**	**244**	**6,009**	**6,253**
Private debt securities	**–**	**2**	**64**	**40**	**105**	**211**	**5,366**	**5,577**
Quoted equity securities	**–**	**–**	**–**	**–**	**–**	**–**	**8**	**8**
Unquoted equity securities	**–**	**–**	**–**	**–**	**–**	**–**	**7**	**7**
HTM investments								
Government bonds	**–**	**131**	**131**	**72**	**330**	**664**	**17,891**	**18,555**
Private bonds	**–**	**5**	**31**	**48**	**65**	**149**	**3,464**	**3,613**
Loans and receivables								
Loans and advances to banks								
Due from BSP	**11,143**	**–**	**–**	**–**	**–**	**11,143**	**–**	**11,143**
Due from other banks	**1,861**	**–**	**–**	**–**	**–**	**1,861**	**–**	**1,861**
Interbank loans receivable and SPURA	**14**	**3,369**	**–**	**–**	**–**	**3,383**	**–**	**3,383**
Receivables from customers								
Consumption loans	**103**	**805**	**1,675**	**2,690**	**6,035**	**11,308**	**82,389**	**93,697**
Real estate loans	**129**	**388**	**914**	**1,448**	**3,236**	**6,115**	**67,318**	**73,433**
Commercial loans	**1,525**	**526**	**627**	**580**	**824**	**4,082**	**11,492**	**15,574**
Personal loans	**977**	**219**	**347**	**576**	**1,399**	**3,518**	**1,642**	**5,160**

(Forward)

	2015							
	On demand	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 to 12 months	Total within 1 year	Beyond 1 year	Total
Other receivables								
Accrued interest receivable	₱1,014	₱605	₱45	₱14	₱5	₱1,683	₱–	₱1,683
Accounts receivable	3	47	4	3	452	509	20	529
Sales contract receivable	28	2	2	4	8	44	262	306
Other assets								
Security deposits	–	1	2	4	9	16	156	172
RCOCI	20	–	–	–	–	20	–	20
Shortages	5	–	–	–	–	5	–	5
	₱16,822	₱6,213	₱3,937	₱5,485	₱12,682	₱45,139	₱199,546	₱244,685
Financial Liabilities								
Deposit liabilities								
Demand	₱12,899	₱–	₱–	₱–	₱–	₱12,899	₱–	₱12,899
Savings	22,836	–	–	–	–	22,836	–	22,836
Time	–	25,429	39,196	14,036	1,823	80,484	21,811	102,295
	35,735	25,429	39,196	14,036	1,823	116,219	21,811	138,030
Bills payable	–	3,686	811	–	–	4,497	–	4,497
Subordinated notes	–	–	84	84	169	337	8,438	8,775
Treasurer's, cashier's and manager's checks	1,349	–	–	–	–	1,349	–	1,349
Accrued interest payable	–	–	141	36	–	177	–	177
Accrued other expenses payable	924	–	–	–	–	924	–	924
Other liabilities								
Accounts payable	1,406	–	–	–	–	1,406	–	1,406
Other credits	–	–	–	–	–	–	470	470
Bills purchased - contra	53	–	–	–	–	53	–	53
Due to the Treasurer of the Philippines	–	–	–	–	–	–	13	13
Deposit for keys	1	–	–	–	–	1	–	1
Others								
Overages	8	–	–	–	–	8	–	8
	₱39,476	₱29,115	₱40,232	₱14,156	₱1,992	₱124,971	₱30,732	₱155,703

	2014							
	On demand	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 to 12 months	Total within 1 year	Beyond 1 year	Total
Financial Assets								
FVPL investments								
HFT - government securities	₱–	₱2	₱2	₱–	₱4	₱8	₱347	₱355
AFS investments								
Government securities	–	79	18	6	112	215	3,458	3,673
Private debt securities	–	7	38	31	76	152	4,664	4,816
Quoted equity securities	–	–	–	–	–	–	5	5
Unquoted equity securities	–	–	–	–	–	–	1	1
HTM investments								
Private debt securities	–	7	20	40	79	146	2,207	2,353
Loans and receivables								
Loans and advances to banks								
Due from BSP	9,697	14,302	–	–	–	23,999	–	23,999
Due from other banks	1,762	180	1,443	–	–	3,385	–	3,385
Interbank loans receivable and SPURA	–	802	–	1,414	–	2,216	–	2,216
Receivables from customers								
Consumption loans	106	611	1,276	2,087	5,023	9,103	62,525	71,628
Real estate loans	118	313	809	1,304	2,942	5,486	56,788	62,274
Commercial loans	1,158	533	518	934	2,130	5,273	13,908	19,181
Personal loans	945	265	422	640	1,442	3,714	1,626	5,340
Other receivables								
Accrued interest receivable	198	6	15	259	656	1,134	–	1,134
Accounts receivable	502	4	3	2	3	514	6	520
Sales contract receivable	26	2	4	8	15	55	333	388
Other assets								
Security deposits	–	5	3	6	13	27	87	114
RCOCI	83	–	–	–	–	83	–	83
Shortages	1	–	–	–	–	1	–	1
	₱14,596	₱17,118	₱4,571	₱6,731	₱12,495	₱55,511	₱145,955	₱201,466
Financial Liabilities								
Deposit liabilities								
Demand	₱10,609	₱–	₱–	₱–	₱–	₱10,609	₱–	₱10,609
Savings	18,503	–	–	–	–	18,503	–	18,503
Time	–	17,633	45,244	4,057	1,677	68,611	23,086	91,697
	29,112	17,633	45,244	4,057	1,677	97,723	23,086	120,809
Subordinated notes	–	–	85	84	169	338	8,521	8,859
Treasurer's, cashier's and manager's checks	1,254	–	–	–	–	1,254	–	1,254
Accrued interest payable	–	–	109	36	–	145	–	145

(Forward)

	2014							
	On demand	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 to 12 months	Total within 1 year	Beyond 1 year	Total
Accrued other expenses payable	₱983	₱–	₱–	₱–	₱–	₱983	₱–	₱983
Other liabilities								
Accounts payable	–	–	–	1,430	–	1,430	–	1,430
Other credits	439	–	–	–	–	439	–	439
Dividends payable	–	177	–	–	–	177	–	177
Bills purchased - contra	83	–	–	–	–	83	–	83
Due to the Treasurer of the Philippines	11	–	–	–	–	11	–	11
Deposit for keys	1	–	–	–	–	1	–	1
Others	3	–	–	–	–	3	–	3
	₱31,886	₱17,810	₱45,438	₱5,607	₱1,846	₱102,587	₱31,607	₱134,194

6. Segment Information

The Bank's operating segments are organized and managed separately according to the nature of services provided and the different markets served, with each segment representing a strategic business unit that offers different products and serves different markets. The Bank's reportable segments are as follows:

a. Consumer Banking - principally provides consumer-type loans generated by the Home Office;
b. Corporate Banking -principally handles loans and other credit facilities for small and medium enterprises, corporate and institutional customers acquired in the Home Office;
c. Branch Banking - serves as the Bank's main customer touch point which offers consumer and corporate banking products; and
d. Treasury - principally handles institutional deposit accounts, providing money market, trading and treasury services, as well as managing the Bank's funding operations by use of government securities and placements and acceptances with other banks.

These segments are the bases on which the Bank reports its primary segment information. The Bank evaluates performance on the basis of information about the components of the Bank that senior management uses to make decisions about operating matters. There are no other operating segments than those identified by the Bank as reportable segments. There were no inter-segment revenues and expenses included in the financial information. The Bank has no single customer with revenues from which is 10.00% or more of the Bank's total revenue.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. Primary segment information (by business segment) for the years ended December 31, 2015, 2014 and 2013 follows (in thousands):

	2015				
	Consumer Banking	**Corporate Banking**	**Branch Banking**	**Treasury**	**Total**
Operating income					
Interest income	**₱2,424,517**	**₱433,460**	**₱6,646,711**	**₱1,498,039**	**₱11,002,727**
Service fees and commission	**341,653**	**38,519**	**913,528**	**–**	**1,293,700**
Other operating income	**361,645**	**31,979**	**775,216**	**(44,746)**	**1,124,094**
Total operating income	**3,127,815**	**503,958**	**8,335,455**	**1,453,293**	**13,420,521**
Non-cash expenses					
Provision for credit and impairment losses	**534,730**	**34,988**	**1,015,294**	**3,286**	**1,588,298**
Depreciation	**94,839**	**6,189**	**400,103**	**180**	**501,311**
Amortization of other intangible assets	**23,423**	**2,784**	**73,779**	**239**	**100,225**
Total non-cash expenses	**652,992**	**43,961**	**1,489,176**	**3,705**	**2,189,834**
Interest expense	**–**	**–**	**1,476,307**	**1,044,474**	**2,520,781**
Service fees and commission expense	**25,936**	**2,924**	**69,348**	**–**	**98,208**
Subtotal	**25,936**	**2,924**	**1,545,655**	**1,044,474**	**2,618,989**

(Forward)

	2015				
	Consumer Banking	**Corporate Banking**	**Branch Banking**	**Treasury**	**Total**
Compensation and fringe benefits	**₱434,632**	**₱53,123**	**₱2,111,648**	**₱14,465**	**₱2,613,868**
Taxes and licenses	**163,728**	**19,347**	**512,614**	**265,404**	**961,093**
Occupancy and equipment-related costs	**34,129**	**1,609**	**635,915**	**76**	**671,729**
Security, messengerial and janitorial services	**46,943**	**3,235**	**283,232**	**620**	**334,030**
Miscellaneous	**279,418**	**35,962**	**1,343,991**	**83,383**	**1,742,754**
Subtotal	**958,850**	**113,276**	**4,887,400**	**363,948**	**6,323,474**
Income before share in net income of a joint venture and income tax	**₱1,490,037**	**₱343,797**	**₱413,224**	**₱41,166**	**2,288,224**
Share in net income of a joint venture					**20,214**
Income before income tax					**2,308,438**
Benefit from income tax					**42,462**
Net income					**₱2,350,900**
Segment assets	**₱82,181,033**	**₱8,438,387**	**₱36,990,937**	**₱39,836,139**	**₱167,446,496**
Investments in a joint venture					**690,334**
Deferred tax assets					**1,194,417**
Total assets					**₱169,331,247**
Segment liabilities	**₱1,201,661**	**₱86,172**	**₱97,009,484**	**₱51,858,875**	**₱150,156,192**

	2014				
	Consumer Banking	Corporate Banking	Branch Banking	Treasury	Total
Operating income					
Interest income	₱2,096,566	₱513,270	₱5,825,439	₱1,678,135	₱10,113,410
Service fees and commission	272,034	47,454	832,331	–	1,151,819
Other operating income	472,611	81,951	1,008,351	217,766	1,780,679
Total operating income	2,841,211	642,675	7,666,121	1,895,901	13,045,908
Non-cash expenses					
Provision for (reversal of) credit and impairment losses	992,493	(55,175)	850,325	(43,822)	1,743,821
Depreciation	107,781	8,429	387,800	619	504,629
Amortization of other intangible assets	22,430	3,171	56,437	330	82,368
Total non-cash expenses	1,122,704	(43,575)	1,294,562	(42,873)	2,330,818
Interest expense	–	–	1,558,925	844,103	2,403,028
Service fees and commission expense	17,460	3,046	53,423	–	73,929
Subtotal	17,460	3,046	1,612,348	844,103	2,476,957
Compensation and fringe benefits	480,544	88,291	1,815,143	11,973	2,395,951
Taxes and licenses	158,764	25,720	729,633	147,477	1,061,594
Occupancy and equipment-related costs	37,755	4,239	585,687	56	627,737
Security, messengerial and janitorial services	36,307	3,673	246,524	575	287,079
Miscellaneous	257,548	38,099	1,312,900	38,037	1,646,584
Subtotal	970,918	160,022	4,689,887	198,118	6,018,945
Income before share in net income of an associate and a joint venture and income tax	₱730,129	₱523,182	₱69,324	₱896,553	2,219,188
Share in net income of an associate and a joint venture					76,956
Income before income tax					2,296,144
Benefit from income tax					22,533
Net income					₱2,318,677
Segment assets	₱62,641,227	₱10,065,356	₱35,673,726	₱35,826,176	₱144,206,485
Investments in an associate and a joint venture					668,607
Deferred tax assets					731,937
Total assets					₱145,607,029
Segment liabilities	₱1,024,056	₱110,243	₱91,831,563	₱34,910,865	₱127,876,727

	2013				
	Consumer Banking	Corporate Banking	Branch Banking	Treasury	Total
Operating income					
Interest income	₱1,798,034	₱492,637	₱6,128,314	₱608,251	₱9,027,236
Service fees and commission	220,196	49,405	770,794	–	1,040,395
Other operating income	310,194	157,687	500,190	4,067,022	5,035,093
Total operating income	2,328,424	699,729	7,399,298	4,675,273	15,102,724
Non-cash expenses					
Provision for credit and impairment losses	1,012,341	91,839	1,544,893	–	2,649,073
Depreciation	106,655	11,038	364,415	1,153	483,261
Amortization of other intangible assets	26,650	4,793	36,451	560	68,454
Total non-cash expenses	1,145,646	107,670	1,945,759	1,713	3,200,788
Interest expense	–	–	1,703,983	636,432	2,340,415
Service fees and commission expense	16,474	3,696	57,667	–	77,837
Subtotal	16,474	3,696	1,761,650	636,432	2,418,252
Compensation and fringe benefits	395,481	89,349	1,664,982	9,883	2,159,695
Taxes and licenses	210,690	28,738	462,779	351,634	1,053,841
Occupancy and equipment-related costs	48,048	8,216	503,494	5	559,763
Security, messengerial and janitorial services	46,550	5,455	199,554	824	252,383
Miscellaneous	463,682	77,420	905,158	12,648	1,458,908
Subtotal	1,164,451	209,178	3,735,967	374,994	5,484,590
Income (loss) before share in net income of an associate and a joint venture and income tax	₱1,853	₱379,185	(₱44,078)	₱3,662,134	3,999,094
Share in net income of an associate and a joint venture					109,569
Income (loss) before income tax					4,108,663
Provision for income tax					(1,180,174)
Net income					₱2,928,489
Segment assets	₱49,098,520	₱10,296,750	₱33,326,752	₱35,714,592	₱128,436,614
Investments in an associate and a joint venture					1,346,142
Deferred tax assets					243,119
Total assets					₱130,025,875
Segment liabilities	₱455,304	₱99,653	₱85,968,305	₱27,239,537	₱113,762,799

7. Interbank Loans Receivable and Securities Purchased Under Resale Agreements

This account consists of the following:

	2015	2014
SPURA	**₱2,500,000,000**	₱800,000,000
Interbank loans receivable (Note 33)	**13,904,112**	1,386,320,000
	₱2,513,904,112	₱2,186,320,000

As of December 31, 2015, the outstanding balance of interbank loans receivable represents cash margin for securities sold under repurchase agreement.

SPURA are lending to counterparties collateralized by government securities. The Bank is not permitted to sell or repledge the related collateral in the absence of default by the counterparty.

In 2015 and 2014, SPURA and peso-denominated interbank loans of the Bank bear annual interest of 4.00% and 2.50% respectively, while foreign denominated interbank loans bear annual interest ranging from 1.75% to 2.00%.

Interest income on interbank loans receivable and SPURA are as follows:

	2015	2014	2013
SPURA	**₱162,099,556**	₱820,835,049	₱453,317,570
Interbank loans receivable	**28,714,798**	38,147,079	25,619,027
	₱190,814,354	₱858,982,128	₱478,936,597

8. Investment Securities

Fair Value Through Profit or Loss Investments
FVPL investments consist of securities held-for-trading amounting to ₱2.8 billion and ₱0.3 billion as of December 31, 2015 and 2014, respectively.

As of December 31, 2015 and 2014, the Bank has outstanding ROP paired warrants which give the Bank the option or right to exchange its holdings of ROP Global Bonds (Paired Bonds) into peso-denominated government securities upon occurrence of a pre-determined credit event. Paired Bonds shall be risk weighted at 0.00%, provided that the 0.00% risk weight shall be applied only to the Bank's holdings of Paired Bonds equivalent to not more than 50.00% of the total qualifying capital. Further, the Bank's holdings of said warrants, booked in the FVPL category, are likewise exempted from capital charge for market risk as long as said instruments are paired with ROP Global Bonds up to a maximum of 50.00% of the total qualifying capital. As of December 31, 2015 and 2014, its ROP warrants have a fair value of zero due to the absence of an active market.

On August 19, 2009, the BSP approved the Bank's application for Type 3 Limited User Authority for plain vanilla foreign exchange (FX) forwards, which is limited to outright buying or selling of FX forwards at a specific price and date in the future and do not include non-deliverable forwards.

As of December 31, 2015 and 2014, the Bank has no outstanding forward buy and sell contracts.

Available-for-Sale Investments
AFS investments consist of the following:

	2015	2014
Debt securities		
Government (Notes 29 and 30)	**₱4,472,649,565**	₱3,068,906,157
Private	**4,449,702,326**	3,010,068,344
Equity securities		
Quoted	**7,081,765**	5,114,005
Unquoted	**1,417,500**	1,417,500
	8,930,851,156	6,085,506,006
Less allowance for impairment losses (Note 15)	**2,188,665**	2,188,665
	₱8,928,662,491	₱6,083,317,341

Movements in the net unrealized gain on AFS investments follow:

	2015	2014
Balance at beginning of year	**₱26,600,463**	₱22,289,515
Gain from sale of AFS investments realized in profit or loss	**(36,343,321)**	(99,084,970)
Changes in fair values of AFS investments	**9,922,633**	103,395,918
	(26,420,688)	4,310,948
Balance at end of year	**₱179,775**	₱26,600,463

In 2014, the Bank sold its unquoted equity securities amounting to ₱43.8 million. The Bank realized net trading gain amounting to ₱191.9 million from the sale.

As of December 31, 2015, the carrying value of AFS investments in the form of government bonds pledged as collateral for its bills payable amounted to ₱667.0 million (Note 17).

As of December 31, 2014 and 2015, included in AFS investments are National Food Authority bonds pledged by the Bank to MBTC to secure its payroll account with MBTC with total carrying value of ₱52.2 million and ₱53.8 million, respectively (Note 29).

Held-to-Maturity Investments
HTM investments consist of the following:

	2015	2014
Debt securities		
Government	**₱12,088,362,455**	₱–
Private	**2,858,306,002**	1,683,128,162
	₱14,946,668,457	₱1,683,128,162

As of December 31, 2015, the carrying value of HTM Investments in the form of government bonds pledged as collateral for its bills payable amounted to ₱1.8 billion (Note 17).

Interest income on investment securities consists of:

	2015	2014	2013
FVPL investments	**₱85,605,995**	₱13,330,603	₱3,897,789
AFS investments	**266,464,510**	301,938,725	208,967,472
HTM investments	**375,698,086**	48,693,812	162,538,774
	₱727,768,591	₱363,963,140	₱375,404,035

Peso-denominated AFS investments bear nominal annual interest rates ranging from 1.63% to 9.13% in 2015, 1.63% to 9.13% in 2014, and 2.13% to 9.13% in 2013 while foreign currency-denominated AFS investments bear nominal annual interest rates ranging from 2.50% to 10.63% in 2015, 3.88% to 9.38% in 2014, and 4.00% to 8.88% in 2013. Effective interest rates on AFS investments as of December 31, 2015, 2014, and 2013 range from 2.20% to 6.75%, 1.22% to 3.14%, and3.84% to 5.22%, respectively.

On the other hand, peso-denominated HTM investments bear nominal annual interest rates ranging from 5.21% to 13.75% in 2015 and from 5.21% to 5.61% in 2014, while foreign currency-denominated HTM investments bear nominal annual interest rates ranging from 4.13% to 10.63% in 2015 and from 6.00% to 6.38% in 2014.

Trading and securities gains (losses) - net on investment securities consist of:

	2015	2014	2013
FVPL investments (Note 29)			
Realized	**(₱75,741,227)**	(₱5,598,282)	₱38,348,945
Unrealized	**(24,171,844)**	(1,108,328)	(69,370,851)
	(99,913,071)	(6,706,610)	(31,021,906)
AFS investments (Note 29)	**36,343,321**	99,084,970	4,101,920,941
Unquoted debt instruments	–	117,574,471	–
	(₱63,569,750)	₱209,952,831	₱4,070,899,035

9. Loans and Receivables

This account consists of:

	2015	2014
Receivables from customers		
Consumption loans	**₱60,270,969,989**	₱47,043,267,594
Real estate loans	**40,681,087,980**	34,644,709,631
Commercial loans	**11,631,552,796**	13,699,269,088
Personal loans (Note 29)	**3,599,557,613**	3,771,500,037
	116,183,168,378	99,158,746,350
Less unearned discounts	**170,478,620**	718,956,205
	116,012,689,758	98,439,790,145
Other receivables		
Accrued interest receivable (Note 29)	**1,683,126,883**	1,133,995,187
Accounts receivable (Note 29)	**529,582,404**	520,100,839
Sales contract receivables	**214,685,224**	266,102,363
Bills purchased (Note 19)	**52,633,449**	82,843,873
	118,492,717,718	100,442,832,407
Less allowance for credit losses (Note 15)	**4,625,202,276**	4,683,082,577
	₱113,867,515,442	₱95,759,749,830

Personal loans comprise deposit collateral loans, employee salary and consumer loan products such as money card, multi-purpose loan and flexi-loan.

Included in the real estate loans are receivables purchased from a third party amounting to ₱60.8 million and ₱86.6 million as of December 31, 2015 and 2014, respectively.

As of December 31, 2015, 2014 and 2013, 45.02%, 33.09%and 29.52%, respectively, of the total receivables from customers are subject to periodic interest repricing. Remaining receivables earn average annual fixed interest rates of 15.10%, 15.72% and 12.95% in 2015, 2014 and 2013, respectively.

As of December 31, 2015, 2014 and 2013, receivable from customers earned interest income at an effective interest rate ranging from 8.56% to 10.16%, 9.42% to 10.46%, and 9.70% to 10.95%, respectively.

Interest income on loans and receivables consists of:

	2015	2014	2013
Receivables from customers			
Consumption loans	**₱5,273,970,259**	₱4,294,068,021	₱3,784,845,069
Real estate loans	**2,889,904,587**	2,551,584,794	2,237,204,178
Personal loans	**881,020,749**	964,681,596	1,063,057,436
Commercial loans	**868,764,738**	937,409,641	904,187,371
Other receivables			
Sales contract receivables	**15,998,131**	21,821,269	27,212,396
Unquoted debt instruments	**–**	45,250,664	105,929,392
	₱9,929,658,464	₱8,814,815,985	₱8,122,435,842

Interest income accreted on impaired loans and receivables classified under real estate loans and commercial loans amounted to ₱92.1million, ₱83.5 million and ₱73.3 million in 2015, 2014 and 2013, respectively.

Interest income from restructured loans amounted to ₱54.7 million, ₱51.6 million and ₱61.8 million in 2015, 2014 and 2013, respectively.

BSP Reporting
The breakdown of loans and receivables from customers (gross of unearned discounts and allowance for credit losses) as to secured and unsecured and as to type of security follows:

	2015	%	2014	%
Secured by:				
Chattel	**₱60,270,969,989**	**51.87**	₱47,043,267,594	47.44
Real estate	**29,331,718,876**	**25.25**	26,104,394,467	26.33
Deposit hold-out	**407,292,132**	**0.35**	422,019,221	0.43
Others	**362,924,198**	**0.31**	400,376,181	0.40
	90,372,905,195	**77.78**	73,970,057,463	74.60
Unsecured	**25,810,263,183**	**22.22**	25,188,688,887	25.40
	₱116,183,168,378	**100.00**	₱99,158,746,350	100.00

Details of NPLs follow:

	2015	2014
Secured	**₱3,473,247,122**	₱3,025,836,063
Unsecured	**924,325,979**	839,843,258
	₱4,397,573,101	₱3,865,679,321

Generally, NPLs refer to loans and receivables whose principal and/or interest is unpaid for thirty (30) days or more after due date if payable in lumpsum or after they have become past due in accordance with the following schedule, in which case, the total outstanding balance thereof shall be considered nonperforming:

Mode of Payment	Number of Installments in arrears
Monthly	Three (3)
Quarterly	One (1)
Semestral	One (1)
Annual	One (1)

Provided, however, that when the total amount of arrearages reaches twenty percent (20.00%) of the total outstanding balance of the loans and receivables, the total outstanding balance of the loans and receivables shall be considered as past due, regardless of the number of installments in arrears.

In the case of loans and receivables that are payable in daily, weekly, or semi-monthly installments, the total outstanding balance thereof shall be considered nonperforming at the same time that they become past due, i.e., when the total amount of arrearages reaches ten percent (10.00%) of the total receivable balance, in which case, the entire outstanding balance of the receivable shall be considered as past due.

Restructured loans and receivables, which do not meet the requirements to be treated as performing receivables, shall also be considered as NPLs.

All items in litigation shall be considered non-performing.

The NPLs of the Bank not fully covered by allowance for credit losses follow:

	2015	2014
Total NPLs	**₱4,397,573,101**	₱3,865,679,321
NPLs fully covered by allowance for credit losses	**887,998,169**	803,282,005
	₱3,509,574,932	₱3,062,397,316

Restructured loans as of December 31, 2015 and 2014 amounted to ₱633.1 million and ₱715.5 million, respectively. The Bank's loan portfolio includes non-risk loans as defined under BSP regulations totaling ₱2.9 billion and ₱2.6 billion as of December 31, 2015 and 2014, respectively.

Loan concentration as to economic activity follows (gross of unearned discounts and allowance for credit losses):

	2015	**%**	2014	**%**
Activities of households as employers and undifferentiated goods-and-services producing activities of households for own use	**₱66,086,846,722**	**56.88**	₱52,467,594,164	52.91
Real estate activities	**36,427,655,502**	**31.35**	31,914,207,647	32.18
Wholesale and retail trade, repair of motor vehicles and motorcycles	**1,771,061,074**	**1.53**	1,796,926,963	1.81
Information and communication	**1,724,559,643**	**1.48**	1,753,452,568	1.77
Financial and insurance activities	**1,417,527,128**	**1.22**	2,632,250,027	2.65
Manufacturing	**825,239,428**	**0.71**	871,202,817	0.88
Electricity, gas, steam and air-conditioning supply	**604,649,596**	**0.52**	235,892,452	0.24
Transportation and storage	**597,802,393**	**0.52**	523,667,298	0.53
Construction	**361,917,981**	**0.31**	349,174,323	0.35
Water supply, sewerage, waste management and remediation activities	**289,898,077**	**0.25**	220,167,705	0.22
Administrative and support service activities	**282,484,930**	**0.24**	167,302,064	0.17
Accommodation and food service activities	**273,351,355**	**0.24**	227,255,543	0.23
Human health and social work activities	**210,928,661**	**0.18**	224,657,958	0.23
Education	**160,755,341**	**0.14**	142,260,130	0.14
Professional, scientific and technical activities	**152,992,226**	**0.13**	145,333,737	0.15
Arts, entertainment and recreation	**31,712,746**	**0.03**	15,532,833	0.02
Agriculture, forestry and fishing	**30,002,116**	**0.03**	15,925,192	0.02
Mining and quarrying	**2,834,326**	**0.00**	2,189,961	0.00
Others	**4,930,949,133**	**4.24**	5,453,752,968	5.50
	₱116,183,168,378	**100.00**	₱99,158,746,350	100.00

Others relate to economic activities such as construction, health and social work, public administration and defense, extra-territorial organization and bodies, and education and fishing.

10. **Investments in an Associate and a Joint Venture**

Investment in a Joint Venture
The Bank owns 8,000,000 shares of SMFC representing 40.00% ownership accounted for as Investment in a Joint Venture. SMFC is engaged in the business of lending or leasing to retail customers for their purchase of motorcycles. As of December 31, 2015 and 2014, the Bank's Investment in a Joint Venture amounted to ₱690.3 million and ₱668.6 million, respectively.

The following table illustrates the summarized financial information of SMFC (in thousands):

	2015	2014
Current assets	**₱1,760,152**	₱1,619,468
Non-current assets	**119,572**	145,679
Current liabilities	**(132,042)**	(75,002)
Non-current liabilities	**(19,208)**	(18,490)
Net assets	**₱1,728,474**	₱1,671,655

	2015	2014	2013
Revenues	**₱449,887**	₱378,392	₱329,253
Costs and expenses	**379,678**	324,730	327,638
	70,209	53,662	1,615
Provision for income tax	**19,674**	41,595	697
Net income	**50,535**	12,067	918
Other comprehensive income (loss)	**3,783**	(2,415)	(746)
Total comprehensive income	**₱54,318**	₱9,652	₱172

Movement in this account follows (in thousands):

	2015	2014
Acquisition cost	**₱800,000**	₱800,000
Accumulated equity in net losses		
Balance at beginning of year	**(131,393)**	(135,254)
Share in net income	**20,214**	4,827
Share in unrealized gain (loss) on remeasurement of retirement liability	**1,513**	(966)
	(109,666)	(131,393)
	₱690,334	₱668,607

SMFC is a private company and there is no quoted market price available for its shares. The net assets of SMFC consist mainly of financial assets and financial liabilities.

The Bank has no share in any contingent liabilities or capital commitments of SMFC as of December 31, 2015 and 2014. There are also no agreements entered into by SMFC that may restrict dividends and other capital contributions to be paid, loans and advances to be made or repaid to or from the Bank as of the said dates.

Investment in an Associate
On August 29, 2014, the Bank sold its 25.00% interest in TFSPC to GT Capital Holdings, Inc. for a total consideration of ₱1.3 billion. The sale is in line with the Bank's capital planning initiatives under the new Basel III regime. The gain on sale of the investment in TFSPC amounted to ₱558.7 million. The investment was previously recognized as an Investment in an Associate.

11. **Property and Equipment**

The composition of and movements in this account follow:

	2015				
	Land	**Building**	**Furniture, Fixtures and Equipment**	**Leasehold Improvements**	**Total**
Cost					
Balance at beginning of year	**₱976,443,676**	**₱1,049,131,113**	**₱2,090,556,377**	**₱746,694,617**	**₱4,862,825,783**
Acquisitions	**–**	**41,067,885**	**464,942,845**	**133,478,491**	**639,489,221**
Disposals	**–**	**–**	**(162,621,808)**	**(2,750,724)**	**(165,372,532)**
Balance at end of year	**976,443,676**	**1,090,198,998**	**2,392,877,414**	**877,422,384**	**5,336,942,472**
Accumulated Depreciation					
Balance at beginning of year	**–**	**311,283,591**	**1,628,112,918**	**453,921,828**	**2,393,318,337**
Depreciation	**–**	**34,917,924**	**210,670,868**	**95,238,954**	**340,827,746**
Disposals	**–**	**–**	**(143,277,982)**	**–**	**(143,277,982)**
Balance at end of year	**–**	**346,201,515**	**1,695,505,804**	**549,160,782**	**2,590,868,101**
Net Book Value	**₱976,443,676**	**₱743,997,483**	**₱697,371,610**	**₱328,261,602**	**₱2,746,074,371**

	2014				
	Land	Building	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost					
Balance at beginning of year	₱976,443,676	₱1,026,931,283	₱1,956,227,265	₱597,589,277	₱4,557,191,501
Acquisitions	–	60,767,590	249,066,190	149,105,340	458,939,120
Disposals	–	(38,567,760)	(114,737,078)	–	(153,304,838)
Balance at end of year	976,443,676	1,049,131,113	2,090,556,377	746,694,617	4,862,825,783
Accumulated Depreciation					
Balance at beginning of year	–	306,470,310	1,502,624,135	358,316,652	2,167,411,097
Depreciation	–	32,312,062	206,613,113	95,605,176	334,530,351
Disposals	–	(27,498,781)	(81,124,330)	–	(108,623,111)
Balance at end of year	–	311,283,591	1,628,112,918	453,921,828	2,393,318,337
Net Book Value	₱976,443,676	₱737,847,522	₱462,443,459	₱292,772,789	₱2,469,507,446

Gain on sale of property and equipment amounted to ₱17.7 million, ₱45.0 million and ₱138.5 million in 2015, 2014 and 2013, respectively.

The details of depreciation under the statements of income follow:

	2015	2014	2013
Property and equipment	**₱340,827,746**	₱334,530,351	₱330,312,249
Investment properties (Note 12)	**73,873,201**	68,816,313	60,291,941
Chattel mortgage properties (Note 14)	**86,610,199**	101,282,291	92,656,330
	₱501,311,146	₱504,628,955	₱483,260,520

As of December 31, 2015 and 2014, property and equipment of the Bank with gross carrying amounts of ₱1.2 billion and ₱1.1 billion, respectively, are fully depreciated but are still being used.

12. **Investment Properties**

The composition of and movements in this account follow:

		2015	
	Land	**Building Improvements**	**Total**
Cost			
Balance at beginning of year	**₱1,488,847,086**	**₱2,030,831,281**	**₱3,519,678,367**
Additions (Note 32)	**331,524,271**	**592,319,299**	**923,843,570**
Disposals	**(247,398,570)**	**(296,144,907)**	**(543,543,477)**
Balance at end of year	**1,572,972,787**	**2,327,005,673**	**3,899,978,460**
Accumulated Depreciation			
Balance at beginning of year	**–**	**279,439,397**	**279,439,397**
Depreciation (Note 11)	**–**	**73,873,201**	**73,873,201**
Disposals	**–**	**(34,862,732)**	**(34,862,732)**
Balance at end of year	**–**	**318,449,866**	**318,449,866**
Allowance for Impairment Losses			
Balance at beginning of year	**181,203,061**	**125,967,060**	**307,170,121**
Provisions for the year (Note 15)	**204,060**	**–**	**204,060**
Disposals	**–**	**(70,000,000)**	**(70,000,000)**
Balance at end of year	**181,407,121**	**55,967,060**	**237,374,181**
Net Book Value	**₱1,391,565,666**	**₱1,952,588,747**	**₱3,344,154,413**

		2014	
	Land	Building Improvements	Total
Cost			
Balance at beginning of year	₱1,446,154,992	₱1,714,942,739	₱3,161,097,731
Additions (Note 32)	304,496,006	573,714,584	878,210,590
Disposals	(261,803,912)	(257,826,042)	(519,629,954)
Balance at end of year	1,488,847,086	2,030,831,281	3,519,678,367
Accumulated Depreciation			
Balance at beginning of year	–	264,943,189	264,943,189
Depreciation (Note 11)	–	68,816,313	68,816,313
Disposals	–	(54,320,105)	(54,320,105)
Balance at end of year	–	279,439,397	279,439,397
Allowance for Impairment Losses			
Balance at beginning of year	180,779,171	125,967,060	306,746,231
Provisions for the year (Note 15)	423,890	–	423,890
Balance at end of year	181,203,061	125,967,060	307,170,121
Net Book Value	₱ 1,307,644,025	₱ 1,625,424,824	₱2,933,068,849

The details of the net book value of investment properties follow:

	2015	2014
Real estate properties acquired in settlement of loans and receivables	**₱3,238,509,775**	₱2,823,595,785
Bank premises leased to third parties and held for capital appreciation	**105,644,638**	109,473,064
	₱3,344,154,413	₱2,933,068,849

As of December 31, 2015 and 2014, the aggregate fair value of investment properties amounted to ₱4.2 billion and ₱3.4 billion, respectively. Fair value of the properties was determined using Sales Comparison Approach. Fair values are based on valuations performed by accredited external and in-house appraisers.

Gain on foreclosure of investment properties amounted to ₱258.7 million, ₱285.9 million and ₱243.0 million in 2015, 2014 and 2013, respectively. The Bank realized loss on sale of investment properties amounting to ₱0.7 million in 2015, and a gain on sale amounting to ₱12.9 million and ₱26.8 million in 2014 and 2013, respectively.

Rental income on investment properties included in miscellaneous income amounted to ₱53.0 million, ₱47.8 million and ₱45.0 million in 2015, 2014 and 2013, respectively (Notes 23 and 25).

Operating expenses incurred in maintaining investment properties (included under miscellaneous expense) amounted to ₱15.7 million, ₱11.9 million and ₱9.8 million in 2015, 2014 and 2013, respectively.

13. **Goodwill and Intangible Assets**

This account consists of:

	2015	2014
Goodwill	**₱53,558,338**	₱53,558,338
Intangible assets		
Software costs	**355,178,046**	280,057,951
Branch licenses	**35,723,737**	35,523,737
	390,901,783	315,581,688
	₱444,460,121	₱369,140,026

The movements in intangible assets follow:

	2015		
	Software Costs	**Branch Licenses**	**Total**
Balance at beginning of year	**₱280,057,951**	**₱35,523,737**	**₱315,581,688**
Additions	**175,344,810**	**200,000**	**175,544,810**
Amortization	**(100,224,715)**	**–**	**(100,224,715)**
Balance at end of year	**₱355,178,046**	**₱35,723,737**	**₱390,901,783**

	2014		
	Software Costs	Branch Licenses	Total
Balance at beginning of year	₱207,949,979	₱31,323,737	₱239,273,716
Additions	154,476,293	4,200,000	158,676,293
Amortization	(82,368,321)	–	(82,368,321)
Balance at end of year	₱280,057,951	₱35,523,737	₱315,581,688

Amortization of software costs in 2013 amounted to ₱68.5 million.

14. **Other Assets**

This account consists of:

	2015	2014
Chattel mortgage properties - net	**₱456,284,550**	₱377,674,410
Security deposits and deferred charges (Note 29)	**172,432,726**	133,568,434
Prepayments	**117,460,237**	179,520,230
Documentary stamps on hand	**64,101,457**	26,875,404
Sundry debits	**35,469,127**	60,380,740
Stationeries and supplies on hand	**21,326,534**	21,924,014
RCOCI	**19,560,606**	82,866,713
Creditable withholding tax	**1,744**	148,106
Others	**7,594,756**	5,864,898
	₱894,231,737	₱888,822,949

Prepayments represent prepaid insurance, prepaid rent, prepaid taxes and other prepaid expenses.

The movements in chattel mortgage properties - net follow:

	2015	2014
Cost		
Balance at beginning of year	**₱439,906,235**	₱589,732,311
Additions (Note 32)	**1,598,334,363**	1,286,282,783
Disposals	**(1,512,073,015)**	(1,436,108,858)
Balance at the end of year	**526,167,583**	439,906,236
Accumulated Depreciation		
Balance at beginning of year	**61,615,736**	85,479,122
Depreciation (Note 11)	**86,610,199**	101,282,291
Disposals	**(78,958,992)**	(125,145,677)
Balance at the end of year	**69,266,943**	61,615,736
Allowance for Impairment Losses		
Balance at beginning and end of year (Note 15)	**616,090**	616,090
Net Book Value	**₱456,284,550**	₱377,674,410

Gain on foreclosure of chattel mortgage properties amounted to ₱432.6 million, ₱392.5 million and ₱343.5 million in 2015, 2014 and 2013, respectively. The Bank realized loss on sale of chattel mortgage properties amounting to ₱54.9 million and ₱75.7 million in 2015 and 2014, respectively, and a gain on sale amounting to ₱35.1 million in 2013.

15. **Allowance for Credit and Impairment Losses**

	2015					
	AFS Investments - Equity Securities					
	Quoted	Unquoted	Loans and Receivables	Investment Properties	Other Assets	Total
Balance at beginning of year	**₱2,188,665**	**₱–**	**₱4,683,082,577**	**₱307,170,121**	**₱616,090**	**₱4,993,057,453**
Provision for credit and impairment losses	**–**	**–**	**1,588,094,336**	**204,060**	**–**	**1,588,298,396**
Reversal of allowance on assets sold/settled	**–**	**–**	**(814,190,865)**	**(70,000,000)**	**–**	**(884,190,865)**
Accounts written off	**–**	**–**	**(831,783,772)**	**–**	**–**	**(831,783,772)**
Balance at end of year	**₱2,188,665**	**₱–**	**₱4,625,202,276**	**₱237,374,181**	**₱616,090**	**₱4,865,381,212**

	2014					
	AFS Investments – Equity Securities					
	Quoted	Unquoted	Loans and Receivables	Investment Properties	Other Assets	Total
Balance at beginning of year	₱2,188,665	₱43,821,502	₱4,802,462,115	₱306,746,231	₱616,090	₱5,155,834,603
Provision for credit and impairment losses	–	–	1,743,397,190	423,890	–	1,743,821,080
Reversal of allowance on assets sold/settled	–	(43,821,502)	(780,105,569)	–	–	(823,927,071)
Accounts written off	–	–	(1,082,671,159)	–	–	(1,082,671,159)
Balance at end of year	₱2,188,665	₱–	₱4,683,082,577	₱307,170,121	₱616,090	₱4,993,057,453

A reconciliation of the allowance for credit losses by class of loans and receivables is as follows (in thousands):

	2015									
	Receivables from Customers				**Other Receivables**					
	Consumption	**Real Estate**	**Commercial**	**Personal**	**Accrued Interest Receivable**	**Accounts Receivable**	**Sales Contract Receivable**	**Unquoted Debt Instruments**	**Bills Purchased**	**Total**
Balance at beginning of year	**₱824,166**	**₱652,675**	**₱1,683,458**	**₱649,822**	**₱371,436**	**₱466,387**	**₱33,836**	**₱–**	**₱1,303**	**₱4,683,083**
Provisions for the year charged against profit or loss	**1,289,877**	**(80,781)**	**115,434**	**226,805**	**36,670**	**89**	**–**	**–**	**–**	**1,588,094**
Reversal of allowance	**(814,191)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(814,191)**
Amounts written off	**(520,552)**	**–**	**(14,437)**	**(270,400)**	**(26,341)**	**(54)**	**–**	**–**	**–**	**(831,784)**
Balance at end of year	**₱779,300**	**₱571,894**	**₱1,784,455**	**₱606,227**	**₱381,765**	**₱466,422**	**₱33,836**	**₱–**	**₱1,303**	**₱4,625,202**
Individual impairment	**₱–**	**₱448,899**	**₱398,484**	**₱–**	**₱324,922**	**₱183,484**	**₱18,888**	**₱–**	**₱–**	**₱1,374,677**
Collective impairment	**779,300**	**122,995**	**1,385,971**	**606,227**	**56,843**	**282,938**	**14,948**	**–**	**1,303**	**3,250,525**
	₱779,300	**₱571,894**	**₱1,784,455**	**₱606,227**	**₱381,765**	**₱466,422**	**₱33,836**	**₱–**	**₱1,303**	**₱4,625,202**
Gross amount of loans individually impaired, before deducting any individual impairment allowance	**₱–**	**₱1,016,359**	**₱631,824**	**₱–**	**₱356,277**	**₱183,484**	**₱18,313**	**₱–**	**₱–**	**₱2,206,257**

	2014									
	Receivables from Customers				Other Receivables					
	Consumption	Real Estate	Commercial	Personal	Accrued Interest Receivable	Accounts Receivable	Sales Contract Receivable	Unquoted Debt Instruments	Bills Purchased	Total
Balance at beginning of year	₱1,199,440	₱761,863	₱1,016,652	₱914,740	₱315,752	₱465,382	₱29,719	₱97,611	₱1,303	₱4,802,462
Provisions for the year charged against profit or loss	791,812	40,812	516,806	275,857	105,684	8,310	4,117	–	–	1,743,398
Reversal of allowance	(625,190)	–	–	–	(50,000)	(7,305)	–	(97,611)	–	(780,106)
Amounts written off	(541,896)	–	–	(540,775)	–	–	–	–	–	(1,082,671)
Reclassification	–	(150,000)	150,000	–	–	–	–	–	–	–
Balance at end of year	₱824,166	₱652,675	₱1,683,458	₱649,822	₱371,436	₱466,387	₱33,836	₱–	₱1,303	₱4,683,083
Individual impairment	₱223,786	₱585,129	₱480,461	₱25,655	₱157,412	₱211,874	₱18,888	₱–	₱–	₱1,703,205
Collective impairment	600,380	67,546	1,202,997	624,167	214,024	254,513	14,948	–	1,303	2,979,878
	₱824,166	₱652,675	₱1,683,458	₱649,822	₱371,436	₱466,387	₱33,836	₱–	₱1,303	₱4,683,083
Gross amount of loans individually impaired, before deducting any individual impairment allowance	₱335,197	₱1,135,546	₱760,404	₱37,906	₱320,221	₱211,874	₱18,313	₱–	₱–	₱2,819,461

16. **Deposit Liabilities**

Interest expense on deposit liabilities consists of:

	2015	2014	2013
Time (Note 29)	**₱1,964,893,142**	₱1,941,865,601	₱2,013,767,393
Demand (Note 29)	**107,321,034**	90,918,211	74,094,382
Savings	**98,527,236**	82,848,973	69,823,836
	₱2,170,741,412	₱2,115,632,785	₱2,157,685,611

Peso-denominated deposit liabilities earn annual fixed interest rates ranging from 0.00% to 10.50% in 2015 and 0.00% to 6.00% in 2014 and 0.00% to 6.00% in 2013, while foreign currency-denominated deposit liabilities earn annual fixed interest rates ranging from 0.13% to 6.00% in 2015, 0.50% to 6.00% in 2014 and 0.25% to 5.50% in 2013. Effective interest rate on deposit liabilities as of December 31, 2015, 2014, and 2013 ranges from 1.50% to 2.00%, 1.69% to 2.32%, and 1.78% to 2.93%, respectively.

As of December 31, 2015 and 2014, Due from BSP amounting to ₱10.6 billion and ₱9.7 billion, respectively, was set aside as reserves for deposit liabilities, as reported to the BSP.

17. **Bills Payable and Subordinated Notes**

Bills Payable
This account consists of the following:

	2015
Interbank borrowings	**₱2,494,180,000**
Securities sold under repurchase agreements (SSURA)	**2,000,665,747**
	₱4,494,845,747

Bills payable – SSURA are borrowings from counterparties secured by pledge of government securities with maturities ranging from 29 to 60 days. Details of securities pledged under Bills payable – SSURA as of December 31, 2015 are as follow:

Collateral Pledge	**Face Value**	**Carrying Value**	**Fair Value**
AFS Investments	**₱635,310,000**	**₱667,026,322**	**₱667,026,322**
HTM Investmetnts	**1,411,800,000**	**1,761,558,382**	**1,679,627,872**
	₱2,047,110,000	**₱2,428,584,704**	**₱2,346,654,194**

In 2015, peso-denominated interbank borrowings of the Bank bear annual interest ranging from 2.50% to 2.56% while foreign denominated interbank borrowings bear annual interest ranging from 0.55% to 1.25%. In 2015, annual interest rate on dollar-denominated SSURA ranges from 0.50% to 1.25%.

Interest expense incurred on interbank borrowings and SSURA in 2015 amounted to ₱6.4 million and ₱1.0 million, respectively. Interest expense on bills payable in 2014 amounted to ₱10.8 million.

Subordinated Notes
This account consists of the following Peso Notes:

		Carrying Value	
Maturity Date	Face Value	**2015**	2014
February 20, 2022	₱3,000,000,000	**₱2,977,976,956**	₱2,975,089,454
August 23, 2024	3,000,000,000	**2,974,074,625**	2,971,811,867
		₱5,952,051,581	₱5,946,901,321

Unamortized debt issuance costs on these notes amounted to ₱47.9 million and ₱53.1 million as of December 31, 2015 and 2014, respectively.

5.75%, ₱3.0 Billion Unsecured Subordinated Notes
On December 29, 2011, the Bank obtained approval from the BSP to issue and sell ₱3.0 billion in Unsecured Subordinated Notes due 2022 (the Notes) and issued them on February 20, 2012 with an interest rate of 5.75%.

Among the significant terms and conditions of the issuance of the Notes are:

a. Issue price at 100.00% of the face value of each Note;

b. The Notes bear interest at the rate of 5.75% per annum from and including February 20, 2012 but excluding February 20, 2022. The interest shall be payable quarterly in arrears at the end of each interest period on every 20th of May, August, November and February of each year, commencing on February 20, 2012 until the maturity date;

c. The Notes will constitute direct, unconditional and unsecured obligations of the Bank. The Notes will be subordinated in right of payment of principal and interest to all depositors and other creditors of the Issuer and will rank pari passu and without any preference among themselves, but in priority to the rights and claims of holders of all classes of equity securities of the Bank, including holders of preferred shares, if any;

d. Subject to satisfaction of certain regulatory approval requirements, the Bank may redeem the Notes in whole and not only in part at a redemption price equal to 100.00% of the principal amount together with the accrued and unpaid interest upon at least thirty (30) days notice prior to call option date, which is the Banking Day immediately following the fifth anniversary of the issue date of the Notes or February 21, 2017.

e. The Bank may, but is not obliged to, redeem the Notes, in whole but not in part, at the Call Option Amount, on the Call Option Date, subject to the prior approval of the BSP and the compliance by the Bank with the Regulations and prevailing requirements for the granting by the BSP of its consent therefore, including (i) the capital adequacy ratio of the Bank is well above the required minimum ratio after redemption; or (ii) the Note is simultaneously replaced, on or prior to the Call Option Date, with issues of new capital which is of the same or of better quality and is done under conditions which are sustainable for the income capacity of the Bank; and (iii) a 30 Banking Day prior written notice to the then Holder on record. Any tax due on interest income already earned by the Holders on the Notes shall be for the account of the Bank. Call Option Amount shall be based on the Issue Price of the Note plus accrued but unpaid interest thereon up to but excluding the Call Option Date.

5.50%, ₱3.0 Billion Unsecured Subordinated Notes
On April 14, 2014, the Bank obtained approval from the BSP to issue and sell ₱3.0 billion in Unsecured Subordinated Notes due August 23, 2024 (the Notes) and issued them on May 23, 2014 with an interest rate of 5.50%.

Among the significant terms and conditions of the issuance of the Notes are:

a. Issue price at 100.00% of the face value of each Note;

b. The Notes bear interest at the rate of 5.50% per annum from and including May 23, 2014 to but excluding August 23, 2024. Unless the Notes are earlier redeemed upon at least 30 days prior notice to August 23, 2019, the Call Option Date. Interest shall be payable quarterly in arrears at the end of each Interest Period on August 23, November 23, February 23 and May 23 of each year, commencing on August 23, 2014 until the Maturity Date;

c. The Notes will constitute direct, unconditional and unsecured obligations of the Bank. The Notes will be subordinated in right of payment of principal and interest to all depositors and other creditors of the Bank and will rank pari passu and without any preference among themselves, but in priority to the rights and claims of holders of all classes of equity securities of the Bank, including holders of preferred shares, if any;

d. The Notes have a loss absorption feature, which means the Notes are subject to a Non-Viability Write-Down in case of the occurrence of a Non-Viability Event, subject to certain conditions set out in the "Terms and Conditions of the Notes - Loss Absorption Due to Non-Viability Event; Non-Viability Write-Down", when the Bank or its parent company is considered non-viable as determined by the BSP. Non-viability is defined as a deviation from a certain level of Common Equity Tier 1 (CET1) Ratio or the inability of the Bank or its parent company to continue business or any other event as determined by the BSP, whichever comes earlier. A non-Viability Trigger Event shall be deemed to have occurred if the BSP notifies the Bank in writing that it has determined that a: i) Write-Down of the Notes and other capital instruments of the Bank is necessary because, without such Write-Down, the Bank would become non-viable, ii) public sector injection of capital, or equivalent support, is necessary because, without such injection or support, the Bank would become non-viable, or iii) Write-Down of the Notes and other capital instruments of the Bank is necessary, because, as a result of the closure of the Bank, the latter has become non-viable;

e. Unless previously converted, and provided a Non-Viability Trigger Event has not occurred and subject to regulations, the Bank shall have the option but not the obligation, upon securing all required regulatory approvals, to redeem the Notes as a whole, but not in part, in the following circumstances: i) at the Call Option Amount, on the Call Option Date, subject to the prior approval of the BSP and the compliance by the Issuer with Regulations and prevailing requirements for the granting by the BSP of its consent, ii) prior to the stated maturity and on any Interest Payment Date at par plus accrued but unpaid interest thereon if or when payments or principal or interest due on the Notes become subject to additional or increased taxes, other than any taxes and rates of such taxes prevailing as of the Issue Date, as a result of certain changes in law, rule, or regulation, or in the interpretation thereof, and such additional or increased rate of such tax cannot be avoided by use of reasonable measures available to the Bank or iii) the non-qualification of the Notes as Tier 2 capital as determined by the BSP. Incremental tax, if any, that may be due on the interest income already earned under the Notes as a result of the exercise by the Bank of its option for early redemption, shall be for its own account. Call Option Amount shall be based on the principal amount of the Note plus accrued interest covering the accrued and unpaid interest as of but excluding the Call Option Date.

As of December 31, 2015 and 2014, the Bank is in compliance with the terms and conditions upon which the subordinated notes have been issued.

Interest expense incurred on these notes amounted to ₱342.7 million, ₱276.6 million and ₱175.3 million in 2015, 2014 and 2013, respectively, net of amortization of deferred financing cost amounting to ₱5.2 million, ₱4.0 million and ₱2.6 million, respectively.

18. Accrued Taxes, Interest and Other Expenses

This account consists of:

	2015	2014
Accrued interest payable	**₱177,197,223**	₱145,380,495
Accrued other taxes and licenses payable	**126,385,574**	85,661,885
Accrued other expenses payable (Note 29)	**747,186,515**	897,395,740
	₱1,050,769,312	₱1,128,438,120

Accrued other expenses payable consist of:

	2015	2014
Compensation and fringe benefits	**₱174,112,455**	₱289,360,811
Lease payable	**167,910,397**	143,557,837
Insurance	**134,085,556**	126,164,601
Litigation	**83,377,539**	96,930,522
Advertising	**82,151,817**	113,504,348
Information technology	**31,944,862**	35,136,305
Securities, messengerial and janitorial	**30,488,113**	25,359,735
Professional and consultancy fees	**6,959,596**	9,255,822
Membership, Fees & Dues	**3,674,352**	3,969,950
Miscellaneous	**32,481,828**	54,155,809
	₱747,186,515	₱897,395,740

Compensation and fringe benefits include salaries and wages as well as medical, dental and hospitalization benefits.

Miscellaneous include accruals for director’s fees, utilities and maintenance and other expenses.

19. Other Liabilities

This account consists of:

	2015	2014
Accounts payable (Note 29)	**₱1,406,429,684**	₱1,429,551,963
Net retirement liability (Note 24)	**799,831,823**	620,241,085
Other credits	**470,280,233**	439,314,885
Withholding taxes payable	**60,869,894**	57,591,328
Bills purchased - contra (Note 9)	**52,633,449**	82,843,873

(Forward)

	2015	2014
Sundry credits	**₱51,096,902**	₱100,125,030
Due to the Treasurer of the Philippines	**12,848,886**	10,522,107
SSS, Medicare, ECP and HDMF premium payable	**8,409,984**	8,089,947
Dividends payable	**–**	176,889,908
Miscellaneous (Note 29)	**143,140,014**	87,547,472
	₱3,005,540,869	₱3,012,717,598

Accounts payable includes payable to suppliers and service providers, and loan payments and other charges received from customers in advance.

Other credits represent long-outstanding unclaimed balances from inactive and dormant accounts.

Miscellaneous liabilities include incentives for housing loan customers that are compliant with the payment terms amounting to ₱58.2 million as of December 31, 2015 and 2014.

20. Maturity Analysis of Assets and Liabilities

The following table shows an analysis of assets and liabilities analyzed according to whether they are expected to be recovered or settled within one year and beyond one year from the statement of condition dates (in thousands):

	December 31					
	2015			2014		
	Within One Year	**Beyond One Year**	**Total**	Within One Year	Beyond One Year	Total
Financial Assets						
Cash and other cash items	**₱3,934,497**	**₱–**	**₱3,934,497**	₱4,174,756	₱–	₱4,174,756
Due from BSP	**11,143,782**	**–**	**11,143,782**	23,997,102	–	23,997,102
Due from other banks	**1,861,110**	**–**	**1,861,110**	3,382,663	–	3,382,663
Interbank loans receivable and SPURA	**2,513,904**	**–**	**2,513,904**	2,186,320	–	2,186,320
FVPL investments	**2,821,437**	**–**	**2,821,437**	278,909	–	278,909
AFS investments - gross (Note 8)	**368,856**	**8,561,995**	**8,930,851**	16,710	6,068,796	6,085,506
HTM investments	**–**	**14,946,668**	**14,946,668**	–	1,683,128	1,683,128
Loans and receivables - gross (Note 9)	**12,685,194**	**105,978,003**	**118,663,197**	13,306,924	87,854,865	101,161,789
Other assets - gross* (Note 14)	**41,459**	**155,711**	**197,170**	110,840	87,433	198,273
	35,370,239	**129,642,377**	**165,012,616**	47,454,224	95,694,222	143,148,446
Nonfinancial Assets						
Investments in a joint venture	**–**	**690,334**	**690,334**	–	668,607	668,607
Property and equipment - gross (Note 11)	**–**	**5,336,942**	**5,336,942**	–	4,862,826	4,862,826
Investment properties - gross (Note 12)	**–**	**3,899,978**	**3,899,978**	–	3,519,678	3,519,678
Deferred tax assets	**–**	**1,194,417**	**1,194,417**	–	731,937	731,937
Other assets - gross** (Note 14)	**766,542**	**444,863**	**1,211,405**	730,214	391,707	1,121,921
	766,542	**11,566,534**	**12,333,076**	730,214	10,174,755	10,904,969
Less: Allowance for credit and impairment losses (Note 15)			**4,865,381**			4,993,057
Accumulated depreciation (Notes 11, 12 and 14)			**2,978,585**			2,734,373
Unearned discounts (Note 9)			**170,479**			718,956
			8,014,445			8,446,386
	₱36,136,781	**₱141,208,911**	**₱169,331,247**	₱48,184,438	₱105,868,977	₱145,607,029

* Others assets under financial assets comprise petty cash fund, shortages, RCOCI and security deposits.
** Other assets under nonfinancial assets comprise inter-office float items, prepaid expenses, stationery and supplies on hand, sundry debits, documentary stamps on hand, deferred charges, postages stamps, chattel mortgage properties, goodwill and intangible assets.

	December 31					
	2015			2014		
	Within One Year	**Beyond One Year**	**Total**	Within One Year	Beyond One Year	Total
Financial Liabilities						
Deposit liabilities	**₱115,987,159**	**₱18,309,149**	**₱134,296,308**	₱97,569,952	₱18,957,802	₱116,527,754
Bills Payable	**4,494,846**	**–**	**4,494,846**			
Subordinated notes	**–**	**5,952,052**	**5,952,052**	–	5,946,901	5,946,901
Treasurer's, cashier's and manager's checks	**1,348,621**	**–**	**1,348,621**	1,253,782	–	1,253,782
Accrued other expenses payable	**775,337**	**–**	**775,337**	934,077	–	934,077
Accrued interest payable	**177,197**	**–**	**177,197**	145,380	–	145,380
Other liabilities						
Accounts payable	**1,406,430**	**–**	**1,406,430**	1,429,552	–	1,429,552
Other credits	**470,280**	**–**	**470,280**	439,315	–	439,315
Bills purchased - contra	**52,633**	**–**	**52,633**	82,844	–	82,844
Dividends payable	**–**	**–**	**–**	176,890	–	176,890
Due to the Treasurer of the Philippines	**12,849**	**–**	**12,849**	10,522	–	10,522
Deposits for keys - SDB	**849**	**–**	**849**	876	–	876
Others*	**8,033**	**–**	**8,033**	3,022	–	3,022
	124,734,234	**24,261,201**	**148,995,435**	102,046,212	24,904,703	126,950,915
Nonfinancial Liabilities						
Accrued other taxes and licenses payable	**98,235**	**–**	**98,235**	48,981	–	48,981
Income tax payable	**8,055**	**–**	**8,055**	7,135	–	7,135
Withholding taxes payable	**60,870**	**–**	**60,870**	–	–	–
Other liabilities**	**919,854**	**73,743**	**993,597**	788,007	81,689	869,696
	1,087,014	**73,743**	**1,160,757**	844,123	81,689	925,812
	₱125,821,248	**₱24,334,944**	**₱150,156,192**	₱102,890,335	₱24,986,392	₱127,876,727

* Others under financial liabilities comprise payment orders payable and overages.

** Other liabilities under nonfinancial liabilities comprise advance rentals on bank premises, sundry credits, SSS, Medicare, ECP & HDMF premium payable, net retirement liability, and miscellaneous liabilities.

21. Equity

Issued Capital

The Bank's capital stock consists of:

	2015		2014	
	Shares	**Amount**	Shares	Amount
Authorized common stock - ₱10 par value	**425,000,000**	**₱4,250,000,000**	425,000,000	₱4,250,000,000
Issued and outstanding				
Balance at beginning and end of year (Note 28)	**240,252,491**	**₱2,402,524,910**	240,252,491	₱2,402,524,910

The Bank became listed in the Philippine Stock Exchange (PSE) on October 10, 1994. Subsequently, the SEC approved the increase in the capital stock of the Bank. The summarized information on the Bank's registration of securities under the Securities Regulation Code follows:

Date of SEC Approval	Type	Authorized Shares	Par Value
August 16, 1995	Common	300,000,000	₱10
October 8, 1997	Common	425,000,000	₱10

As of December 31, 2015 and 2014, the total number of stockholders is 1,532 and 1,552, respectively.

Dividends Paid and Proposed

Details of the Bank's dividend distributions as approved by the Bank's BOD and the BSP follow:

	Cash Dividends				
Date of declaration	Per share	Total amount	Date of BSP approval	Record date	Payment date
October 23, 2012	0.75	180,189,368	November 21, 2012	December 27, 2012	January 14, 2013
January 22, 2013	0.75	180,189,368	February 8, 2013	March 5, 2013	March 20, 2013
April 19, 2013	0.75	180,189,368	May 28, 2013	June 18, 2013	July 3, 2013
July 18, 2013	0.75	180,189,368	August 8, 2013	September 4, 2013	September 19, 2013
October 22, 2013	0.75	180,189,368	November 12, 2013	November 29, 2013	December 16, 2013
October 22, 2013	3.00	720,757,473	November 12, 2013	November 29, 2013	December 16, 2013
January 24, 2014	0.75	180,189,368	February 12, 2014	March 5, 2014	March 20, 2014
April 28, 2014	0.75	180,189,368	June 6, 2014	July 1, 2014	July 16, 2014
July 22, 2014	0.75	180,189,368	August 12, 2014	September 2, 2014	September 17, 2014
October 30, 2014	0.75	180,189,368	November 27, 2014	January 12, 2015	January 30, 2015
January 22, 2015	0.75	180,189,368	March 3, 2015	March 30, 2015	April 17, 2015
April 28, 2015	0.75	180,189,368	June 5, 2015	July 14, 2015	July 28, 2015
July 28, 2015	0.75	180,189,368	September 23, 2015	October 26, 2015	November 11, 2015
October 29, 2015	0.75	180,189,368	–	November 16, 2015	November 27, 2015
January 19, 2016	0.75	180,189,368	–	February 1, 2016	February 19, 2016

On October 9, 2015, the Bangko Sentral ng Pilipinas (BSP) issued Circular No. 888, *Amendments to Regulations on Dividend Declaration and Interest Payments on Tier 1 Capital Instruments*, which liberalized said rules in the sense that prior BSP verification and approval is no longer required except for banks with major supervisory concerns. However, banks are bound to comply with the provisions of Section X136 of the MORB and its subsections, including the submission of documentary requirements under Subsection X136.4 of the MORB, otherwise, banks, subsequently found to have violated the provisions on dividend declaration or have falsely certified/submitted misleading statements shall be reverted to the prior BSP verification wherein the bank can only make an announcement or communication on the declaration of the dividends or payment of dividends thereon upon receipt of BSP advice thereof.

The Bank is compliant with the said circular beginning with the third and fourth quarter dividend declarations in 2015.

The computation of surplus available for dividend declaration in accordance with SEC Memorandum Circular No. 11 issued in December, 2008 differs to a certain extent from the computation following BSP guidelines.

In compliance with BSP regulations, 10.00% of the Bank's profit from trust business is appropriated to surplus reserves. This annual appropriation is required until the surplus reserves for trust business equals 20.00% of the Bank's authorized capital stock.

A portion of the surplus corresponding to the accumulated net earnings of a joint venture is not available for dividend declaration (Note 10) until receipt of cash dividends from the investees.

Capital Management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements, as mandated by the BSP, and that the Bank maintains healthy capital ratios in order to support its business and maximize returns for its shareholders. The Bank considers its paid in capital and surplus as its capital.

The Bank manages its capital structure and makes adjustments to it in 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 payments to shareholders or issue capital securities. The major activities in this area include the following:

- On March 2, 2005, the Bank's BOD approved an amendment to the Bank's Dividend Policy which provides for an annual regular cash dividend of 6.00% of the par value of the total capital stock payable quarterly at the rate of 1.50% or ₱0.15 per share payable not later than March 31, June 30, September 30 and December 31 of each year.
- On February 29, 2012, the Bank's BOD approved a further amendment to the Bank's Dividend Policy to provide for an annual regular cash dividend of 30.00% of the par value of the total capital stock, payable quarterly at the rate of 7.50% or ₱0.75 per share payable not later than March 31, June 30, September 30 and December 31 of each year.
- The Bank issued additional common shares for its qualified stockholders in 2008 and 2006 through stock rights offerings that raised ₱2.0 billion and ₱750.0 million in capital, respectively.

<u>Regulatory Qualifying Capital</u>
Under existing BSP regulations, the determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the Bank's unimpaired capital (regulatory capital) as reported to the BSP. This is determined on the basis of regulatory accounting policies which differ from PFRS in some respects.

In addition, 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% for both solo basis and consolidated basis. Qualifying capital and risk-weighted assets are computed based on BSP regulations. Risk-weighted assets 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 letters of credit to the extent covered by margin deposits and other non-risk items determined by the Monetary Board of the BSP.

On January 15, 2013, the BSP issued Circular No. 781, *Basel III Implementing Guidelines on Minimum Capital Requirements,* which states the implementing guidelines on the revised risk-based capital adequacy framework, particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. The Circular is effective on January 1, 2014.

The Circular sets out a minimum Common Equity Tier 1 (CET1) ratio of 6.00% and Tier 1 capital ratio of 7.50%. It also introduces a capital conservation buffer of 2.50% comprised of CET1 capital. The BSP's existing requirement for Total CAR remains unchanged at 10.00% and these ratios shall be maintained at all times.

Further, existing capital instruments as of December 31, 2010 which do not meet the eligibility criteria for capital instruments under the revised capital framework shall no longer be recognized as capital upon the effectivity of Basel III. Capital instruments issued under BSP Circular Nos.709 and 716 (the circulars amending the definition of qualifying capital particularly on Hybrid Tier 1 and Lower Tier 2 capitals), starting January 1, 2011 and before the effectivity of BSP Circular No. 781, shall be recognized as qualifying capital until December 31, 2015. In addition to changes in minimum capital requirements, this Circular also requires various regulatory adjustments in the calculation of qualifying capital. The Bank's unsecured subordinated debt will still be eligible as Lower Tier 2 capital until December 31, 2015.

Prior to January 1, 2014, the risk-based capital ratio is computed in accordance with BSP Circular No. 538 or Basel II.

The CAR of the Bank as of December 31, as reported to the BSP, based on BSP Circular No. 781 and BSP Circular No. 538, respectively, are shown in the table below (amounts in millions).

	2015	2014
Tier 1 capital	**₱18,174**	₱16,869
Tier 2 capital	**6,962**	6,851
Gross qualifying capital	**25,136**	23,720
Less required deductions	**2,878**	2,268
Total qualifying capital	**22,258**	21,452
Risk weighted assets	**₱123,389**	₱109,635
Tier 1 capital adequacy ratio	**12.40%**	13.32%
Capital adequacy ratio	**18.04%**	19.57%

Regulatory qualifying capital consists of Tier 1 (going concern) capital, which comprises capital stock, surplus, surplus reserves, net unrealized gains on AFS securities, and cumulative translation adjustment. Certain adjustments are made to PFRS-based results and reserves, as prescribed by the BSP. The other component of regulatory capital is Tier 2 (gone-concern) capital, which is comprised of the Bank's general loan loss provision and unsecured subordinated debt (refer to Note 17). Certain items are deducted from the regulatory Gross Qualifying Capital, such as but not limited to, outstanding unsecured credit accommodations both direct and indirect, to DOSRI, and unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates (net of specific provisions), deferred income tax (net of allowance for impairment, if any) and goodwill. In 2013, deductions to Tier 2 Capital are capped at its total gross amount and any excess shall be deducted from Tier 1 Capital in accordance with Basel II standards.

Risk-weighted assets are determined by assigning defined risk weights to amounts of on-balance sheet exposures and to the credit equivalent amounts of off-balance sheet exposures.

As of December 31, 2015 and 2014, the Bank has complied with the requirements of BSP Circular No. 781 and BSP Circular No. 538, respectively.

The issuance of BSP Circular No. 639 covering the Internal Capital Adequacy Assessment Process (ICAAP) in 2009 supplements the BSP's risk-based capital adequacy framework under Circular No. 538. In compliance with this new circular, the Metrobank Group has adopted and developed its ICAAP framework to ensure that appropriate level and quality of capital are maintained by the Group. Under this framework, the assessment of risks extends beyond the Pillar 1 set of credit, market and operational risks and onto other risks deemed material by the Group. The level and structure of capital are assessed and determined in light of the Group's business environment, plans, performance, risks and budget, as well as regulatory directives. The Bank follows the Group's ICAAP framework and submits the result of its assessment to the parent company. Per BSP Circular 869, effective January 31, 2015, submission of an ICAAP document is required by BSP every March 31 of each year. The Bank has complied with this requirement. The Bank has taken into consideration the impact of the foregoing requirements to ensure that the appropriate level and quality of capital are maintained on an ongoing basis.

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

	2015	2014	2013
Return on average equity	**12.74%**	13.64%	18.72%
Return on average assets	**1.49%**	1.68%	2.38%
Net interest margin on average earning assets	**6.37%**	6.58%	5.88%
Liquidity ratio	**28.72%**	46.83%	51.68%
Debt-to-Equity ratio	**7.83:1**	7.21:1	7.00:1
Asset-to-Equity ratio	**8.83:1**	8.21:1	8.00:1
Interest rate coverage ratio	**1.92:1**	1.96:1	2.76:1

22. Net Service Fees and Commission Income

This account consists of:

	2015	2014	2013
Service Fees and Commission Income			
Credit-related fees and commissions	**₱757,297,871**	₱655,161,584	₱574,481,667
Deposit-related and other fees received	**521,122,916**	484,105,336	453,337,245
Trust fees	**15,278,974**	12,552,005	12,576,165
	1,293,699,761	1,151,818,925	1,040,395,077
Service Fees and Commission Expense			
Commissions	**89,801,141**	67,740,038	71,798,311
Brokerage	**8,406,570**	6,188,482	6,038,309
	98,207,711	73,928,520	77,836,620
Net Service Fees and Commission Income	**₱1,195,492,050**	₱1,077,890,405	₱962,558,457

23. Miscellaneous Income

This account consists of:

	2015	2014	2013
Recovery of charged-off assets	**₱284,561,719**	₱196,461,347	₱83,783,149
Rental income (Notes 12 and 25)	**54,876,077**	49,595,665	46,878,019
Insurance commission income	**42,103,916**	37,701,172	31,097,664
Others	**133,871,739**	59,809,434	19,512,268
	₱515,413,451	₱343,567,618	₱181,271,100

Rental income arises from the lease of properties and safety deposit boxes of the Bank.

Others include income from renewal fees, checkbook charges, dividend income and other miscellaneous income.

24. **Retirement Benefits**

The Bank has a funded, noncontributory defined benefit plan covering substantially all of its employees. The benefits are based on years of service and final compensation.

The plan administered by the Retirement Committee is composed of five (5) members appointed by the Board of Directors of the Bank. The Retirement Committee have all the powers necessary or useful in the discharge of its duties of administration including, but not limited to determine the rights of Members under the Plan. The Retirement Committee may adopt such rules and regulations as it deems necessary and desirable, including those governing the establishment of procedures, the use of necessary forms, and the setting up of minimum periods where notice is required. The Retirement Committee may seek advice of counsel, and may appoint an independent accountant to audit the Plan and actuary to value the plan periodically, whose professional fees and expenses may be charged to the Fund.

Under the existing regulatory framework, Republic Act 7641 requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

The date of the latest actuarial valuation is December 31, 2015.

The amounts of pension expense included in 'Compensation and fringe benefits' in the statements of income follow:

	2015	2014
Current service cost	**₱174,313,825**	₱163,091,877
Net interest cost	**27,940,931**	16,279,570
	₱202,254,756	₱179,371,447

The net retirement liability shown under ‘Other liabilities’ recognized in the Bank’s statements of condition follows (in thousands):

	2015											
		Net benefit cost				Remeasurements in other comprehensive income						
	January 1, 2015	Current service cost	Net Interest	Subtotal	Benefits paid	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from experience adjustments	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Subtotal	Contribution by employer	December 31, 2015
Present value of defined benefit obligation	₱1,668,195	₱174,314	₱75,623	₱249,937	(₱100,127)	₱–	₱324,949	₱338,199	(₱490,338)	₱172,810	₱–	₱1,990,815
Fair value of plan assets	(1,047,954)	–	(47,682)	(47,682)	100,127	54,343	–	–	–	54,343	(249,817)	(1,190,983)
Net defined benefit liability	₱620,241	₱174,314	₱27,941	₱202,255	₱–	₱54,343	₱324,949	₱338,199	(₱490,338)	₱227,153	(₱249,817)	₱799,832

	2014											
		Net benefit cost				Remeasurements in other comprehensive income						
	January 1, 2014	Current service cost	Net Interest	Subtotal	Benefits paid	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from experience adjustments	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Subtotal	Contribution by employer	December 31, 2014
Present value of defined benefit obligation	₱1,498,646	₱163,092	₱70,555	₱233,647	(₱64,375)	₱–	₱114,334	₱–	(₱114,057)	₱277	₱–	₱1,668,195
Fair value of plan assets	(1,069,160)	–	(54,275)	(54,275)	64,375	190,846	–	–	–	190,846	(179,740)	(1,047,954)
Net defined benefit liability	₱429,486	₱163,092	₱16,280	₱179,372	₱–	₱190,846	₱114,334	₱–	(₱114,057)	₱191,123	(₱179,740)	₱620,241

The maximum economic benefit available is a combination of expected refunds from the plan and reductions in future contributions.

The Bank expects to contribute ₱227.2 million to its noncontributory defined benefit plan in 2016.

The fair values of plan assets by each class as at the end of the reporting periods are as follow:

	2015	2014
Cash and cash equivalents		
Special deposit account	**₱357,000,000**	₱231,000,000
Certificate of time deposit (Note 29)	**179,830**	8,663,348
Investment in other debt securities	**92,758,900**	11,904,607
Investment in equity securities	**686,565,597**	722,452,482
Unit Investment Trust Fund	**47,007,039**	74,455,986
Other assets	**8,441,342**	348,528
	1,191,952,708	1,048,824,951
Other liabilities	**969,937**	871,113
	₱1,190,982,771	₱1,047,953,838

The person exercising voting right for the foregoing equity instruments is currently a senior officer of the Bank (Note 29).

The principal actuarial assumptions used in determining retirement liability as of January 1, 2015 and 2014 are shown below:

	2015	2014
Discount rate	**5.01%**	4.55%
Turnover rate	**6.00%**	8.27%
Future salary increases	**5.00%**	8.00%

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

	December 31, 2015		December 31, 2014	
	Possible Fluctuations	**Increase (decrease)**	Possible Fluctuations	Increase (decrease)
Discount rate	**+1.00%**	**(79,641,824)**	+1.00%	(159,038,866)
	-1.00%	**107,316,377**	-1.00%	185,889,199
Turnover rate	**+1.00%**	**(369,887,050)**	+2.00%	(125,489,096)
	-1.00%	**312,520,456**	-2.00%	153,910,909
Future salary increase rate	**+1.00%**	**160,232,267**	+1.00%	174,659,727
	-1.00%	**(77,058,424)**	-1.00%	(153,288,859)

The Retirement Committee ensures that there will be sufficient assets to pay pension benefits as they fall due and maintains the plan on an actuarially sound basis considering the benefits to members.

Shown below is the maturity analysis of the undiscounted benefit payments:

	2015	2014
Less than one year	**₱211,744,483**	₱124,182,196
More than one year to five years	**669,094,669**	585,955,382
More than five years to 10 years	**1,266,637,603**	1,259,480,497
More than 10 years to 15 years	**1,753,882,998**	1,912,529,956
More than 15 years to 20 years	**1,583,678,293**	1,794,046,936
More than 20 years	**3,347,210,983**	3,450,698,068

25. **Leases**

The Bank leases the premises occupied by its branches for periods ranging from 1 to 20 years renewable under certain terms and conditions. Various lease contracts include escalation clauses, most of which bear an annual rent increase of 10.00%. Rentals charged against profit or loss under these lease contracts amounting to ₱521.8 million, ₱463.6 million and ₱397.1 million in 2015, 2014 and 2013, respectively, are shown under 'Occupancy and equipment-related costs' in the statements of income.

Future minimum rentals payable under non-cancelable operating leases are as follows:

	2015	2014
Within one year	**₱366,096,380**	₱342,865,740
After one year but not more than five years	**1,150,092,048**	1,051,856,637
More than five years	**775,249,542**	753,111,605
	₱2,291,437,970	₱2,147,833,982

The Bank has also entered into commercial property leases on its surplus office space. These non-cancelable leases have remaining non-cancelable lease terms between 1 and 5 years. As of December 31, 2015 and 2014, there is no contingent rental income. Rental income of the Bank related to these property leases amounting to ₱53.0 million, ₱47.8 million, and ₱45.0 million in 2015, 2014 and 2013, respectively are shown under 'Miscellaneous income' in the statements of income.

Future minimum rentals receivable under non-cancelable operating leases are as follows:

	2015	2014
Within one year	**₱52,604,779**	₱49,923,757
After one year but not more than five years	**88,702,895**	136,879,646
	₱141,307,674	₱186,803,403

26. **Miscellaneous Expenses**

This account consists of:

	2015	2014	2013
Insurance	**₱477,751,230**	₱410,805,829	₱264,634,335
Litigation	**275,455,140**	187,421,071	177,360,033
Information technology	**272,182,604**	199,435,470	220,459,184
Repairs and maintenance	**159,398,625**	187,608,093	98,794,593
Communications	**159,129,969**	168,180,967	139,105,183
Transportation and traveling	**107,011,983**	107,908,124	94,395,679
Advertising	**64,934,029**	153,730,772	159,206,964
Stationery and supplies	**63,978,794**	71,125,041	66,536,407
Supervision and examination fees	**52,911,508**	32,700,683	36,687,158
Management and professional fees	**25,993,577**	26,569,891	29,283,846
Fines, penalties and other charges	**14,432,007**	25,584,443	93,456,025
Banking activities expenses	**9,472,020**	10,374,008	6,891,511
Training and seminars	**9,332,858**	8,578,641	4,762,788

(Forward)

	2015	2014	2013
Membership fees and dues	**₱5,046,531**	₱5,384,549	₱11,812,780
Meeting allowance	**4,675,555**	3,316,271	2,990,424
Rewards and incentives	**4,522,624**	4,249,634	7,788,534
Donations and charitable contributions	**3,912,468**	12,072,600	21,358,243
Entertainment, amusement and recreation (EAR) (Note 27)	**3,563,703**	2,621,330	1,441,308
Others	**29,049,206**	28,916,736	21,943,382
	₱1,742,754,431	₱1,646,584,153	₱1,458,908,377

Insurance expense includes premiums paid to the Philippine Deposit Insurance Corporation (PDIC) amounting to ₱245.2 million, ₱233.8 million, ₱196.4 million and in 2015, 2014 and 2013, respectively.

Other expenses include sponsorship expenses, home free loan expenses, appraisal fees and notarial fees. It also include payments to union members amounting to ₱10.5 million, ₱9.9 million and ₱9.3 million in 2015, 2014 and 2013, respectively, for the successful completion of the collective bargaining agreement.

27. Income and Other Taxes

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 taxes (DST).

Income taxes include corporate income tax, further discussed below, and final taxes paid at the rate of 20.00%, which is a final withholding tax on gross interest income from government securities and other deposit substitutes.

The NIRC of 1997 also provides for rules on the imposition of a 2.00% MCIT on the gross income as of the end of the taxable year beginning on the fourth (4th) taxable year immediately following the taxable year in which the company commenced its business operations. Any excess MCIT over the RCIT can be carried forward on an annual basis and credited against the RCIT for the three (3) immediately succeeding taxable years.

Starting July 1, 2008, the Optional Standard Deduction (OSD) equivalent to 40.00% of gross income may be claimed as an alternative deduction in computing for the RCIT. The Bank elected to claim itemized expense deductions instead of the OSD in computing for the RCIT in 2015 and 2014.

On March 15, 2011, the BIR issued RR No. 4-2011 which prescribes the attribution and allocation of expenses between FCDUs/EFCDUs or OBU and RBU, and further allocation within RBU based on different income earning activities. Pursuant to the regulations, the Bank made an allocation of its expenses in calculating income taxes due for RBU and FCDU.

Current tax regulations also provide for the ceiling on the amount of EAR expense that can be claimed as a deduction against taxable income. Under the regulations, EAR expense allowed as a deductible expense for a service company is limited to the actual EAR paid or incurred but not to exceed 1.00% of net revenue.

FCDU offshore income (income from non-residents) is tax-exempt while gross onshore income (income from residents) is subject to 10.00% income tax. In addition, interest income on deposit placements with other FCDUs and offshore banking units (OBUs) is taxed at 7.50%.

Under current tax regulations, the income derived by the FCDU from foreign currency transactions with non-residents, OBUs, local commercial banks, including branches of foreign banks, is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10.00% income tax.

Provision for (benefit from) income tax consists of:

	2015	2014	2013
Current:			
RCIT	**₱193,630,281**	₱190,814,945	₱167,700,706
Final tax	**158,241,185**	218,057,871	190,973,012
MCIT	–	75,447	–
	351,871,466	408,948,263	358,673,718
Deferred	**(394,333,106)**	(431,481,389)	821,500,247
	(₱42,461,640)	(₱22,533,126)	₱1,180,173,965

The Bank's FCDU paid MCIT in 2014.

Net deferred tax assets consist of:

	2015	2014
Deferred tax assets on:		
Allowance for credit and impairment losses	**₱1,228,774,665**	₱821,821,970
Net pension liability	**239,949,547**	186,072,325
Accumulated depreciation on investment properties	**82,977,957**	72,423,344
Accrued rent	**50,373,119**	43,067,351
Unamortized pension cost contribution	**16,246,916**	2,561,766
	1,618,322,204	1,125,946,756
Deferred tax liabilities on:		
Net unrealized gain on investment properties	**(305,617,162)**	(284,742,610)
Accretion of interest on impaired loans	**(100,705,110)**	(93,470,653)
Unrealized foreign exchange gains	**(17,583,382)**	(15,796,024)
	(423,905,654)	(394,009,287)
	₱1,194,416,550	₱731,937,469

As of December 31, 2015 and 2014, the Bank did not recognize deferred tax assets on allowance for credit losses and accrued expenses amounting to ₱248.8 million and ₱694.0 million, respectively. Income tax effect recognized in OCI amounted to ₱68.1 million, ₱57.3 million and ₱39.8 million in 2015, 2014 and 2013, respectively.

The reconciliation between the statutory income tax and effective income tax follows (in thousands):

	2015	2014	2013
Statutory income tax	**₱692,532**	₱688,843	₱1,232,599
Tax effect of:			
FCDU income	**(19,132)**	54,700	(6,718)
Tax-paid and tax-exempt income	**(540,388)**	(731,727)	(1,287,110)
Nondeductible expenses	**272,409**	470,714	440,495
Changes in deferred income taxes	**(447,882)**	(505,063)	800,908
Effective income tax	**(₱42,461)**	(₱22,533)	₱1,180,174

28. Earnings Per Share

The following table presents information used to calculate basic EPS:

	2015	2014	2013
a. Net income	**₱2,350,900,100**	₱2,318,676,615	₱2,928,488,808
b. Weighted average number of common shares for basic EPS (Note 21)	**240,252,491**	240,252,491	240,252,491
c. Basic/Diluted EPS (a/b)	**₱9.79**	₱9.65	₱12.19

As of December 31, 2015, 2014 and 2013, there were no potential common shares with dilutive effect on the basic EPS of the Bank.

29. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Bank's related parties include:

- key management personnel, close family members of key management personnel and entities which are controlled, significantly influenced by or for which significant voting power is held by key management personnel or their close family member;
- significant investor or parent company,
- joint venture, associate and post-employment benefit plan for the benefit of the Bank's employees, and
- affiliates or other related parties, which are associates, subsidiaries, and joint ventures of the parent company.

The Bank has several business relationships with related parties. The terms of the transactions with such parties are listed below on substantially same terms, including interest and collateral, as those prevailing at the time for comparable transactions with other parties.

Transactions with the Retirement Plan

On December 20, 2012, the SEC issued Memorandum Circular No. 12 providing for guidelines on the disclosure of transactions with retirement benefit funds. Under said circular, a reporting entity shall disclose information about any transaction with a related party (retirement fund, in this case) and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements.

Under PFRS, certain post-employment benefit plans are considered as related parties. The Bank has business relationships with its retirement plan pursuant to which it provides trust and management services to the said plan. The retirement plan of the employees of the Bank is being managed and maintained by the Trust and Investment Division of the Bank. The total carrying amount and fair value of the retirement fund as of December 31, 2015 and 2014 amounted to ₱1.2 billion and ₱1.0 billion, respectively. The details of the assets of the fund as of December 31, 2015 and 2014 are disclosed in Note 24.

The following table shows the amount of outstanding balances of related party transactions of the Bank and SMFC with the retirement plan of the employees of the Bank as of December 31, 2015 and 2014:

		2015	
		Elements of Transaction	
Related Party	**Nature of Transaction**	**Statement of Condition**	**Statement of Income**
Philippine Savings Bank	Equity investment*	**₱473,423,040**	
	Investment in Money Market Fund**	**43,444,701**	
	Deposit liabilities***	**361,235**	
	Accrued interest income	**30**	
	Dividends earned		**₱17,328,994**
	Gain on sale of equity securities		**1,801,791**
	Interest income		**38,363**
	Income from Unit Investment Trust Fund (UITF)		**739,108**
Sumisho Motor Finance Corporation	Equity investment	**200,000,000**	

*Includes fair value gains of ₱263.0 million
**Includes fair value gains of ₱0.6 million
***Represent 17 days time deposits and bear interest of 1.00%

		2014	
		Elements of Transaction	
Related Party	Nature of Transaction	Statement of Condition	Statement of Income
Philippine Savings Bank	Equity investment*	₱491,205,802	
	Investment in Money Market Fund**	74,455,986	
	Deposit liabilities***	8,663,348	
	Accrued interest income	6,738	
	Dividends earned		₱10,507,643
	Gain on sale of equity securities		6,541,334
	Interest income		38,235
	Income from Unit Investment Trust Fund (UITF)		155,041
Sumisho Motor Finance Corporation	Equity investment	200,000,000	

*Includes fair value gains of ₱279.2 million
**Includes fair value gains of ₱0.6 million
***Represent 30 days time deposits and bear interest of 2.00%

Transactions relating to the Bank's retirement plan are approved by its Retirement Committee. The voting right over the investments in the Bank's capital stocks is exercised by a member of the Retirement Committee as approved by all members of the Retirement Committee, whom are senior officers of the Bank.

In 2014, the Trust Division, in behalf of the Retirement Fund, provided allowance for impairment losses amounting to ₱19.7 million to its equity investment. Such allowance is still outstanding as of December 31, 2015.

Remunerations of Directors and Other Key Management Personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly. The Bank considers the members of the Management Committee to constitute key management personnel for purposes of PAS 24, *Related Party Disclosures.*

Total remunerations of key management personnel (covering assistant vice presidents and up) included under 'Compensation and fringe benefits' in the statements of income are as follows:

	2015	2014
Short-term employee benefits	**₱198,857,936**	₱203,553,036
Post-employment pension benefits	**19,320,109**	5,100,084
	₱218,178,045	₱208,653,120

Short-term employee benefits include salaries and other non-monetary benefits.

Remunerations given to directors, as approved by the Board Remuneration Committee, amounted to ₱16.9 million, ₱16.3 million, and ₱13.0 million in 2015, 2014 and 2013, respectively.

The Bank also provides banking services to Directors and other key management personnel and persons connected to them.

Other Related Party Transactions

Other related party transactions of the Bank by category of related party are presented below. The following tables show the amount and outstanding balances included in the financial statements (in thousands):

	December 31, 2015		
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Significant Investor			
Interbank loans receivable		**₱–**	Dollar and Peso-denominated lending with 1.75% and 2.5% fixed interest rates respectively, and maturities ranging from 1 to 360 days
Deposits/placements	**₱19,929,460**		
Withdrawals/maturities	**21,315,780**		
Due from other banks	**219,599**	**1,034,706**	Short term peso and foreign-currency denominated deposits secured by government securities amounting to ₱3,034,440,626 with fixed rates ranging from 0.00% to 5.00%
Accounts receivable		**6,633**	Outstanding ATM service fees, rental and utility receivables, non interest bearing; no impairment
Accrued interest receivable		**–**	Accrual of interest on outstanding Interbank Loans Receivable
Miscellaneous assets		**781**	Security deposits on lease contracts

(Forward)

			December 31, 2015
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Bills payable		**₱–**	Peso-denominated borrowing with fixed interest rate of 2.50% and three-day maturity
Deposits/placements	**₱1,000,000**		
Withdrawals/maturities	**1,000,000**		
Miscellaneous liabilities		**5,589**	Advance payments of security deposits from various tenants
Accrued other expense payable		**31,945**	Outstanding information technology expense payable, charges on current and savings accounts processing
AFS investments		**52,236**	Pledge for security of payroll account with MBTC
Interest income	**17,317**		Income on deposits and interbank loans receivables
Rental income	**23,640**		Income from leasing agreements with various lease terms ranging from 2 to 5 years
Miscellaneous income	**7,982**		Service income received from collection services
Information technology expense	**177,427**		Payment of information technology expenses
Trading and security loss	**(7,391)**		Loss from securities transactions
Interest expense	**139**		Interest expense on bills payable
Securities transactions			
Outright purchases	**12,942,638**		Outright purchase of FVPL, AFS and HTM investments
Outright sales	**8,384,374**		Outright sale of FVPL and AFS investments
Joint Venture			
Investment in a joint venture		**690,334**	Capital investment in SMFC
Accounts receivable		**552**	Outstanding rental and utility receivables, non-interest bearing
Deposit liabilities	**(74,459)**	**5,069**	Demand and short term peso time-deposits with annual fixed rates of 1.25%
Miscellaneous liabilities		**2,610**	Advance payment of security deposits
Rental income	**11,412**		Income from leasing agreements
Share in net income of a joint venture	**20,214**		40.00% share in net income of SMFC
Share in unrealized earnings of a joint venture	**1,513**		40.00% share in unrealized earnings from SMFC's retirement plan remeasurement
Interest expense	**537**		Interest on deposit liabilities
Other Related Parties			
Interbank loans receivable		–	Peso denominated lending which earn 2.50% fixed daily interest rate with maturity terms from 1 to 5 days.
Deposits/placements	**114,047,000**		
Withdrawals/maturities	**114,047,000**		
Receivable from customers		**381,525**	Loans granted bearing an interest ranging from 7.00% to 19.14% with maturities ranging from 1 to 3 years; Secured - ₱372,183,238 Unsecured - ₱9,341,717 Impaired - ₱362,902,664
Deposits/placements	**4,673**		
Withdrawals/maturities	**26,212**		
Miscellaneous assets		**1,061**	Three months advance security deposits
Accounts receivable		**1,833**	Outstanding ATM service fees, rental and utility receivables, non interest bearing
Prepaid insurance		–	Payment of various motor car vehicles, fire, money, security, payroll and robbery insurance
Prepaid expense		**6,848**	Payment for various policy renewals
Deposit liabilities	**1,659,942**	**4,191,445**	Demand, savings and short term peso and foreign currency time deposits with fixed rates ranging from 0.00% to 2.00%
Accrued other expense payable		**3,308**	Outstanding group life insurance payable
Accounts payable		**159**	Various personal and car insurance payable
Miscellaneous liabilities		**2,136**	Advance payment of security deposits from various tenants
Interest income	**56,394**		Income on receivables from customers and interbank loans receivables
Trading and securities gain	**771**		Gain from securities transactions
Rental income	**13,746**		Income from leasing agreements with various lease terms
Bank commission	**4,915**		Commission income on ATM service fees
Miscellaneous income	**5,735**		Service income from referral fees on approved credit card issuances and bank insurance with rates ranging from 2.00% to 10.00%
Insurance expense	**50,595**		Payment of insurance premium
Interest expense	**93,141**		Interest on deposit liabilities
Rent expense	**3,127**		Payment of rent expense to various lessors
Securities transactions			
Outright purchases	**1,987,501**		Outright purchase of FVPL and AFS investments
Outright sales	**1,942,500**		Outright sale of FVPL and AFS investments

(Forward)

Category	Amount/ Volume	Outstanding Balance	December 31, 2015 Nature, Terms and Conditions
Key Personnel			
Receivables from customers		**₱11,839**	Unsecured, no impairment, with annual fixed interest rates of 6.00% and maturities ranging from 2 to 10 years
Deposits/placements	**₱1,899**		
Withdrawals/maturities	**1,750**		
Interest income	**669**		Interest income from loans

Category	Amount/ Volume	Outstanding Balance	December 31, 2014 Nature, Terms and Conditions
Significant Investor			
Interbank loans receivable		₱1,386,320	Peso-denominated lending secured by government securities amounting to ₱1,819,281,519, with 2.00% to 2.50% fixed interest rates and maturities ranging from 1 to 360 days
Deposits/placements	₱143,386,320		
Withdrawals/maturities	142,000,000		
Due from other banks	(206,746)	815,107	Short-term peso and foreign currency-denominated deposits secured by government securities amounting to ₱3,110,919,101 with fixed rates ranging from 0.00% to 2.50%
Accounts receivable	679	7,704	Outstanding ATM service fees, rental and utility receivables, non-interest bearing; no impairment
Accrued interest receivable		14,390	Accrual of interest on outstanding Interbank Loans Receivable
Miscellaneous assets		919	Security deposits on lease contracts
Bills payable		–	Peso-denominated borrowing with fixed interest rates ranging from 2.00% to 2.50% and maturities ranging from 1 day to 5 days
Deposits/placements	5,800,000		
Withdrawals/maturities	5,800,000		
Accounts payable		1,733	Unpaid association dues and lease contract payable
Miscellaneous liabilities		6,100	Advance payments of security deposits from various tenants
Accrued other expense payable		116,302	Outstanding information technology expense payable, charges on current and savings accounts processing
AFS investments		50,000	Pledge for security of payroll account with MBTC
Interest income	28,307		Income from deposits and interbank loans receivables
Rental income	24,919		Income from leasing agreements with various lease terms ranging from 2 to 5 years
Information technology expense	108,956		Payment of information technology expenses
Trading and security loss	(44,209)		Loss from securities transactions
Interest expense	407		Interest expense on bills payable
Securities transactions			
Outright purchases	1,869,342		Outright purchase of FVPL and AFS investments
Outright sales	3,700,000		Outright sale of FVPL and AFS investments
Associate			
Deposit liabilities	560	2,735	Demand deposits with annual fixed rate of 1.25%
Share in net income of an associate	72,129		25.00% share in net income of TFSPC
Interest expense	32		Interest on deposit liabilities
Joint Venture			
Investment in a joint venture		668,607	Capital investment in SMFC
Accounts receivable		46	Outstanding rental and utility receivables, non-interest bearing
Deposit liabilities	(174,934)	79,528	Demand and short term peso time-deposits with annual fixed rates ranging from 1.00% to 3.65%
Miscellaneous liabilities		2,610	Advance payment of security deposits
Rental income	9,790		Income from leasing agreements
Share in net income of a joint venture	4,827		40.00% share in net income of SMFC
Share in unrealized earnings of a joint venture	966		40.00% share in unrealized earnings from SMFC's retirement plan remeasurement
Interest expense	2,585		Interest on deposit liabilities
Other Related Parties			
Interbank loans receivable		–	Peso-denominated lending with 2.00% to 2.50% fixed interest rate and with maturities ranging from 1 to 4 days
Deposits/placements	46,694,000		
Withdrawals/maturities	46,694,000		
Receivable from customers		403,064	Loans granted bearing an interest ranging from 7.00% to 10.00% with maturities ranging from 1 to 8 years; Secured - ₱403,063,861; impaired -₱395,877,638
Deposits/placements	4,200		
Withdrawals/maturities	54,479		

(Forward)

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
		December 31, 2014	
Miscellaneous assets		₱993	Three months advance security deposits
Accounts receivable	₱3,742	3,300	Outstanding rental and utility receivables, non-interest bearing
Prepaid insurance		6,904	Payment of various motor car vehicles, fire, money, security, payroll and robbery insurance
Prepaid expense		13	Payment for various policy renewals
Deposit liabilities	5,847,793	5,851,387	Demand, savings and short-term peso and foreign currency time deposits with fixed rates ranging from 0.00% to 2.40%
Bills payable		–	Peso denominated borrowing with 2.00%-2.50% fixed interest rates and maturities ranging from 1 to 5 days
Deposits/placements	55,920,000		
Withdrawals/maturities	55,920,000		
Accrued other expense payable		5,165	Outstanding group life insurance payable
Accounts payable		130	Various personal and car insurance payable
Miscellaneous liabilities		2,107	Advance payment of security deposits from various tenants
Interest income	4,620		Income on receivables from customers and interbank loans receivables
Trading and securities loss	(6,627)		Loss from securities transactions
Rental income	8,946		Income from leasing agreements with various lease terms
Gain on sale of investment in an associate	558,163		Profit on sale of investment in associate
Bank commission	35,798		Commission income on ATM service fees
Insurance expense	37,172		Payment of insurance premium
Interest expense	95,846		Interest on deposit liabilities and bills payable
Rent expense	3,366		Payment of rent expense to various lessors
Securities transactions			
Outright purchases	1,031,278		Outright purchase of FVPL and AFS investments
Outright sales	1,894,720		Outright sale of FVPL and AFS investments
Key Personnel			
Receivables from customers		11,690	Unsecured, no impairment, with annual fixed interest rates of 6.00% and maturities ranging from 2 to 10 years
Deposits/placements	2,370		
Withdrawals/maturities	5,032		
Interest income	913		Interest income from loans

Regulatory Reporting

As required by the BSP, the Bank discloses loan transactions with investees 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. Existing banking regulations limit the amount of individual loans to DOSRI, 70.00% of which must be secured, to the total of their respective deposits and book value of their respective investments in the lending company within the Bank. In the aggregate, loans to DOSRI generally should not exceed total equity or 15.00% of total loan portfolio, whichever is lower. In January 13, 2013, BSP Circular No. 785 was issued to exclude loans guaranteed by international financial institutions or multilateral agencies from being covered by DOSRI limits.

BSP Circular No. 423 dated March 15, 2004 amended the definition of DOSRI accounts. The following table shows information relating to the loans, other credit accommodations and guarantees classified as DOSRI accounts under regulations existing prior to said circular and new DOSRI loans and other credit accommodations granted under said circular as of December 31, 2015 and 2014:

	2015	2014
Total outstanding DOSRI accounts	**₱1,667,247,339**	₱2,802,720,372
Percent of DOSRI accounts granted under regulations existing prior to BSP Circular No. 423 to total loans	**1.43%**	2.82%
Percent of new DOSRI accounts granted under BSP Circular No. 423 to total loans	**–**	–
Percent of unsecured DOSRI accounts to total DOSRI accounts	**12.97%**	7.13%
Percent of past due DOSRI accounts to total DOSRI accounts	**22.88%**	14.12%
Percent of nonperforming DOSRI accounts to total DOSRI accounts	**22.88%**	14.12%

As of December 31, 2015 and 2014, the Bank has no loans, other credit accommodations and guarantees, as well as availments of previously approved loans and committed credit lines not considered DOSRI accounts prior to the issuance of said circular but are allowed a transition period of two years from the effectivity of the said circular until said circular or said loan, other credit accommodations and guarantees become past due, or are extended, renewed or restructured, whichever comes later.

Total interest income from DOSRI loans amounted to ₱44.7 million, ₱49.5 million, ₱53.2 million in 2015, 2014 and 2013, respectively.

30. **Trust Operations**

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

In connection with the trust functions of the Bank, government securities (classified under AFS investments) with face value of ₱40.0 million as of December 31, 2015 and 2014 are deposited with the BSP in compliance with trust regulations.

For 2015 and 2014, the Bank did not appropriate any surplus reserve resulting from the operations of the Bank's Trust Department since it is still in a net loss position. No part of such surplus reserve shall at any time be paid out in dividends, but losses accruing in the course of its trust business may be charged against surplus.

31. **Commitments and Contingent Liabilities**

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

The following is a summary of the Bank's commitments and contingent liabilities at their equivalent peso contractual amounts:

	2015	2014
Trust department accounts (Note 30)	**₱2,349,289,988**	₱1,751,995,244
Spot Foreign Exchange Contracts – Sold	**70,590,000**	–
Stand-by credit lines	**78,408,259**	78,623,503
Late deposits/payments received	**57,141,192**	70,408,879
Items held for safekeeping	**311,877**	309,487
Others	**143,111**	29,407

Also, several suits and claims, in behalf or against the Bank in relation to its lending operations and labor-related cases are pending before the courts and quasi-judicial bodies. The Bank and its legal counsel believe that any losses arising from suits and claims which are not specifically provided for will not have a material adverse effect on the financial statements.

32. Notes to Statements of Cash flows

The following is a summary of principal non-cash activities that relate to the analysis of the statements of cash flows:

	2015	2014	2013
Additions to investment properties in settlement of loans (Note 12)	**₱923,843,570**	₱878,210,590	₱752,249,442
Additions to chattel mortgage in settlement of loans (Note 14)	**1,598,334,363**	1,286,282,783	1,025,399,887
Transfers from investment property to property and equipment	–	–	68,749,769
Change in net unrealized gain/loss on AFS investments (Note 8)	**(26,420,688)**	4,310,948	(183,863,692)
Dividends declared and unpaid (Note 21)	–	176,889,908	2,330,667
Cumulative translation adjustment	**1,401,659**	(407,034)	12,735,179

As of December 31, 2014, interbank loans receivables not considered as cash and cash equivalents amounted to ₱1.4 billion (Note 29).

33. Offsetting of Financial Assets and Liabilities

PFRS 7 requires the Bank to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreements or similar arrangements. The effects of these arrangements are disclosed in the succeeding tables.

Financial assets

December 31, 2015						
				Effect of remaining rights of set-off (including rights to set-off financial collateral) that do not meet PAS 32 offsetting criteria		
Financial assets recognized at the end of reporting period by type	**Gross carrying amounts (before offsetting) [a]**	**Gross amounts offset in accordance with the offsetting criteria [b]**	**Net amount presented in statement of condition [a-b] [c]**	**Financial instruments**	**Fair value of financial collateral**	**Net exposure [c-d] [e]**
				[d]		
Securities Purchased Under Resale Agreements (SPURA) (Note 7)	**₱2,500,000,000**	**₱–**	**₱2,500,000,000**	**₱–**	**₱3,003,833,005**	**₱–**

December 31, 2014						
				Effect of remaining rights of set-off (including rights to set-off financial collateral) that do not meet PAS 32 offsetting criteria		
Financial assets recognized at the end of reporting period by type	Gross carrying amounts (before offsetting) [a]	Gross amounts offset in accordance with the offsetting criteria [b]	Net amount presented in statement of condition [a-b] [c]	Financial instruments	Fair value of financial collateral	Net exposure [c-d] [e]
				[d]		
Interbank loans receivable (Note 7)	₱1,386,320,000	₱–	₱1,386,320,000	₱–	₱1,819,281,519	₱–
Securities Purchased Under Resale Agreements (SPURA) (Note 7)	800,000,000	–	800,000,000	–	1,103,900,000	–

Financial liabilities

December 31, 2015						
				Effect of remaining rights of set-off (including rights to set-off financial collateral) that do not meet PAS 32 offsetting criteria		
Financial liabilities recognized at end of reporting period by type	**Gross carrying amounts (before offsetting) [a]**	**Gross amounts offset in accordance with the offsetting criteria [b]**	**Net amount presented in statement of condition [a-b] [c]**	**Financial instruments**	**Fair value of financial collateral**	**Net exposure [c-d] [e]**
				[d]		
Securities Sold Under Repurchase Agreement* (Note 17)	**₱2,000,665,747**	**₱–**	**₱2,000,665,747**	**₱–**	**₱2,360,558,306**	**₱–**

** Included in 'Bills Payable' in the Statement of Condition*

34. Subsequent Events

On January 19, 2016, the BOD of the Bank declared a 7.50% regular cash dividend for the fourth quarter of 2015 amounting to ₱180.2 million or ₱0.75 per share.

35. Approval for the Release of the Financial Statements

The accompanying comparative financial statements were reviewed and approved for release by the Bank's Audit Committee and BOD on February 19, 2016.

36. Report on the Supplementary Information Required Under Revenue Regulations (RR) No. 15-2010

On November 25, 2010, the BIR issued RR No. 15-2010 to amend certain provisions of RR No. 21-2002. The regulations provide that starting 2010, the notes to financial statements shall include information on taxes, duties and license fees paid or accrued during the taxable year.

The Bank reported and/or paid the following types of taxes for the year:

Taxes and Licenses
For the taxable year ended December 31, 2015, taxes and licenses of the Bank consist of:

Gross receipts tax	₱513,269,332
Documentary stamps tax	371,346,790
Local taxes	67,805,276
Fringe benefit tax	7,121,414
Others	1,550,320
	₱961,093,132

Withholding Taxes
Details of total remittances of withholding taxes as of December 31, 2015 are as follows:

Withholding taxes on compensation and benefits	₱430,832,294
Final withholding taxes	311,164,988
Expanded withholding taxes	95,083,829
	₱837,081,111

PHILIPPINE SAVINGS BANK

Unaudited Interim Condensed Financial Statements

As at September 30, 2016
(With Comparative Audited Figures as of December 31, 2015)
And for the nine-month periods ended September 30, 2016 and 2015

PHILIPPINE SAVINGS BANK
UNAUDITED INTERIM STATEMENTS OF CONDITION
(With Comparative Audited Figures as at December 31, 2015)

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
ASSETS		
Cash and Other Cash Items	**₱2,642,717,179**	₱3,934,496,578
Due from Bangko Sentral ng Pilipinas	**11,037,088,907**	11,143,781,766
Due from Other Banks	**1,150,654,449**	1,861,110,141
Interbank Loans Receivable and Securities Purchased Under Resale Agreements	–	2,513,904,112
Financial Assets at Fair Value Through Profit or Loss	**224,249,365**	2,821,437,211
Available-for-Sale Investments	**15,497,170,235**	8,928,662,491
Held-to-Maturity Investments	**20,418,011,935**	14,946,668,457
Loans and Receivables	**122,963,273,933**	113,867,515,442
Investment in a Joint Venture	**709,523,713**	690,333,838
Property and Equipment	**2,684,210,136**	2,746,074,371
Investment Properties	**3,760,511,618**	3,344,154,413
Deferred Tax Assets	**1,259,590,643**	1,194,416,550
Goodwill and Intangible Assets	**441,523,243**	444,460,121
Other Assets	**1,038,124,823**	894,231,737
	₱183,826,650,179	₱169,331,247,228
LIABILITIES AND EQUITY		
Liabilities		
Deposit Liabilities		
Demand	**₱14,416,599,675**	₱12,906,567,074
Savings	**26,148,736,641**	22,835,987,240
Time	**103,429,419,482**	98,553,753,813
	143,994,755,798	134,296,308,127
Bills Payable	**6,852,559,701**	4,494,845,747
Subordinated Note	**5,956,112,800**	5,952,051,581
Treasurer's, Cashier's and Manager's Checks	**1,567,942,315**	1,348,621,410
Accrued Taxes, Interest and Other Expenses	**1,130,101,410**	1,050,769,312
Income Tax Payable	**89,342,775**	8,055,422
Financial Liabilities at Fair Value Through Profit or Loss	**174,189,662**	–
Other Liabilities	**3,391,323,125**	3,005,540,869
	163,156,327,586	150,156,192,468
Equity		
Common Stock	**2,402,524,910**	2,402,524,910
Capital Paid in Excess of Par Value	**2,818,083,506**	2,818,083,506
Surplus Reserves	**1,035,275,317**	1,035,275,317
Surplus	**14,760,137,187**	13,433,426,596
Net Unrealized Gain on Available-for-Sale Investments	**142,449,680**	179,775
Remeasurement Losses on Retirement Plan	**(471,371,011)**	(471,371,011)
Equity in Remeasurement Gains on Retirement Plan of a Joint Venture	**67,642**	67,642
Cumulative Translation Adjustment	**(16,844,638)**	(43,131,975)
	20,670,322,593	19,175,054,760
	₱183,826,650,179	₱169,331,247,228

See accompanying Notes to Unaudited Interim Financial Statements.

PHILIPPINE SAVINGS BANK
UNAUDITED INTERIM STATEMENTS OF INCOME

	Nine Months ended September 30	
	2016 (Unaudited)	2015 (Unaudited)
INTEREST INCOME		
Loans and receivables	**₱8,106,184,813**	₱7,346,859,960
Investment securities	**987,711,308**	444,596,288
Interbank loans receivable and securities purchased under resale agreements	**51,542,294**	182,356,715
Due from Bangko Sentral ng Pilipinas	**9,418,707**	135,113,903
Due from other banks	**1,538,123**	7,429,500
	9,156,395,245	8,116,356,366
INTEREST EXPENSE		
Deposit liabilities	**1,784,167,153**	1,628,015,612
Subordinated notes	**257,624,911**	256,959,875
Bills payable	**40,552,441**	2,192,743
	2,082,344,505	1,887,168,230
NET INTEREST INCOME	**7,074,050,740**	6,229,188,136
Service fees and commission income	**904,857,816**	982,018,569
Service fees and commission expense	**70,110,793**	68,480,605
NET SERVICE FEES AND COMMISSION INCOME	**834,747,023**	913,537,964
OTHER OPERATING INCOME (CHARGES)		
Gain on foreclosure and sale of chattel mortgage properties - net	**245,309,524**	276,259,752
Gain on foreclosure and sale of investment properties - net	**287,140,814**	220,239,298
Trading and securities gains (losses) - net	**673,738,988**	(37,112,637)
Foreign exchange gains	**18,038,573**	13,846,645
Gain on sale of property and equipment	**2,292,818**	11,009,850
Miscellaneous	**301,806,263**	399,149,587
	1,528,326,980	883,392,495
TOTAL OPERATING INCOME	**9,437,124,743**	8,026,118,595
OTHER EXPENSES		
Compensation and fringe benefits	**2,234,079,021**	1,962,510,987
Provision for credit and impairment losses	**1,705,492,430**	1,131,423,975
Taxes and licenses	**782,697,365**	740,089,632
Occupancy and equipment-related costs	**529,111,504**	503,218,274
Depreciation	**416,971,373**	365,163,801
Security, messengerial and janitorial services	**261,239,935**	248,121,673
Amortization of intangible assets	**87,822,487**	71,569,419
Miscellaneous	**1,382,971,714**	1,264,532,458
	7,400,385,829	6,286,630,219
INCOME BEFORE SHARE IN NET INCOME OF JOINT VENTURE AND INCOME TAX	**2,036,738,914**	1,739,488,376
SHARE IN NET INCOME OF A JOINT VENTURE	**19,189,876**	13,251,324
INCOME BEFORE INCOME TAX	**2,055,928,790**	1,752,739,700
PROVISION FOR INCOME TAX		
Current	**253,824,189**	302,331,974
Deferred	**(65,174,094)**	(282,589,397)
	188,650,095	19,742,577
NET INCOME	**₱1,867,278,695**	₱1,732,997,123
Basic/Diluted Earnings Per Share	**₱7.77**	₱7.21

See accompanying Notes Unaudited Interim Financial Statements.

PHILIPPINE SAVINGS BANK
UNAUDITED INTERIM STATEMENTS OF COMPREHENSIVE INCOME

	Nine Months ended September 30	
	2016	2015
	(Unaudited)	(Unaudited)
NET INCOME	**₱1,867,278,695**	₱1,732,997,123
OTHER COMPREHENSIVE INCOME (LOSSES)		
Items that recycle to profit or loss in subsequent periods:		
Net unrealized gain from AFS investments	**142,269,905**	55,337,691
Cumulative translation adjustment	**26,287,337**	(1,786,933)
	168,557,242	53,550,758
TOTAL COMPREHENSIVE INCOME	**₱2,035,835,937**	₱1,786,547,881

See accompanying Notes to Unaudited Interim Financial Statements.

PHILIPPINE SAVINGS BANK
UNAUDITED INTERIM STATEMENT OF CHANGES IN EQUITY

	Common Stock	Capital Paid in Excess of Par Value	Surplus Reserves	Surplus	Net Unrealized Gain on Available-for-Sale Investments	Remeasurement Losses on Retirement Plan	Equity in Remeasurement Gains (Losses) on Retirement Plan of a Joint Venture	Cumulative Translation Adjustment	Total
Balance at January 1, 2016 (Audited)	**₱2,402,524,910**	**₱2,818,083,506**	**₱1,035,275,317**	**₱13,433,426,596**	**₱179,775**	**(₱471,371,011)**	**₱67,642**	**(₱43,131,975)**	**₱19,175,054,760**
Total comprehensive income for the period	**–**	**–**	**–**	**1,867,278,695**	**142,269,905**	**–**	**–**	**26,287,337**	**2,035,835,937**
Cash dividends	**–**	**–**	**–**	**(540,568,105)**	**–**	**–**	**–**	**–**	**(540,568,105)**
Balance at September 30, 2016 (Unaudited)	**₱2,402,524,910**	**₱2,818,083,506**	**₱1,035,275,317**	**₱14,760,137,186**	**₱142,449,680**	**(₱471,371,011)**	**₱67,642**	**(₱16,844,638)**	**₱20,670,322,592**
Balance at January 1, 2015 (Audited)	₱2,402,524,910	₱2,818,083,506	₱1,035,275,317	₱11,803,283,969	₱26,600,463	(₱312,363,737)	(₱1,445,728)	(₱41,656,482)	₱17,730,302,218
Total comprehensive income (loss) for the period	–	–	–	1,732,997,123	55,337,691	–	–	(1,786,933)	1,786,547,881
Cash dividends	–	–	–	(360,378,737)	–	–	–	–	(360,378,737))
Balance at September 30, 2015 (Unaudited)	₱2,402,524,910	₱2,818,083,506	₱1,035,275,317	₱13,175,902,355	₱81,938,154	(₱312,363,737)	(₱1,445,728)	(₱43,443,415)	₱19,156,471,362

See accompanying Notes to Unaudited Interim Financial Statements.

PHILIPPINE SAVINGS BANK
UNAUDITED INTERIM STATEMENTS OF CASH FLOWS

	Unaudited September 30, 2016	Unaudited September 30, 2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱2,055,928,790**	₱1,752,739,700
Adjustments to reconcile income before income tax to net cash used in operations:		
Accretion of discount on available-for-sale and held-to-maturity investments	**(96,289,049)**	(23,378,790)
Provision for credit and impairment losses	**1,705,492,430**	1,131,423,975
Depreciation	**416,971,373**	365,163,802
Gain on foreclosure and sale of:		
Chattel mortgage properties	**(245,309,524)**	(276,259,752)
Investment properties	**(287,140,814)**	(220,239,298)
Amortization of:		
Intangible assets	**87,822,487**	71,569,419
Debt issuance costs	**4,061,220**	3,834,875
Realized gain on sale of available-for-sale investments	**(560,100,928)**	(31,143,801)
Unrealized trading loss (gain) on fair value through profit or loss investments	**(29,658,331)**	40,704,163
Share in net income of a joint venture	**(19,189,876)**	(13,251,324)
Gain on sale of property and equipment	**(2,292,818)**	(11,009,850)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Fair value through profit or loss investments	**2,626,973,325**	(2,802,800,520)
Loans and receivables	**(12,459,973,594)**	(16,209,129,534)
Other assets	**7,521,859**	113,479,121
Increase (decrease) in:		
Deposit liabilities	**9,707,173,049**	10,521,524,274
Accrued taxes, interest and other expenses	**(61,497,527)**	(68,375,061)
Treasurer's, cashier's and manager's checks	**219,320,905**	25,485,767
Financial liabilities at fair value through profit or loss	**174,189,662**	–
Other liabilities	**445,385,103**	92,019,350
Net cash generated (used in) operations	**3,689,387,742**	(5,537,643,484)
Income taxes paid	**(172,536,835)**	(223,706,836)
Net cash provided by (used in) operating activities	**3,516,850,907**	(5,761,350,320)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of:		
Held-to-maturity investments	**(5,465,098,561)**	(13,277,475,130)
Available-for-sale investments	**(38,599,691,526)**	(9,322,128,029)
Property and equipment	**(359,396,427)**	(563,520,982)
Other intangible assets	**(84,885,609)**	(129,481,752)
Proceeds from sale of:		
Available-for-sale investments	**32,836,146,447**	8,836,777,007
Chattel mortgage properties	**1,174,134,438**	1,061,144,150
Investment properties	**388,996,278**	391,363,993
Property and equipment	**148,280,844**	24,527,335
Decrease in interbank loans receivable	**–**	1,386,320,000
Net cash used in investing activities	**(9,961,514,116)**	(11,592,473,408)

(Forward)

PHILIPPINE SAVINGS BANK
UNAUDITED INTERIM STATEMENTS OF CASH FLOWS

	Unaudited September 30, 2016	Unaudited September 30, 2015
CASH FLOWS FROM FINANCING ACTIVITIES		
Availments of bills payable	**₱2,361,743,417**	₱1,869,599,999
Dividends paid	**(540,568,105)**	(537,268,644)
Net cash provided by financing activities	**1,821,175,312**	1,332,331,355
Effect of exchange rate differences	**655,831**	(2,291)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(4,622,832,064)**	(16,021,494,665)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		
Cash and other cash items	**3,934,496,578**	4,174,756,446
Due from Bangko Sentral ng Pilipinas	**11,143,781,766**	23,997,102,406
Due from other banks	**1,861,110,141**	3,382,662,578
Interbank loans receivable and securities purchased under resale agreements	**2,513,904,112**	800,000,000
	19,453,292,597	32,354,521,430
CASH AND CASH EQUIVALENTS AT END OF PERIOD		
Cash and other cash items	**2,642,717,179**	2,513,017,663
Due from Bangko Sentral ng Pilipinas	**11,037,088,907**	12,533,361,805
Due from other banks	**1,150,654,449**	1,286,647,296
	₱14,830,460,535	₱16,333,026,764

OPERATIONAL CASH FLOWS FROM INTEREST		
Interest paid	**₱1,930,898,889**	₱1,924,144,268
Interest received	**9,390,213,073**	7,908,104,255

See accompanying Notes to Unaudited Interim Financial Statements.

PHILIPPINE SAVINGS BANK
NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Philippine Savings Bank (the Bank) was incorporated in the Philippines primarily to engage in savings and mortgage banking. The Bank's shares are listed in the Philippine Stock Exchange (PSE). The Bank offers a wide range of products and services such as deposit products, loans, treasury and trust functions that mainly serve the retail and consumer markets. On September 6, 1991, the Bank was authorized to perform trust functions.

As of September 30, 2016 and December 31, 2015, the Bank had 255 and 248 branches, respectively.

The Bank's original Certificate of Incorporation was issued by the Securities and Exchange Commission (SEC) on June 30, 1959. On March 28, 2006, the board of directors (BOD) of the Bank approved the amendment of Article IV of its Amended Articles of Incorporation to extend the corporate term of the Bank, which expired on June 30, 2009, for another 50 years or up to June 30, 2059. This was subsequently approved by stockholders representing at least two-thirds of the outstanding capital stock of the Bank on April 25, 2006.The Amended Articles of Incorporation was approved by the SEC on September 27, 2006.

On April 27, 2010, by majority vote of the BOD and by stockholders representing two-thirds of the outstanding capital stock approved the amendment of Article VI of its Amended Articles of Incorporation reducing the number of directors from a maximum of eleven (11) to a maximum of nine (9). This was approved by the SEC on August 26, 2010.

On March 24, 2014, the BOD approved Article III of Articles of Incorporation to specify its principal address from Makati City to PSBank Center, 777 Paseo de Roxas corner Sedeño Street, Makati City 1226. The Amended Articles of Incorporation was approved by the SEC on December 22, 2014.

As of September 30, 2016, the Bank is eighty-three percent (83%) owned by Metropolitan Bank & Trust Company (MBTC), its ultimate parent company.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying interim condensed consolidated financial statements have been prepared in accordance with Philippine Accounting Standards (PAS) 34, *Interim Financial Reporting*. Accordingly, the interim condensed financial statements do not include all of the information and disclosures required in the annual audited financial statements and should be read in conjunction with the Bank's annual audited financial statements as at December 31, 2015.

The interim condensed financial statements have been prepared solely for inclusion in the offering circular prepared by the Bank for its issuance of long-term negotiable certificate of time deposits (LTNCD), and for no other purpose.

Seasonality or Cyclicality of Interim Operations

Seasonality or cyclicality of interim operations is not applicable to the Bank's type of business.

Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of the unaudited interim financial statements are consistent with those followed in the preparation of the audited annual financial statements as of and for the year ended December 31, 2015, except for the adoption of the following applicable PAS and Philippine Financial Reporting Standards (PFRS) by the Bank effective beginning January 1, 2016:

<u>*Amendments*</u>
- PAS 1, *Presentation of Financial Statements* Disclosure Initiative (Amendments)
- PAS 16, Property, Plant and Equipment, and PAS 38, Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization (Amendments)
- PAS 16, Property, Plant and Equipment, and PAS 41, Agriculture – Bearer Plants (Amendments)
- PAS 27, Separate Financial Statements – Equity Method in Separate Financial Statements (Amendments)
- PFRS 10, Consolidated Financial Statements and PAS 28, Investments in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception (Amendments)
- PFRS 11, Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations (Amendments)

<u>*Annual Improvements to PFRSs (2012-2014 cycle)*</u>
- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations – Changes in Methods of Disposal*
- PFRS 7, *Financial Instruments: Disclosures – Servicing Contracts*
- PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
- PAS 19, *Employee Benefits - Regional Market Issue regarding Discount Rate*
- *PAS 34*, *Interim Financial Reporting – disclosure of information 'elsewhere in the interim financial report*

The adoption of the above amendments and improvements to the standards did not have any material impact on the accounting policies, financial position or performance of the Bank.

Significant Accounting Policies

<u>Financial Instruments - Initial Recognition and Subsequent Measurement</u>
Date of recognition
Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date. Deposits, amounts due to banks and loans are recognized when cash is received by the Bank or advanced to the borrowers.

Initial recognition of financial instruments
All financial instruments, including trading and investment securities and loans and receivables, are initially measured at fair value. Except for FVPL investments and liabilities, the initial measurement of financial instruments includes transaction costs. The Bank classifies its financial assets in the following categories: FVPL investments, AFS investments, held-to-maturity (HTM) investments, and loans and receivables. Financial liabilities are classified into liabilities at FVPL and other financial liabilities at amortized cost. The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. Management determines

the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Derivatives recorded at FVPL
Derivative financial instruments are initially recorded at fair value on the date at which the derivative contract is entered into and are subsequently remeasured at fair value. Any gains or losses arising from changes in fair values of derivatives (except those accounted for as cash flow hedges) are taken directly to the statement of income and are included in 'Trading and securities gain - net'. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Financial assets or financial liabilities held-for-trading (HFT)
Other financial assets or financial liabilities held for trading (classified as FVPL investments) are recorded in the statement of condition at fair value. Changes in fair value relating to the HFT positions are recognized in 'Trading and securities gains (losses) - net'. Interest earned or incurred is recorded as interest income or expense, respectively, while dividend income is recorded in other operating income under 'Miscellaneous' when the right to receive payment has been established.

Included in this classification are debt securities which have been acquired principally for the purpose of selling in the near term.

Designated financial assets or financial liabilities at FVPL
Designated financial assets or financial liabilities classified in this category are those that have been designated by management upon initial recognition. Management may only designate an instrument at FVPL upon recognition when the following criteria are met, and designation is determined on an instrument-by-instrument basis:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis;
- the assets and liabilities are part of a group of financial assets, financial 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; and
- the financial instrument contains one or more embedded derivatives which significantly modify the cash flow that would otherwise be required by the contract.

Designated financial assets and financial liabilities at FVPL are recorded in the statement of condition at fair value. Changes in fair value are recorded in 'Trading and securities gains - net'. Interest earned or incurred is recorded in interest income or interest expense using the effective interest rate (EIR), while any dividend income is recorded in other operating income under 'Miscellaneous' according to the terms of the contract, or when the right of the payment has been established.

As of September 30, 2016 and December 31, 2015, the Bank had no designated financial assets or financial liabilities at FVPL.

Embedded derivatives
An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics of the host contract;

- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid or combined instrument is not recognized at fair value through profit or loss.

The Bank assesses whether embedded derivatives are required to be separated from host contracts when the Bank first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. The Bank determines whether a modification to the cash flows is significant by considering the extent to which the expected future cash flows associated with the embedded derivative and the host contract has changed, and whether the change is significant relative to the previously expected cash flow on the contract.

As of September 30, 2016 and December 31 2015, the Bank had no any embedded derivatives required to be separated from the host contract.

AFS investments
AFS investments include equity and debt securities. Equity investments classified as AFS are those which are neither classified as HFT nor designated at FVPL. Debt securities in this category are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or in response to changes in market conditions. The Bank has not designated any loans and receivables as AFS.

After initial measurement, AFS investments are subsequently measured at fair value. The effective yield component of AFS debt securities as well as the impact of restatement on foreign currency-denominated AFS debt securities is reported in other operating income. The unrealized gains and losses arising from the fair valuation of AFS investments are excluded, net of tax, from reported income and are reported as 'Net unrealized gain (loss) from AFS investments' in OCI.

When the security is disposed of, the cumulative gain or loss previously recognized in OCI is recognized as 'Trading and securities gains - net' in the statement of income. Where the Bank holds more than one investment in the same security, these are deemed to be disposed on a weighted average basis. Interest earned on holding AFS debt investments are reported as interest income using the EIR. Dividends earned on holding AFS equity investments are recognized in the statement of income as other operating income under 'Miscellaneous' when the right of the payment has been established. The losses arising from impairment of such investments are recognized as 'Provision for credit and impairment losses' in the statement of income and removed from 'Net unrealized gain (loss) from AFS investments' in OCI.

HTM investments
HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Bank's management has the positive intention and ability to hold until maturity. After initial measurement, HTM investments are subsequently measured at amortized cost using the effective interest amortization method, less 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 EIR. The amortization is included in 'Interest income on investment securities' in the statement of income. The losses arising from impairment of such investments are recognized in the statement of income under 'Provision for credit and impairment losses'. The effects of restatement on foreign currency-denominated HTM investments are recognized in the statement of income.

If the Bank were to sell or reclassify more than an insignificant amount of HTM investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would be reclassified as AFS investments. Furthermore, the Bank would be prohibited from classifying any financial asset as HTM investments during the following two years.

Loans and receivables
This accounting policy relates to the Bank's 'Due from Bangko Sentral ng Pilipinas (BSP)', 'Due from Other Banks', 'Interbank Loans Receivable and Securities Purchased Under Resale Agreements (SPURA)', 'Loans and Receivables', 'Security Deposits', 'Returned Checks and Other Cash Items (RCOCI)', and 'Shortages'. These are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market, other than:

- those that the Bank intends to sell immediately or in the near term and those that the Bank, upon initial recognition, designates as at FVPL;
- those that the Bank, upon initial recognition, designates as AFS; and
- those for which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial measurement, 'Due from BSP', 'Due from Other Banks', 'Interbank Loans Receivable and SPURA', 'Loans and Receivables', 'Security Deposits', 'RCOCI', and 'Shortages' are subsequently measured at amortized cost using the effective interest amortization method, less allowance for credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in 'Interest income' in the statement of income. The losses arising from impairment are recognized in 'Provision for credit and impairment losses' in the statement of income.

Other financial liabilities carried at amortized cost
This category represents issued financial instruments or their components, which are not designated at FVPL and comprises 'Deposit Liabilities', 'Bills Payable', 'Subordinated Notes', 'Treasurer's, Cashier's and Manager's Checks', 'Accrued Interest Payable', 'Accrued Other Expenses', 'Accounts Payable', 'Bills Purchased-Contra', 'Other credits', 'Due to BSP', 'Dividends Payable', 'Due to the Treasurer of the Philippines', 'Deposits for Keys-Safety Deposit Boxes (SDB)', and 'Overages', where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, financial liabilities not qualified and not designated as FVPL are subsequently measured at amortized cost using the effective interest amortization method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

A compound financial instrument which contains both a liability and an equity component is separated at the issue date. A portion of the net proceeds of the instrument is allocated to the debt component on the date of issue based on its fair value (which is generally determined based on quoted market prices for similar debt instruments). The residual amount determined after deducting the fair value of the debt component is assigned to the equity component. The value of any derivative features (such as a call option) embedded in the compound financial instrument other than the equity component is included in the debt component.

Derecognition of Financial Assets and Liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is primarily derecognized when:

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

Where the Bank has transferred its rights to receive cash flows from an asset or has entered into a 'pass-through' arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control over the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset. In this case, the Bank also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

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 repay.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of income.

Repurchase and Reverse Repurchase Agreements

Securities sold under agreements to repurchase (SSURA) at a specified future date ('repos') are not derecognized from the statement of condition as the Bank retains substantially all the risks and rewards of ownership. The corresponding cash received, including accrued interest, is recognized in the statement of condition as a loan to the Bank under 'Bills Payable', reflecting the economic substance of such transaction.

Conversely, securities purchased under agreements to resell at a specified future date ('reverse repos') are not recognized in the statement of condition. The consideration paid, including accrued interest, is recognized in the statement of condition as SPURA, and is considered a loan to the counterparty. The difference between the purchase price and resale price is treated as interest income and is accrued over the life of the agreement using the effective interest amortization method.

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.

A financial asset that is reclassified out of the FVPL category is reclassified at its fair value on the date of reclassification. Any gain or loss already recognized in the statement of comprehensive income is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

If, as a result of a change in intention or ability, it is no longer appropriate to classify an investment as held to maturity, it shall be reclassified as available for sale and remeasured at fair value on the date of reclassification, and the difference between its carrying amount and fair value shall be recognized in other comprehensive income.

Impairment of Financial Assets

The Bank assesses at each statement of condition date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred '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 they will enter bankruptcy or other financial reorganization; and where observable data indicate that there is a 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, which includes loans and receivables, due from banks and HTM investments, the Bank first assesses individually at each statement of condition date whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment. Assets individually assessed for impairment for which no impairment loss was measured are also collectively assessed for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged to the statement of income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Loans and receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral have been realized. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited to 'Recovery from charged-off assets' in the statement of income.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, 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.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of credit risk characteristics such as industry and age of receivables.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for 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 that did not affect the period in 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 period to period (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

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 on new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due.

Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subjected to an individual or collective impairment assessment, calculated using the loan's original EIR if the original loan has a fixed interest rate and the current repriced rate if the original loan is repriceable. The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the applicable interest rate, is recognized in 'Provision for credit and impairment losses' in the statement of income.

AFS investments
For AFS investments, the Bank assesses at each statement of condition date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In the case of debt instruments classified as AFS 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 recorded as impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of income.

Future interest income continues to be accrued based on the reduced carrying amount using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of 'Interest income' in the statement of income. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed through the statement of income.

In the case of equity investments classified as AFS investments, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investments below its cost. The Bank treats 'significant' generally as 20.00% and 'prolonged' generally as greater than twelve (12) months. When there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statement of income - is removed from equity and recognized in the statement of income. Impairment losses on equity investments are not reversed through the statement of income. Increases in fair value after impairment are recognized in the statement of comprehensive income.

Collateral valuation
The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as hold-out on deposits, real estate, receivables and other non-financial assets. The fair value of collateral is generally assessed, at a minimum, at inception. Non-financial collateral, such as real estate and chattel, is valued based on data provided by independent external and in-house appraisers.

Standards Issued but not yet Effective

Standards issued but not yet effective up to the date the Bank's financial statements are listed below. This listing consists of standards and interpretations issued, which the Bank reasonably expects to be applicable at a future date. The Bank intends to adopt these standards when they become effective. Except as otherwise indicated, the Bank does not expect the adoption of these new and amended PAS, PFRS and Philippine Interpretations to have significant impact on its financial statements.

<u>*New Standards*</u>
PFRS 9, Financial Instruments
In July 2014, the IASB issued the final version of IFRS 9, Financial Instruments. The new standard (renamed as PFRS 9) reflects all phases of the financial instruments project and replaces PAS 39, Financial Instruments: Recognition and Measurement, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. Early application of previous versions of PFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before February 1, 2015. The Bank did not early adopt PFRS 9.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Bank's financial assets, but will potentially have no impact on the classification and measurement of the Bank's financial liabilities. The adoption will also have an effect on the Bank's determination of the amount of its credit losses. The Bank is currently assessing the impact of adopting this standard.

In addition, the International Accounting Standards Board has issued the following new standards that have not yet been adopted locally by the SEC and FRSC. The Bank is currently assessing the impact of these new standards and plans to adopt them on their required effective dates once adopted locally.

IFRS 15, Revenue from Contracts with Customers
IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognized at an

amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. This mandatory effective date was moved to January 1, 2018. The Bank is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.

IFRS 16, Leases
On January 13, 2016, the IASB issued its new standard, IFRS 16, which replaces International Accounting Standards (IAS) 17, the current leases standard, and the related Interpretations.

Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with IAS 17. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under IAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

The new standard is effective for annual periods beginning on or after January 1, 2019. Entities may early adopt IFRS 16 but only if they have also adopted IFRS 15. When adopting IFRS 16, an entity is permitted to use either a full retrospective approach, with options to use certain transition reliefs.

The Bank is currently assessing the impact of IFRS 16 and plans to adopt the new standard on the required effective date once adopted locally.

Amendments
PFRS 10, Consolidated Financial Statements and PAS 28, Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
These amendments address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015, the IASB deferred the effectivity of the amendments to PFRS 10 and PAS 28 for a broader review by the Board.

PAS 7, Statement of Cash Flows
The amendments to disclosures require entities to provide information about changes in their financing liabilities. This will help investors to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes such as foreign exchange gains or losses. The amendments to PAS 7 will become mandatory for annual periods beginning on or after January 1, 2017.

PAS 12, Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses

The amendments to PAS 12 clarify the requirements on recognition of deferred tax assets for unrealized losses on debt instruments measured at fair value. The amendments shall be applied for annual periods beginning on or after January 1, 2017, with earlier application permitted.

Fair Value Measurement

The following describes the methodologies and assumptions used to determine the fair values of financial instruments:

Cash and other cash items, due from BSP, due from other banks, interbank loans receivable and SPURA, accounts receivable, accrued interest receivable, bills purchased, RCOCI, shortages, and petty cash fund - Carrying amounts approximate fair values due to the relatively short-term maturities of these assets.

Debt investments - Fair values are generally based on quoted market prices. If the market prices are not readily available, fair values are estimated using either values obtained from independent parties offering pricing services, or adjusted quoted market prices of comparable investments or using the discounted cash flow methodology, using rates currently available for debt on similar terms, credit risk and remaining maturities.

Quoted AFS equity investments - Fair values are based on quoted prices published in markets.

Unquoted AFS equity investments - Fair values could not be reliably determined due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value. Hence, these investments are carried at cost less allowance for impairment losses.

Currently, there is no available market to sell these unquoted AFS equity investments. The Bank will hold onto these investments until management decides to sell them when there will be offers to buy out such investments or the appearance of an available market where the investments can be sold.

Derivative instruments (included under FVPL) - Fair values are estimated based on quoted market prices, prices provided by independent parties, or prices derived using acceptable valuation models.

Receivable from customers and other receivables except accounts receivable, accrued interest receivable, bills purchased and security deposits - Fair values are estimated using the discounted cash flow methodology, using the Bank's current lending rates for similar types of loans.

Demand deposits, savings deposits, bills payable, treasurer's, cashier's and manager's checks, accrued interest payable, accounts payable, bills purchased-contra, other credits, due to the Treasurer of the Philippines, deposits for keys-SDB, payment orders payable and overages - Carrying amounts approximate fair values due to either the demand nature or the relatively short-term maturities of these liabilities.

Subordinated notes and time deposits- Fair values are estimated using the discounted cash flow methodology using the Bank's borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued.

Investment properties-Fair values of the investment properties have been determined based on valuations performed by independent external and in-house appraisers using valuation technique with significant inputs that are not based on observable market data (Level 3). The valuation of investment properties was based on the Sales Comparison Approach and considered recent sales similar or substitute properties in the same areas where the investment properties are located, taking into account the economic conditions prevailing at the time of the valuation. Other factors considered were the location and shape of the properties, environmental issues, development controls such as the height restriction, building coverage and floor area ratio restrictions among others. Other significant unobservable inputs include shape, location, time element, discount and corner influence. The fair value of investment properties is based on its highest and best use, which is its current use.

The following tables summarize the carrying amount and fair values of the financial assets and liabilities, analyzed based on the hierarchy described for determining and disclosing the fair value of financial instruments by valuation technique (in thousands):

	September 30, 2016 (Unaudited)				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets measured at fair value:					
Financial Assets					
FVPL investments					
Government securities	**₱187,879**	**₱187,879**	**₱–**	**₱–**	**₱187,879**
Derivatives	**36,370**	**–**	**36,370**	**–**	**36,370**
AFS investments					
Government debt securities	**10,003,471**	**9,473,214**	**530,257**	**–**	**10,003,471**
Private debt securities	**5,487,388**	**5,487,388**	**–**	**–**	**5,487,388**
Quoted equity securities	**4,893**	**4,893**	**–**	**–**	**4,893**
	₱15,720,001	**₱15,153,374**	**₱566,627**	**₱–**	**₱15,720,001**
Liabilities measured at fair value:					
Financial Liabilities					
FVPL investments	**₱174,190**	**₱174,190**	**₱–**	**₱–**	**₱174,190**
Assets for which fair values are disclosed:					
Financial Assets					
HTM investments					
Government	**₱17,334,022**	**₱18,398,235**	**₱–**	**₱–**	**₱18,398,235**
Private	**3,083,990**	**3,143,795**	**–**	**–**	**3,143,795**
Loans and receivables					
Receivables from customers					
Consumption loans	**65,785,740**	**–**	**77,259,489**	**–**	**77,259,489**
Real estate loans	**42,747,073**	**–**	**43,257,984**	**–**	**43,257,984**
Commercial loans	**9,936,707**	**–**	**9,725,156**	**–**	**9,725,156**
Personal loans	**3,012,560**	**–**	**3,516,684**	**–**	**3,516,684**
Other receivables					
Sales contract receivable	**127,589**	**–**	**164,477**	**–**	**164,477**
Other assets					
Security deposits	**172,707**	**–**	**176,049**	**–**	**176,049**
Non-Financial Assets					
Investment properties	**3,760,512**	**–**	**–**	**4,296,314**	**4,296,314**
	₱145,960,900	**₱21,542,030**	**₱134,099,839**	**₱4,296,314**	**₱159,938,183**
Liabilities for which fair values are disclosed:					
Financial Liabilities					
Deposit liabilities					
Time	**₱103,429,419**	**₱–**	**₱107,040,523**	**₱–**	**₱107,040,523**
Subordinated notes	**5,956,113**		**5,805,235**		**5,805,235**
	₱109,385,532	**₱–**	**₱112,845,758**	**₱–**	**₱112,845,758**

	December 31, 2015 (Audited)				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets measured at fair value:					
Financial Assets					
FVPL investments					
Government securities	₱1,984,271	₱1,984,271	₱–	₱–	₱1,984,271
Treasury notes and bonds	837,166	837,166	–	–	837,166
AFS investments					
Government debt securities	4,472,650	3,695,329	777,321	–	4,472,650
Private debt securities	4,449,702	4,449,702	–	–	4,449,702
Quoted equity securities	4,893	4,893	–	–	4,893
	₱11,748,682	₱10,971,361	₱777,321	₱–	₱11,748,682
Assets for which fair values are disclosed:					
Financial Assets					
HTM investments					
Government	₱12,088,362	₱7,863,667	₱3,735,724	₱–	₱11,599,391
Private	2,858,306	2,833,262	–	–	2,833,262
Loans and receivables					
Receivables from customers					
Consumption loans	59,321,191	–	72,561,154	–	72,561,154
Real estate loans	40,109,194	–	41,156,371	–	41,156,371
Commercial loans	9,847,098	–	11,655,376	–	11,655,376
Personal loans	2,993,330	–	6,132,689	–	6,132,689
Other receivables					
Sales contract receivable	180,849	–	199,546	–	199,546
Other assets					
Security deposits	172,433	–	171,050	–	171,050
Non-Financial Assets					
Investment properties	3,344,154	–	–	4,202,167	4,202,167
	₱130,914,917	₱10,696,929	₱135,611,910	₱4,202,167	₱150,511,006
Liabilities for which fair values are disclosed:					
Financial Liabilities					
Deposit liabilities					
Time	₱98,553,754	₱–	₱100,248,431	₱–	₱100,248,431
Subordinated notes	5,952,052	–	5,646,627	–	5,646,627
	₱104,505,806	₱–	₱105,895,058	₱–	₱105,895,058

There have been no transfers between levels in September 30, 2016 and December 31, 2015.

As of September 30, 2016 and December 31, 2015, the fair value of the Bank's ROP warrants is classified as Level 3. Due to the absence of an active market for the Bank's ROP warrants, as evidenced by the unavailability of quoted market prices, the Bank determined the market value of its warrants to be zero.

3. Financial Risk Management Policies and Objectives

Compared with December 31, 2015, investments significantly increased as of September 30, 2016 as excess funds were invested in high yielding liquid investments. The Bank has exposures to credit, market, and liquidity risks from its use of financial instruments.

Risk Management Framework
Organization risk management structure continues to be a top-down organization, with the Board of Directors ("BOD") at the helm of all major initiatives. The Risk Oversight Committee ("ROC") was constituted by the BOD to be responsible for the development and oversight of the Risk Management Program of the Bank. The BOD approves broad risk management strategies and policies and ensures that risk management initiatives and activities are consistent with the Bank's overall objectives. The Board is also supported by other Board and management-level committees such as the Corporate Governance, Audit, Executive, Credit, Assets and Liabilities Committees, to name a few.

Credit Risk
Credit risk is the risk that counterparty will not settle its obligations in accordance with the agreed terms. The Bank's lending business follows credit policy guidelines set by the BOD and ROC. The people engaged in the credit process are required to understand and adhere to these policies. Product manuals are in place and define the product, business plan, parameters, associated risks and mitigating controls. The system of checks includes multiple approval system, ROC review, Internal Audit, and the BOD - through the ExCom, CreCom and ROC, for sound credit policies and practices.

Credit risk control and management tools include product limits, credit scoring models, unique customer and group identification for aggregation of exposures, automated loan grading, 10-point credit rating systems, stress testing models, and external ratings. Aggregate exposures of at least P0.1 billion are placed on a special monitoring. Concentration of risk, by borrower, group of borrowers, geographical region and industry sector are monitored on a regular basis. The Bank also performs impairment analyses on loans and receivables, on individual and collective basis in accordance with PFRS.

Liquidity Risk
Liquidity risk is the current and prospective risk to earnings or capital arising from the Bank's inability to meet its obligations when they become due. Liquidity management emphasizes cashflow management, ability to raise funds, and maintenance of a stock of high quality liquid assets. The Bank's objective in liquidity management is to ensure that the Bank has sufficient liquidity to meet obligations under normal and adverse circumstances and is able to take advantage of lending and investment opportunities as they arise.

The main tool that the Bank uses for monitoring liquidity is the Maximum Cumulative Outflow report. It shows the projected cash flows of assets and liabilities, representing estimated funding sources and requirements, under normal conditions. The Bank also projects liquidity positions under different stress scenarios and has in place a Liquidity Contingency Funding Plan, to help evaluate funding needs and response strategies under various conditions.

Market Risk
Market risk is the possibility of loss to future earnings, fair values or future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates, foreign currency exchange rates, equity prices and other market factors. The Bank utilizes various measurement and monitoring tools to ensure that risk-taking activities are managed within instituted market risk parameters. The Bank's risk policies and implementing guidelines are regularly reviewed by the Assets and Liabilities Committee, ROC and BOD to ensure that these are up-to-date and in line with changes in the economy, environment and regulations. The ROC and the BOD set the comprehensive market risk limit structure and define the parameters of market activities that the Bank can engage in.

Market Risk - Trading Book
The Bank's trading portfolios are mainly composed of peso and dollar-denominated sovereign debt securities that are marked-to-market daily. Market risk exposures arising from these portfolios are measured daily. The Bank has established stop loss, loss trigger, and Value-at-Risk ("VaR") limits for its trading portfolios. VaR is a statistical measure that estimates the maximum potential loss from a portfolio, under normal conditions, for a given confidence level, over a specified holding period. The Bank's current VaR model uses historical simulation for Peso and USD HFT portfolios with confidence level at 99% and a 1 day holding period. It utilizes a 260-day rolling window of the most recently observed daily data for each asset class. Reports are prepared on a daily basis and are also reported to the ROC and BOD

on a monthly basis. Stress testing is also conducted, based on historical and ad-hoc rate shocks to estimate potential losses in extreme or crisis situations.

Market Risk - Banking Book (interest rate risk)
The Bank follows a prudent policy on managing its assets and liabilities to ensure that exposure to fluctuations in interest rates are kept within acceptable limits. One method by which the Bank measures the sensitivity of its assets and liabilities to interest rate fluctuations is by way of gap analysis. An interest rate gap report is prepared by classifying all assets and liabilities into various time period categories according to contracted maturities or repricing dates, whichever is earlier. The difference in the amount of assets and liabilities maturing or being repriced in any time period category would then give the Bank an indication of the extent to which it is exposed to the risk of potential changes in net interest income. From the repricing gap, the Bank measures interest rate risk based on earnings perspective through Earnings-at-Risk ("EaR"). EaR is an interest rate risk measure of the Bank's earnings decline either immediately or over time as a result of a change in the volatility of interest rates. It is a management tool that evaluates the sensitivity of the accrual portfolio to expected change in interest rates over the next 12 months. The Bank also performs stress-testing analysis to estimate the impact of extreme interest rate movements.

Market Risk - Foreign currency risk
Foreign currency risk is the risk of an investment's value changing due to adverse movements in currency exchange rates. It arises due to mismatches in the Bank's foreign currency assets and liabilities. The Bank's policy is to maintain foreign currency exposure within the approved position, VaR and loss limits and within existing regulatory guidelines.

4. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Bank's related parties include:

- Bank's Directors, Officers, Stockholders and their Related Interests (DOSRI) as defined per BSP's existing DOSRI rules & regulations;
- Close Family Members (i.e. 2nd degree relatives) of the Bank's Directors, Officers with rank of SVP & up and Individual Substantial Stockholders;
- Bank's Subsidiaries & Affiliates as defined per BSP's existing rules & regulations on lending to subsidiaries & affiliates;
- Any party that the Bank exerts direct or indirect control over or that exerts direct or indirect control over the Bank;
- Subsidiaries, Affiliates and Special Purpose Entities (SPEs) of the preceding item above;
- Corresponding Persons in Affiliated Companies representing their Directors, Officers with rank of SVP & up, Individual Substantial Stockholders and their relatives up to the 2nd degree of consanguinity and affinity; and
- Any natural person or juridical entity whose interest may pose potential conflict with the Bank's interest.

The Bank has several business relationships with related parties. Transactions with such parties are made in the ordinary course of business and on substantially same terms, including interest and collateral, as those prevailing at the time for comparable transactions with other parties. These transactions also did not involve more than the normal risk of collectibility or present other unfavorable conditions.

Transactions with the Retirement Plan

On December 20, 2012, the SEC issued Memorandum Circular No. 12 providing for guidelines on the disclosure of transactions with retirement benefit funds. Under said circular, a reporting entity shall disclose information about any transaction with a related party (retirement fund, in this case) and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements.

Under PFRS, certain post-employment benefit plans are considered as related parties. The Bank has business relationships with its retirement plan pursuant to which it provides trust and management services to the said plan. The retirement plan of the employees of the Bank is being managed and maintained by the Trust and Investment Division of the Bank. The total carrying amount and fair value of the retirement fund as of September 30, 2016 and December 31, 2015 amounted to ₱1.4 billion and ₱1.2 billion, respectively.

The following table shows the amount of outstanding balances of related party transactions of the Bank and Sumisho Motor Finance Corporation (SMFC) with the retirement plan of the employees of the Bank as of September 30, 2016 and December 31, 2015:

		September 30, 2016 (Unaudited)	
		Elements of Transaction	
Related Party	**Nature of Transaction**	**Statement of Condition**	**Statement of Income**
Philippine Savings Bank	Investment in Money Market Fund*	**₱66,225,573**	
	Gain on sale of equity securities		**₱246,455,484**
	Dividends Earned		**6,901,211**
	Interest Income		**7,309**
	Income in Money Market Fund		**883,043**
Sumisho Motor Finance Corporation	Equity Investment	**200,000,000**	

*Includes fair value gains of ₱.025 million

		December 31, 2015 (Audited)	
		Elements of Transaction	
Related Party	**Nature of Transaction**	**Statement of Condition**	**Statement of Income**
Philippine Savings Bank	Equity investment*	₱473,423,040	
	Investment in Money Market Fund***	43,444,701	
	Deposit liabilities**	361,235	
	Accrued interest income	30	
	Dividends earned		₱17,328,994
	Gain on sale of equity securities		1,801,791
	Interest income		38,363
	Income from Unit Investment Trust Fund (UITF)		739,108
Sumisho Motor Finance Corporation	Equity investment	200,000,000	

*Includes fair value gains of ₱263.0 million
**Represent 17 days time deposits and bear interest of 1.00%
***Includes fair value gains of ₱0.6 million

Transactions relating to the Bank's retirement plan are approved by its Retirement Committee. The voting right over the investments in the Bank's capital stocks is exercised by a member of the Retirement Committee as approved by all members of the Retirement Committee, whom are senior officers of the Bank.

As of December 31, 2015, the allowance for impairment losses on investments managed by the Trust Division for the Bank's retirement fund amounted to ₱18.78 million.

Remunerations of Directors and Other Key Management Personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly. The Bank considers the members of the Management Committee to constitute key management personnel for purposes of PAS 24, *Related Party Disclosures*.

Total remunerations of key management personnel (covering assistant vice presidents and up) included under 'Compensation and fringe benefits' in the statements of income are as follows:

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Short-term employee benefits	**₱171,116,870**	₱198,857,936
Post-employment pension benefits	**6,356,856**	19,320,109
	₱177,473,726	₱218,178,045

Short-term employee benefits include salaries and other non-monetary benefits.

Remunerations given to directors, as approved by the Board Remuneration Committee, amounted to ₱10.73 million and ₱16.9 million for the nine months ended September 30, 2016 and year ended December 2015, respectively.

The Bank also provides banking services to Directors and other key management personnel and persons connected to them.

Other Related Party Transactions

Other related party transactions of the Bank by category of related party are presented below. The following tables show the amount and outstanding balances included in the financial statements (in thousands):

	Nine months ended September 30		
	2016 (unaudited)	**2015 (unaudited)**	
Category	**Amount/ Volume**	**Amount/ Volume**	**Nature, Terms and Conditions**
Significant Investor			
Interbank loans receivable			Dollar and Peso-denominated lending with 1.75% and 2.5% fixed interest rates respectively, and maturities ranging from 1 to 360 days
Deposits/placements	**₱28,438,500**	₱3,916,340	
Withdrawals/maturities	**28,438,500**	3,916,340	
Due from other banks	**(140,763)**	(23,492)	Secured - ₱753,180 Short term peso and foreign-currency denominated deposits with fixed rates ranging from 0.00% to 2.50%
Accounts receivable	**(2,762)**	(2,169)	Outstanding ATM service fees, rental and utility receivables, non-interest bearing; no impairment
Bills payable			Peso-denominated borrowing with fixed interest rate of 2.50% and maturities ranging from 1 to 4 days
Deposits/placements	**14,526,000**	–	
Withdrawals/maturities	**14,526,000**	–	
Guarantees and commitments	**–**	6,600	Letter of guarantee for loan take-out
AFS investments	**(2,236)**	–	Pledge for security of payroll account with MBTC
Interest income	**3,759**	15,283	Income on deposits and interbank loans receivables
Rental income	**18,581**	17,446	Income from leasing agreements with various lease terms ranging from 2 to 5 years
Miscellaneous income	**6,022**	–	Service income received from collection services
Information technology expense	**192,207**	126,187	Payment of information technology expenses
Trading and security gain	**1,227**	(10,034)	Gain from securities transactions
Interest expense	**2,144**	139	Interest expense on bills payable
Securities transactions			
Outright purchases	**18,184,047**	10,474,820	Outright purchase of FVPL, AFS and HTM investments
Outright sales	**11,032,385**	7,655,277	Outright sale of FVPL and AFS investments

(Forward)

Joint Venture			
Deposit liabilities	**₱3,652**	(₱59,232)	Demand deposits with annual fixed rate of 1.25%
Rental income	**8,577**	8,553	Income from leasing agreements
Share in net income of a joint venture	**19,190**	13,251	40.00% share in net income of SMFC
Interest expense	**47**	498	Interest on deposit liabilities
Other Related Parties			
Interbank loans receivable			Peso denominated lending which earn 2.50% fixed daily interest rate with maturity terms from 1 to 5 days.
Deposits/placements	**5,815,000**	112,227,000	
Withdrawals/maturities	**5,815,000**	112,227,000	
Receivable from customers			Loans granted bearing an interest ranging from 7.00% to 10.50% with maturities ranging from 4 to 21 mos.; Secured - 8,523,824
Deposits/placements	**10,819**	4,729	
Withdrawals/maturities	**383,821**	25,561	
Accounts receivable	**589**	1,530	Outstanding ATM service fees, rental and utility receivables, non interest bearing
Deposit liabilities	**7,181,143**	1,419,380	Demand, savings and short term peso and foreign currency time deposits with fixed rates ranging from 0.00% to 1.83%
Bills payable			Peso-denominated borrowing with fixed interest rate of 2.50% and maturities ranging from 1 to 4 days
Deposits/placements	**4,440,000**	–	
Withdrawals/maturities	**3,540,000**	–	
Interest income	**532**	11,534	Income on receivables from customers and interbank loans receivables
Trading and securities gain	**3,913**	(767)	Gain from securities transactions
Rental income	**9,726**	10,504	Income from leasing agreements with various lease terms
Bank commission	**3,581**	3,758	Commission income on ATM service fees
Miscellaneous income	**1,291**	–	Service income received from outsourcing agreements and from referral fees on approved credit card issuances
Insurance expense	**37,645**	36,478	Payment of insurance premium
Interest expense	**137,741**	72,883	Interest on deposit liabilities
Rent expense	**2,557**	2,559	Payment of rent expense to various lessors
Securities transactions			
Outright purchases	**2,537,501**	1,887,501	Outright purchase of FVPL and AFS investments
Outright sales	**2,542,500**	1,842,500	Outright sale of FVPL and AFS investments
Key Personnel			
Receivables from customers			Unsecured, no impairment, with annual fixed interest rates of 6.00% and maturities ranging from 2 to 10 years
Deposits/placements	**1,760**	1,621	
Withdrawals/maturities	**12**	1,749	
Interest income	**612**	479	Interest income from loans

	September 30, 2016 (unaudited)	**December 31, 2015 (audited)**	
Category	**Outstanding Balance**	**Outstanding Balance**	**Nature, Terms and Conditions**
Significant Investor			
Due from other banks	**₱893,943**	₱1,034,706	Short term peso and foreign-currency denominated deposits secured by government securities amounting to ₱ 3,034,440,626 with fixed rates ranging from 0.00% to 5.00%
Accounts receivable	**3,871**	6,633	Outstanding ATM service fees, rental and utility receivables, noninterest bearing; no impairment
Miscellaneous assets	**781**	781	Security deposits on lease contracts
Miscellaneous liabilities	**6,242**	5,589	Advance payments of security deposits from various tenants
Accrued other expense payable	**33,134**	31,945	Outstanding information technology expense payable, charges on current and savings accounts processing
AFS investments	**50,000**	52,236	Pledge for security of payroll account with MBTC
Joint Venture			
Investment in a joint venture	**709,524**	690,334	Capital investment in SMFC
Accounts receivable	**3,083**	552	Outstanding rental and utility receivables, non-interest bearing
Deposit liabilities	**8,721**	5,069	Demand and short term peso time-deposits with annual fixed rates of 1.25%
Miscellaneous liabilities	**2,833**	2,610	Advance payment of security deposits
(Forward)			

Category	September 30, 2016 (unaudited) Outstanding Balance	December 31, 2015 (audited) Outstanding Balance	Nature, Terms and Conditions
Other Related Parties			
Receivable from customers	**₱8,524**	₱381,525	Loans granted bearing an interest ranging from 7.00% to
Miscellaneous assets	**1,102**	1,061	Three months advance security deposits
Accounts receivable	**1,244**	1,833	Outstanding ATM service fees, rental and utility receivables, non interest bearing
Prepaid expense	**11,462**	6,848	Payment for various policy renewals
Deposit liabilities	**11,372,588**	4,191,445	Demand, savings and short term peso and foreign currency time deposits with fixed rates ranging from 0.00% to 2.00%
Bills Payable	**900,000**	–	
Accrued other expense payable	**4,096**	3,308	Outstanding group life insurance payable
Accounts payable	**184**	159	Various personal and car insurance payable
Miscellaneous liabilities	**3,169**	2,136	Advance payment of security deposits from various tenants
Key Personnel			
Receivables from customers	**13,587**	11,839	Unsecured, no impairment, with annual fixed interest rates of 6.00% and maturities ranging from 2 to 10 years

Regulatory Reporting

As required by the BSP, the Bank discloses loan transactions with investees 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 and are subject of prior Board approval and entail BSP reportorial requirements. Existing banking regulations limit the amount of individual loans to DOSRI, 70.00% of which must be secured, to the total of their respective unencumbered deposits and book value of their paid-in capital contribution in the lending Bank. In the aggregate, loans to DOSRI generally should not exceed total equity or 15.00% of total loan portfolio, whichever is lower.

As of September 30, 2016 and December 31, 2015, the Bank's credit exposures to DOSRI are within the said regulatory limits:

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Total outstanding DOSRI accounts	₱794,044,496	₱1,667,247,339
Percent of DOSRI accounts granted under regulations existing prior to BSP Circular No. 423 to total loans	0.63%	1.43%
Percent of unsecured DOSRI accounts to total DOSRI accounts	23.61%	12.97%
Percent of past due DOSRI accounts to total DOSRI accounts	0.00%	22.88%
Percent of nonperforming DOSRI accounts to total DOSRI accounts	0.00%	22.88%

Total interest income from DOSRI loans amounted to ₱25.26 million and ₱44.7 million in September 30, 2016 and December 31, 2015, respectively.

5. Events that will Trigger Direct or Contingent Financial Obligation

In the normal course of the Bank's operations, there are various outstanding commitments and contingent liabilities such as guarantees and commitments to extend credit, which are part of its lending and related businesses but due to their nature, may not be reflected in the accompanying financial statements. The Bank, however, does not anticipate significant losses as a result of these transactions.

Also, several suit and claims, in behalf or against the Bank in relation to its operations, including labor-related cases are pending before the courts and quasi-judicial bodies. In the opinion of management, these suits and claims, if decided adversely, will not involve an amount having a material effect on the financial statements.

Material Off-Balance Sheet Transactions, Arrangements and Obligations

The following is a summary of the Bank's commitments and contingent liabilities at their equivalent peso contractual amounts:

	September 30, 2016 (Unaudited)	**December 31, 2015 (Audited)**
Financial Standby Letters of Credit	**₱91,134,933**	₱78,408,259
Late Deposit/Payment Received	**79,429,087**	57,141,192
Derivatives	**7,024,351,427**	70,590,000
Items Held for Safekeeping	**399,708**	311,877
Items Held as Collateral	**148,406**	105,836
Trust Department Accounts	**4,017,134,455**	2,349,289,988
Other Contingent	**59,567**	37,275
	₱11,212,657,583	₱2,555,884,427

None of these off-balance sheet transactions, arising in the ordinary course, either individually or in the aggregate, are expected to have a material adverse effect on the Bank's financial condition.

6. Investment Securities

Fair Value Through Profit or Loss Investments

In 2016, the Bank entered into foreign currency swaps and forwards. As of September 30, 2016, foreign currency swaps and forwards with positive and negative fair value amounted to ₱36.4 million and ₱174.2 million, respectively. Net trading loss arising from fair value changes amounted to ₱137.8 million

Available-for-Sale Investments

AFS investments consist of the following:

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Debt securities		
Government	**₱10,003,471,438**	₱4,472,649,565
Private	**5,487,388,198**	4,449,702,326
Equity securities		
Quoted	**7,081,765**	7,081,765
Unquoted	**1,417,500**	1,417,500
	₱15,499,358,901	₱8,930,851,156
Less allowance for impairment losses	**2,188,665**	2,188,665
	₱15,497,170,236	₱8,928,662,491

Held-to-Maturity Investments

HTM investments consist of the following:

	September 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Debt securities		
Government	**₱17,334,022,042**	₱12,088,362,455
Private	**3,083,989,893**	2,858,306,002
	₱20,418,011,935	₱14,946,668,457

7. Provision for Credit and Impairment Losses

	September 30, 2016 (Unaudited)	September 30, 2015 (Unaudited)
Provision for Credit and Impairment Losses		
Loans and Receivables	**₱1,620,492,430**	₱1,131,219,915
Investment Properties	**85,000,000**	204,060
	₱1,705,492,430	₱1,131,423,975

8. Subsequent Events

The Board of Directors of the Bank in its meeting held on October 21, 2016 passed a resolution approving the following:

- Declaration of a 7.5% Regular Cash Dividend for the third quarter of 2016 amounting to ₱180.19 million equivalent to ₱0.75 per share. This will be payable to all common stockholders as of the Record Date of November 9, 2016 and will be paid no later than the Payment Date of November 21, 2016

- Notation on the approval granted by the Bangko Sentral ng Pilipinas to exercise the call option on its Unsecured Subordinated Debt – Tier 2 Notes amounting to ₱3.0 billion issued in 2012. The exercise of the call option is allowed by BSP regulations after five years from the date of issuance or on February 21, 2017. In connection with this, the Board of Directors approved the authority of President Mr. Vicente R. Cuna, Jr. to sign, execute and deliver any and all documents and to do and perform any and all acts as may be necessary to carry into effect the intents and purposes behind the exercise of the call option for the PSBank Tier 2 Notes

9. Other Disclosures

a) There are no unusual items of asset, liability, equity, net income or cash flow.

b) No material items of changes were noted in the comparison of actual results with estimated amounts.

c) Details of the Bank's dividend distributions as approved by the Bank's BOD and the BSP follow:

	Cash Dividends				
Date of declaration	Per share	Total amount	Date of BSP approval	Record date	Payment date
January 22, 2015	0.75	180,189,368	March 3, 2015	March 30, 2015	April 17, 2015
April 28, 2015	0.75	180,189,368	June 5, 2015	July 14, 2015	July 28, 2015
July 28, 2015	0.75	180,189,368	September 23, 2015	October 26, 2015	November 11, 2015
October 29, 2015	0.75	180,189,368	– *	November 16, 2015	November 27, 2015
January 19, 2016	0.75	180,189,368	– *	February 1, 2016	February 19, 2016
April 26, 2016	0.75	180,189,368	– *	May 11, 2016	May 26, 2016
July 22, 2016	0.75	180,189,368	– *	August 8, 2016	August 22, 2016

* The Bank is compliant with the BSP Circular No. 888 *Amendments to Regulations on Dividend Declaration and Interest Payments on Tier 1 Capital Instruments*, beginning with the third and fourth quarter dividend declarations in 2015.

PSBank stock price closed at ₱95.05 per share as of November 2, 2016.

d) The following table presents information used to calculate basic EPS:

		Nine Months Ended (Unaudited)	
		September 30, 2016	September 30, 2015
a.	Net income	**₱1,867,278,695**	₱1,732,997,123
b.	Weighted average number of common shares for basic EPS	**240,252,491**	240,252,491
c.	Basic/Diluted EPS (a/b)	**₱7.77**	₱7.21

As of September 30, 2016 and 2015, there were no potential common shares with dilutive effect on the basic EPS of the Bank.

e) No unregistered securities were sold or offered for sale by the Bank as of September 30, 2016.

f) Segment revenue and result of business segments are found in subsequent tables.

g) The Bank was not engaged in any business combinations, acquisitions or disposal of subsidiaries and long-term investments.

h) On September 23, 2016, the Bank's Board of Directors passed a resolution approving the issuance of long-term negotiable certificates of time deposits (LTNCTDs) up to ₱10.0 billion through one or more tranches over a period of one year. The LTNCTDs will provide an alternative investment outlet for the Bank's existing clients and depositors. The issuance was approved by the Bangko Sentral ng Pilipinas on December 16, 2016 while its final terms, including offering period and interest rates, will depend on market conditions.

Philippine Savings Bank
BUSINESS SEGMENT INFORMATION
(in thousands)

	Nine Months ended September 30, 2016 (Unaudited)				
	Consumer Banking	Corporate Banking	Branch Banking	Treasury	Total
Operating income					
Interest income	₱3,048,426	₱233,768	₱4,355,178	₱1,519,023	₱9,156,395
Service fees and commission	353,643	22,996	528,219	–	904,858
Other operating income	422,754	14,179	399,616	691,778	1,528,327
Total operating income	3,824,823	270,943	5,283,013	2,210,801	11,589,580
Non-cash expenses					
Provision for credit and impairment losses	2,135,348	(379,289)	(50,567)	–	1,705,492
Depreciation	139,745	4,376	272,716	134	416,971
Amortization of other intangible assets	31,504	1,896	54,231	191	87,822
Total non-cash expenses	2,306,597	(373,017)	276,380	325	2,210,285
Interest expense	–	–	1,205,847	876,498	2,082,345
Service fees and commission expense	27,400	1,782	40,929	–	70,111
Subtotal	27,400	1,782	1,246,776	876,498	2,152,456
Compensation and fringe benefits	₱544,995	₱43,150	₱1,632,391	₱13,543	₱2,234,079
Taxes and licenses	249,669	17,114	310,967	204,947	782,697
Occupancy and equipment-related costs	47,490	1,096	480,524	2	529,112
Security, messengerial and janitorial services	54,318	1,677	204,795	450	261,240
Miscellaneous	412,197	23,794	875,941	71,040	1,382,972
Subtotal	1,308,669	86,831	3,504,618	289,982	5,190,100
Income before share in net income of a joint venture and income tax	₱182,157	₱555,347	₱255,239	₱1,043,996	2,036,739
Share in net income of a joint venture					19,190
Income before income tax					2,055,929
Provision from income tax					188,650
Net income					₱1,867,279

	September 30, 2016 (Unaudited)				
Segment assets	₱91,187,241	₱8,424,362	₱38,395,093	₱43,850,840	₱181,857,536
Investments in a joint venture					709,524
Deferred tax assets					1,259,591
Total assets					₱183,826,650
Segment liabilities	₱1,378,963	₱108,955	₱107,840,970	₱53,827,440	₱163,156,328

Philippine Savings Bank
BUSINESS SEGMENT INFORMATION
(In thousands)

	Nine Months ended September 30, 2015 (Unaudited)				
	Consumer Banking	Corporate Banking	Branch Banking	Treasury	Total
Operating income					
Interest income	₱1,849,998	₱352,557	₱4,883,900	₱1,029,902	₱8,116,357
Service fees and commission	246,258	29,093	706,668	–	982,018
Other operating income	270,309	21,854	614,495	(23,,266)	883,393
Total operating income	2,366,564	403,504	6,205,063	1,006,636	9,981,767
Non-cash expenses					
Provision for credit and impairment losses	277,125	(155,500)	1,009,799	–	1,131,424
Depreciation	67,978	4,406	292,641	140	365,164
Amortization of other intangible assets	16,895	2,125	52,375	174	71,569
Total non-cash expenses	361,999	(148,969)	1,354,815	314	1,568,157
Interest expense	–	–	1,132,436	754,733	1,887,168
Service fees and commission expense	17,173	2,029	49,279	–	68,481
Subtotal	17,173	2,029	1,181,715	754,733	1,955,649

Compensation and fringe benefits	₱321,472	₱41,768	₱1,588,067	₱11,204	₱1,962,511
Taxes and licenses	121,086	14,663	408,503	195,799	740,090
Occupancy and equipment-related costs	25,543	1,240	476,434	2	503,218
Security, messengerial and janitorial services	35,307	2,526	209,833	454	248,122
Miscellaneous	202,494	28,037	973,020	60,982	1,264,532
Subtotal	705,902	88,234	3,655,897	268,441	4,718,473
Income before share in net income of a joint venture and income tax	₱1,281,490	₱462,210	₱12,636	₱(16,852)	1,739,488
Share in net income of a joint venture					13,251
Income before income tax					1,752,739
Provision from income tax					19,743
Net income					₱1,732,997

	September 30, 2015 (Unaudited)				
Segment assets	₱77,988,678	₱8,387,468	₱36,441,591	₱34,945,282	₱157,763,019
Investments in a joint venture					681,858
Deferred tax assets					1,014,527
Total assets					₱159,459,404
Segment liabilities	₱1,089,239	₱90,402	₱95,965,795	₱3,157,497	₱140,302,933

Philippine Savings Bank

BUSINESS SEGMENT INFORMATION
As of December 31, 2015 (Audited)
(in thousands)

	December 31, 2015				
	Consumer Banking	Corporate Banking	Branch Banking	Treasury	Total
Segment assets	₱82,181,033	₱8,438,387	₱36,990,937	₱39,836,139	₱167,446,496
Investments in a joint venture					690,334
Deferred tax assets					1,194,417
Total assets					₱169,331,247
Segment liabilities	₱1,201,661	₱86,172	₱97,009,484	₱51,858,875	₱150,156,192

PARTIES TO THE ISSUE

ISSUER

Philippine Savings Bank
PSBank Center
777 Paseo de Roxas corner
Sedeno St., Makati City

ARRANGER AND SELLING AGENT

ING Bank N.V., Manila Branch
21/F Tower One, Ayala Triangle
Ayala Avenue, Makati City

SELLING AGENTS

Philippine Savings Bank
PSBank Center
777 Paseo de Roxas corner
Sedeno St., Makati City

First Metro Investment Corporation
44/F GT Tower International
6813 Ayala Avenue Corner
HV Dela Costa Street, Makati City

Metropolitan Bank & Trust Company
Metrobank Plaza
Sen. Gil Puyat Avenue
Urdaneta Village, Makati City

REGISTRAR AND PAYING AGENT

Philippine Depository & Trust Corp
37 Floor, Tower 1, Enterprise Center
6766 Ayala Avenue corner Paseo de Roxas
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