engaging our customers

PSBank
PHILIPPINE SAVINGS BANK
Metrobank Group

2015 AUDITED FINANCIAL STATEMENTS

Vision

To be the country's consumer and retail bank of choice

Mission

As an INSTITUTION: To conform to the highest standards of integrity, professionalism and teamwork.

For our CLIENTS: To provide superior products and reliable, top-quality services responsive to their banking needs.

For our EMPLOYEES: To place a premium on their growth, and nurture an environment of teamwork where outstanding performance is recognized.

For our SHAREHOLDERS: To enhance the value of their investments.

We want to be recognized as the banking leader in providing exceptional customer experience at every encounter.

BALANCE SHEET

Assets
Our Total Assets as of December 31, 2015 stood at Php169.33 billion, 16.29% higher than the Php145.61 billion the previous year. The growth was due to increases in loans and investment securities during the period in review.

Loans and Receivables
Our Loans and Receivables expanded by 18.91% to Php113.87 billion with the sustained increase in our consumer lending business, particularly Auto Loans and Mortgage Loans which expanded by 30.37% and 18.00% respectively.

Securities and Investments
Investments of excess funds were shifted from Special Savings Deposit Account (SDA) placements with BSP to higher yielding investment securities. As a result, our Due from BSP was lower by 53.56% to PhP11.14 billion from Php24.00 billion in December 2014. On the other hand, Interbank Loans Receivable and Securities Purchased under Resale Agreements (SPURA) rose by Php327.58 million or 14.98% from last year.

Available-for Sale (AFS) investments were higher by 46.77% to Php8.93 billion. Fair Value through Profit or Loss (FVPL) also increased by Php2.54 billion to Php2.82 billion. Held to Maturity (HTM) portfolio rose to Php14.95 billion from Php1.68 billion previously.

Deferred Tax
Deferred Tax Assets (DTA) rose by 63.19% to Php1.19 billion due to the recognition of deferred tax benefits from loan loss provisioning during the year.

Deposit Liabilities
Total deposits grew by 15.25% or Php17.77 billion to Php134.30 billion from the Php116.53 billion in 2014 as we continued to expand our deposit customer base through the opening of three new branches and additional 19 ATMs all over the country. Time Deposits were higher by 12.74% to Php98.55 billion. Likewise, Demand Deposits increased by 21.65% to Php12.91 billion while Savings Deposits rose by 23.42% to Php22.84 billion.

Tier 2 Notes
On May 23, 2014, we issued Php3.0 billion in Unsecured Subordinated Notes (Tier 2) with an interest rate of 5.50% due on August 23, 2024, callable in 2019. The Notes, which have a loss absorption feature, qualify as Tier 2 capital in line with the BSP's revised risk-based capital adequacy framework and conform to Basel III requirements. PSBank has an issuer rating of PRS Aaa (corp.) from Philippine Rating Services Corp. (Philratings). As of December 31, 2015, our total Tier 2 Notes, including those issued in February 2012, amounted to Php5.95 billion.

Capital
Our Capital base further strengthened to Php19.18 billion in end 2015, an increase of 8.15% from the year-ago level of Php17.73 billion.

Mark-to-market gains on Available-for-Sale Investments were at Php179.78 thousand in December 2015 versus Php26.60 million last year. We recorded Remeasurement Losses of Php471.37 million on our Retirement Plan in 2015 due to the lower fair value of its plan assets.

INCOME STATEMENT

Net Income
We registered a Net Income after Tax of Php2.35 billion, 1.39% higher than the Php2.32 billion recorded for the same period last year. The increase in net income was due to higher core income in 2015 versus 2014.

Interest Income
Our Net Interest Income rose by 10.01% to Php8.48 billion from Php7.71 billion in 2014. This was mainly a result of an increase in interest income from Loans and Receivables by 12.65% or Php1.11 billion.

On the other hand, interest income from Investment Securities increased to Php727.77 million from Php363.96 million as we shifted our investments to higher yielding, longer-term FXTNs and sovereign bonds. Interest income from Interbank Loans Receivable and Securities Purchased under Resale Agreements declined by 77.79% or Php668.17 million to Php190.81 million versus Php858.98 million previously. Interest earned from deposits with the BSP was higher by 156.00% at Php146.67 million while interest income from other banks was down by 57.41% to Php7.82 million.

Interest expenses on deposit liabilities increased by 2.60% to Php2.17 billion with overall rise in total deposits in 2015 by 15.25%. Meanwhile, interest expense on our Tier 2 Notes was at Php342.65 million from Php276.59 million in 2014. This was due to our additional Php3 billion Tier 2 Notes issuance in May 2014.

Non-Interest Income

Our Other Operating Income was lower in 2015 compared with the previous year which included significant one-time gains from the sale of the Bank's interests in Toyota Financial Services and Victoria's Milling Corporation. As a result, Other Operating Income was lower by 36.87% to Php1.12 billion in 2015. We registered trading losses of Php63.57 million in 2015 compared to the Php209.95 million in trading gains in 2014.

On the other hand, foreign exchange gain was posted at Php18.82 million, an improvement from Php7.81 million in 2014. We recorded a net gain on foreclosure and sale of chattel mortgage amounting to Php377.66 million, Php60.84 million higher compared with the Php316.81 million posted during the same period last year. Our net gain on foreclosure and sale of investment properties decreased by Php40.82 million to Php258.03 million in 2015.

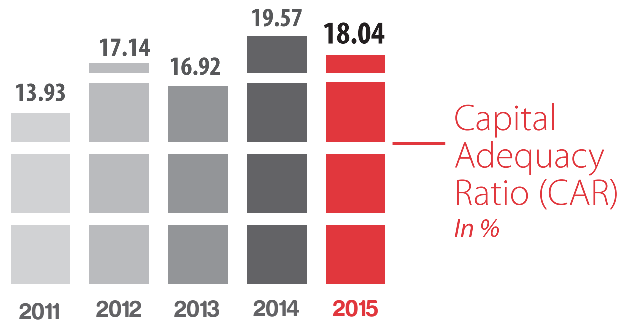
Income on the sale of property and equipment in 2015 was lower at Php17.74 million versus Php45.01 million in 2014. Miscellaneous Income was higher by Php171.85 million to Php515.41 million from Php343.57 million in 2014.

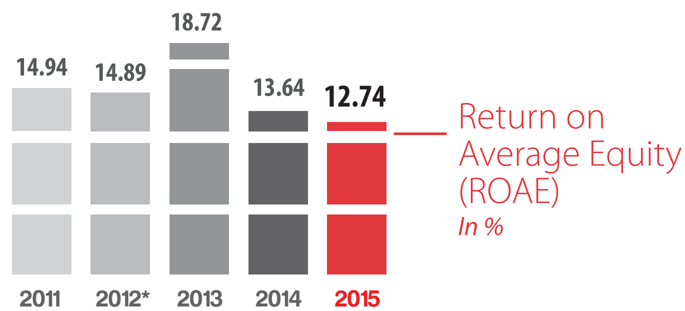
Operating Expenses and Provisions

Our Total Operating Expenses, excluding provisions for credit and impairment losses, was posted at Php6.93 billion, 4.83% higher compared with the Php6.61 billion a year ago. Compensation and fringe benefits rose to Php2.61 billion while Occupancy and Equipment-related costs increased by 7.01% to Php671.73 million. This was a result of branch and ATM expansion efforts as we ended 2015 with 248 branches and 614 ATMs nationwide. We also renovated a total of 28 branches in 2015.

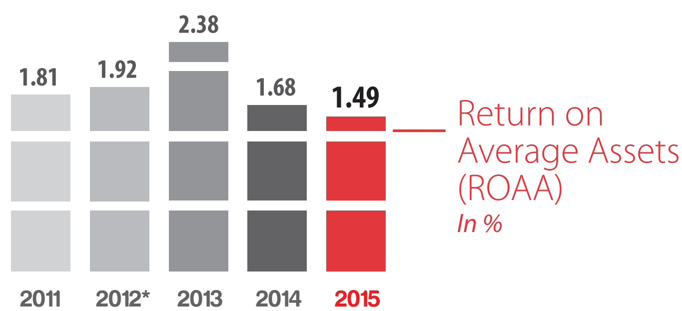
Taxes and licenses slightly went down by 9.47% compared to last year due to lower Gross Receipts Tax on trading gains and one-time Capital Gains Tax on the sale of TFS shares in 2014.

We set aside Php1.59 billion in provisions for credit and impairment losses in 2015. This is slightly lower than the Php1.74 billion allocated in 2014, with the reversal of provisions brought about by improved payment records of Yolanda-affected accounts.





*As restated



*As restated

On January 15, 2013, the Bangko Sentral ng Pilipinas, through its Circular No. 781, issued the Basel III Implementing Guidelines on Minimum Capital Requirements. The guidelines took effect on January 01, 2014 wherein the risk-based capital ratio of the Bank, expressed as a percentage of qualifying capital to risk weighted assets, shall not be less than ten percent (10%) for both solo and consolidated basis. Other minimum capital ratios include Common Equity Tier 1 (CET1) ratio and Tier 1 capital ratios of 6.0% and 7.5%, respectively. A capital conservation buffer of 2.5%, comprised of CET1 capital, was likewise imposed.

As of December 31, 2015 and 2014, the Bank maintains these ratios above minimum requirements.

The capital-to-risk assets ratio of the Bank as reported to the BSP as of December 31, 2015 and 2014 based on BASEL III, are shown in the table below (in millions):

	2015	2014
Common Equity Tier 1 capital	**₱18,174**	₱16,869
Less: Regulatory Adjustments to CET1 capital	**2,878**	2,268
Total Tier 1 Capital	**15,296**	14,601
Tier 2 capital	**6,962**	6,851
Less: Regulatory Adjustments to Tier 2 capital	**–**	–
Total Tier 2 capital	**6,962**	6,851
Total qualifying capital (Note 21)	**₱22,258**	₱21,452
Credit risk-weighted assets	**₱102,225**	₱91,270
Market risk-weighted assets	**1,753**	328
Operational risk-weighted assets	**19,411**	18,037
Risk weighted-assets (Note 21)	**₱123,389**	₱109,635

	2015	2014
Common equity tier 1 ratio*		
Common equity tier 1 capital		
Divided by: Total Risk-weighted assets	**12.40%**	13.32%
Tier 1 capital ratio (Note 21)		
Adjusted tier 1 capital		
Divided by: Total risk-weighted assets	**12.40%**	13.32%
Total capital adequacy ratio (Note 21)		
Total qualifying capital		
Divided by: Total risk-weighted assets	**18.04%**	19.57%

*of which capital conservation buffer is 6.40% and 7.32% for 2015 and 2014, respectively

The regulatory qualifying capital of the Bank consists of Tier 1 (going concern) capital and Tier 2 (gone-concern) capital. Tier 1 capital is composed of Common Equity Tier 1 (CET1) and Additional Tier 1 (AT1) capital. The Common Equity Tier 1 consists of paid-up common stock, additional paid-in capital, retained earnings including current year profit, net unrealized gains or losses on AFS securities and cumulative foreign currency translation less regulatory adjustments to CET1 capital, such as unsecured credit accommodations to DOSRI, deferred tax assets, goodwill, other intangible assets, significant minority investments in an associate and a joint venture. The other component of regulatory capital is Tier 2 capital, which includes instruments issued by the bank that are eligible as Tier 2 capital and general loan loss provision.

The components of Tier 1 capital and regulatory adjustments as follow (in millions):

	2015	2014
	CET1	CET1
Paid-up common stock	**₱2,403**	₱2,403
Additional paid-in capital	**2,818**	2,818
Retained Earnings	**10,904**	9,395
Undivided Profits	**2,369**	2,224
Other comprehensive income		
Net unrealized gains on AFS securities	**37**	71
Cumulative foreign currency translation	**(43)**	(42)
Others	**(314)**	–
Sub-total	**₱18,174**	₱16,869

Less Regulatory adjustments:		
Total outstanding unsecured credit accommodations, both direct and indirect, to directors, officers, stockholders and their related interests (DOSRI)	**₱189**	₱183
Deferred tax asset	**1,582**	1,071
Goodwill	**30**	30
Other intangible assets	**391**	316
Significant minority investments	**686**	668
Total deductions	**2,878**	2,268
Total Common Equity Tier 1 capital	**₱15,296**	₱14,601
Additional Tier 1 (AT1) capital	**–**	–
Total Tier 1 capital	**₱15,296**	₱14,601

Full reconciliation of all regulatory capital elements back to the balance sheet in the audited financial statements as follow (in millions):

	2015			2014		
	Common Equity Tier 1 Capital	**Reconciling Items**	**Audited Financial Statements**	Common Equity Tier 1 Capital	Reconciling Items	Audited Financial Statements
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	**10,904**	**1,213**	**12,117**	9,395	1,123	10,518
Undivided Profits	**2,369**	**(18)**	**2,351**	2,224	95	2,319
Net unrealized gains on AFS securities	**37**	**(37)**	**0**	71	(45)	26
Remeasurement Losses on Retirement Plan	**(314)**	**(157)**	**(471)**	–	(312)	(312)
Cumulative foreign currency translation	**(43)**	**–**	**(43)**	(42)	–	(42)
Tier 1 (CET1) Capital/Total Equity	**₱18,174**	**₱1,001**	**₱19,175**	₱16,869	₱861	₱17,730

Certain adjustments are made to PFRS-based results and reserves, as prescribed by the BSP and vice versa.

The components of Tier 2 capital and deductions, as reported to BSP as of December 31, 2015 and 2014 consist of the following (in millions):

	2015	2014
Unsecured subordinated debts	**₱5,938**	₱5,937
General loan loss provision*	**1,024**	914
Less: Regulatory adjustments	**–**	–
Total Tier 2 capital	**₱6,962**	₱6,851

*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

Risk weighted assets by type of exposure as of December 31, 2015 and 2014 consist of the following (in millions):

	2015		
	Credit Risk	**Market Risk**	**Operational Risk**
On-Balance Sheet	**₱102,042***	**₱–**	**₱–**
Off-Balance Sheet	**16**	**–**	**–**
Counterparty in the Banking Book	**167**	**–**	**–**
Interest Rate Exposures	**–**	**1,693**	**–**
Foreign Exchange Exposures	**–**	**60**	**–**
Basic Indicator	**–**	**–**	**19,411**
Total	**₱102,225**	**₱1,753**	**₱19,411**
Capital Requirements	**₱10,223**	**₱175**	**₱1,941**

*net of General loan loss provision [in excess of the amount permitted to be included in Upper Tier 2]

	2014		
	Credit Risk	Market Risk	Operational Risk
On-Balance Sheet	₱91,254*	₱–	₱–
Off-Balance Sheet	16	–	–
Interest Rate Exposures	–	177	–
Foreign Exchange Exposures	–	151	–
Basic Indicator	–	–	18,037
Total	₱91,270	₱328	₱18,037
Capital Requirements	₱9,127	₱33	₱1,804

*net of General loan loss provision [in excess of the amount permitted to be included in Upper Tier 2]

The Bank’s total risk-weighted on-balance sheet assets, net of specific provision broken down by type of exposures as follow (in millions):

2015				Risk Weights						
	Exposures, Net of Specific Provisions	Exposures Covered by CRM, Gross of Materiality Threshold	Exposures, not covered by CRM	0%	20%	50%	75%	100%	150%	Total
Cash on Hand	₱3,934	₱–	₱3,934	₱3,934	₱–	₱–	₱–	₱–	₱–	₱3,934
Due from Bangko Sentral ng Pilipinas (BSP)	11,121	–	11,121	11,121	–	–	–	–	–	11,121
Due from Other Banks	1,861	–	1,861	–	558	233	–	1,070	–	1,861
Available for sale (AFS) Financial Assets	8,959	527	8,432	3,826	2,108	143		2,355		8,432
Held to Maturity (HTM) Financial Assets	14,947	–	14,947	11,101	1,018	–	–	2,827	–	14,947
Loans and Receivables										
Interbank Loans Receivable	14	–	14	–	–	14	–	–	–	14
Loans and Receivables - Others	113,126	24,130	88,996	–	2,384	2,458	1,572	80,350	2,233	88,996
Loans and Receivables Arising from Repurchase Agreements	2,500	–	2,500	2,500	–	–	–	–	–	2,500
Sales Contract Receivable	181		181					155	26	181
Real and Other Properties Acquired	2,438		2,438						2,438	2,438
Total Exposures, Excluding Other Assets	159,081	24,657	134,424	32,482	6,068	2,848	1,572	86,757	4,697	134,424
Other Assets	4,562	–	4,562	–	–	–	–	4,562	–	4,562
Total Exposures, Including Other Assets	₱163,643	₱24,657	₱138,986	₱32,482	₱6,068	₱2,848	₱1,572	₱91,319	₱4,697	₱138,986
Total Risk-weighted On-Balance Sheet Assets not covered by CRM				–	1,214	1,424	1,179	91,319	7,046	102,182
Total risk-weighted On-Balance Sheet Assets covered by CRM				–	–	–	–	–	–	–
Total Risk-weighted On-Balance Sheet Assets					₱1,214	₱1,424	₱1,179	₱91,319	₱7,046	₱102,182
Total Risk-weighted Off-Balance Sheet Assets								16		16
Total Gross Risk-weighted Assets					₱1,214	₱1,424	₱1,179	₱91,335	₱7,046	₱102,198
Addition:										
Counterparty Risk-weighted Assets in the Banking Book					31	136				167
Deduction:										
General loan loss provision [in excess of the amount permitted to be included in Upper Tier 2]								140		140
Total Credit Risk-weighted Assets					₱1,245	₱1,560	₱1,179	₱91,195	₱7,046	₱102,225

2014	Exposures, Net of Specific Provisions	Exposures Covered by CRM, Gross of Materiality Threshold	Exposures, not covered by CRM	Risk Weights 0%	20%	50%	75%	100%	150%	Total
Cash on Hand	₱4,175	₱–	₱4,175	₱4,175	₱–	₱–	₱–	₱–	₱–	₱4,175
Due from Bangko Sentral ng Pilipinas (BSP)	23,923	–	23,923	23,923	–	–	–	–	–	23,923
Due from Other Banks	3,383	–	3,383	–	1,264	780	–	1,339	–	3,383
Available-for-Sale (AFS) Financial Assets	6,124	546	5,578	531	2,704	1,936	–	407	–	5,578
Held to Maturity (HTM) Financial Assets	1,686	–	1,686	–	710	–	–	976	–	1,686
Loans and Receivables										
Interbank Loans Receivable	1,386	–	1,386	–	–	–	–	1,386	–	1,386
Loans and Receivables - Others	95,204	14,873	80,331	–	1,682	3,764	1,849	71,046	1,990	80,331
Loans and Receivables Arising from Repurchase Agreements	800	–	800	800	–	–	–	–	–	800
Sales Contract Receivable	232	–	232	–	–	–	–	192	40	232
Real and Other Properties Acquired	2,046	–	2,046	–	–	–	–	–	2,046	2,046
Total Exposures, Excluding Other Assets	138,959	15,419	123,540	29,429	6,360	6,480	1,849	75,346	4,076	123,540
Other Assets	3,939	–	3,939	–	–	–	–	3,939	–	3,939
Total Exposures, Including Other Assets	₱142,898	₱15,419	₱127,479	₱29,429	₱6,360	₱6,480	₱1,849	₱79,285	₱4,076	₱127,479
Total Risk-weighted On-Balance Sheet Assets not covered by CRM				–	1,272	3,240	1,387	79,285	6,114	91,298
Total risk-weighted On-Balance Sheet Assets covered by CRM				–	–	–	–	–	–	–
Total Risk-weighted On-Balance Sheet Assets				₱–	₱1,272	₱3,240	₱1,387	₱79,285	₱6,114	₱91,298
Total Risk-weighted Off-Balance Sheet Assets								16		16
Total Gross Risk-weighted Assets				₱–	₱1,272	₱3,240	₱1,387	₱79,301	₱6,114	₱91,314
Deduction:										
General loan loss provision [in excess of the amount permitted to be included in Upper Tier 2]								44		44
Total Credit Risk-weighted Assets				₱–	₱1,272	₱3,240	₱1,387	₱79,257	₱6,114	₱91,270

The total other assets are computed as follow (in millions):

	2015	2014
Total Assets	**₱168,181**	₱144,487
General Loan Loss Provisions	**1,164**	958
Deductions:		
Total Exposures Excluding Other Assets	**159,081**	138,959
Financial Assets Held for Trading	**2,824**	279
Unsecured DOSRI	**189**	183
Deferred Tax Assets	**1,582**	1,071
Goodwill	**30**	30
Other Intangible Assets	**391**	316
Significant minority investments	**686**	668
Total Deductions	**164,783**	141,506
Total Other Assets	**₱4,562**	₱3,939

The Bank's total risk-weighted off-balance sheet assets broken down by type of exposures as follow (in millions):

2015				Risk Weights						
	Notional Principal Amount	Credit Conversion Factor (CCF)	Credit Equivalent Amount	0%	20%	50%	75%	100%	150%	Total
Stand-by LCs	₱78	20%	₱16	₱–	₱–	₱–	₱–	₱16	₱–	₱16
Spot foreign exchange contracts (sold)	71	0%	–	–	–	–	–	–	–	–
Late deposits/payments received	57	0%	–	–	–	–	–	–	–	–
Trust Department accounts	2,349	0%	–	–	–	–	–	–	–	–
Others	–									
Sub-Total	2,477		₱–	₱–	₱–	₱–	₱–	₱16	₱–	₱–
Total Notional Principal Amount	₱2,556									
Total Risk-Weighted Off-Balance Sheet Assets				₱–	₱–	₱–	₱–	₱16	₱–	₱16

2014				Risk Weights						
	Notional Principal Amount	Credit Conversion Factor (CCF)	Credit Equivalent Amount	0%	20%	50%	75%	100%	150%	Total
Stand-by LCs	₱79	20%	₱16	₱–	₱–	₱–	₱–	₱16	₱–	₱16
Spot foreign exchange contracts (bought and sold)	–	0%	–	–	–	–	–	–	–	–
Late deposits/payments received	70	0%	–	–	–	–	–	–	–	–
Trust Department accounts	1,752	0%	–	–	–	–	–	–	–	–
Others	–									
Sub-Total	1,823		₱16	₱–	₱–	₱–	₱–	₱16	₱–	₱16
Total Notional Principal Amount	₱1,901									
Total Risk-Weighted Off-Balance Sheet Assets				₱–	₱–	₱–	₱–	₱16	₱–	₱16

Risk-weighted on-balance sheet assets covered by credit risk mitigants were based on collateralized transactions as well as guarantees by the Philippine National Government (PNG) and those guarantors and exposures with highest credit rating. Third party credit assessments were based on the ratings by Standard & Poor's, Moody's, Fitch and PhilRatings on exposures to Sovereigns, MDBs, Banks, LGUs, Government Corporations and Corporates. The Bank has no exposures to securitization structures. It uses the standardized approach to compute the market risk exposures for the Capital Adequacy Ratio. For each separate risk area (credit, market, operational, interest rate risk), the details of risk exposures and assessments are disclosed in Note 5 of the audited financial statements.

The Bank uses the Basic Indicator Approach in computing for the operational risk capital charge.

The description of the main features of capital instruments issued on common shares and those eligible as Tier 2 capital are presented in Note 21 and Note 17 of the audited financial statements, respectively.

SECURITIES AND EXCHANGE COMMISSION
SEC Building EDSA, Greenhills
Mandaluyong City, Metro Manila

The management of Philippine Savings Bank is responsible for the preparation and fair presentation of the financial statements as at December 31, 2015 and 2014 and for each of the three years in the period ended December 31, 2015, including the additional components attached therein, in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the financial statements and submits the same to the stockholders.

Sycip, Gorres Velayo & Co., the independent auditors, appointed by the stockholders for the period December 31, 2015 and 2014, respectively, has examined the financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.

JOSE T. PARDO
Chairman of the Board

VICENTE R. CUNA, JR.
President

PERFECTO RAMON Z. DIMAYUGA, JR.
Chief Finance Officer

SUBSCRIBED AND SWORN TO before me this FEB 2 6 2016 affiants exhibiting to me their passports as follow:

Name	Passport No.	Date of Issue	Place of Issue
Jose T. Pardo	EB6622316	10/23/2012	Manila
Vicente R. Cuna, Jr.	EB6579723	10/17/2012	Manila
Perfecto Ramon Z. Dimayuga, Jr.	EB6350218	09/15/2012	Manila

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SERIES OF 2014

ATTY. JENNIFER M. MAALA
Notary Public until December 31, 2016
Appointment No. M-31 for Makati City
Roll No. 61471; MCLE IV-0016212 - 4/10/13
IBP No. 1017792; 1/5/16; PPLM
PTR No. 0507031; 1/4/16; Parañaque City
20/F Philamlife Tower, Paseo de Roxas, Makati

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

	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.

	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.

	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.

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.

	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.

<u>Expense Recognition</u>
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.

<u>Cash and Cash Equivalents</u>
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.

<u>Provisions</u>
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.

<u>Credit Approval</u>
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.

<u>Borrower Eligibility</u>
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 Individually Impaired	Individually Impaired	Total
	High Grade	**Standard Grade**	**Substandard Grade**	**Unrated**			
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 Individually Impaired	Individually Impaired	Total
	High Grade	Standard Grade	Substandard Grade	Unrated			
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.

<u>Foreign Currency Risk</u>

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.

Regulatory Qualifying Capital

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	Nature, Terms and Conditions
			December 31, 2015
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	Nature, Terms and Conditions
			December 31, 2014
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)

	December 31, 2014		
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
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

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]	Effect of remaining rights of set-off (including rights to set-off financial collateral) that do not meet PAS 32 offsetting criteria: Financial instruments [d]	Fair value of financial collateral [d]	Net exposure [c-d] [e]
December 31, 2015						
Securities Purchased Under Resale Agreements (SPURA) (Note 7)	**₱2,500,000,000**	**₱–**	**₱2,500,000,000**	**₱–**	**₱3,003,833,005**	**₱–**

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]	Effect of remaining rights of set-off (including rights to set-off financial collateral) that do not meet PAS 32 offsetting criteria: Financial instruments [d]	Fair value of financial collateral [d]	Net exposure [c-d] [e]
December 31, 2014						
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

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]	Effect of remaining rights of set-off (including rights to set-off financial collateral) that do not meet PAS 32 offsetting criteria: Financial instruments [d]	Fair value of financial collateral [d]	Net exposure [c-d] [e]
December 31, 2015						
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

CORPORATE INFORMATION
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ANNUAL SHAREHOLDERS' MEETING
Tuesday, 26 April 2016, 3:00 p.m.
PSBank Hall, 19th Floor PSBank Center
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Makati City 1226 Philippines

STOCK LISTING
Philippine Savings Bank (PSBank) common shares are listed and traded at the Philippine Stock Exchange under the ticker symbol "PSB."

SHAREHOLDERS
The number of common shareholders of record as of 2 February 2016 was 1,531.

MARKET INFORMATION
Following are the high and low closing prices of the PSB shares as reported in the PSE for each quarter of the years ending in 2014 and 2015:

Years	Quarters	Highest	Lowest
2014	1st	139.00	136.80
	2nd	137.00	132.00
	3rd	134.90	128.50
	4th	106.00	100.10
2015	1st	104.20	95.00
	2nd	95.50	92.00
	3rd	104.00	85.00
	4th	108.10	100.00

ANNUAL REPORT IN SEC FORM 17-A
The financial report included in this report follows the information contained in the Bank's SEC Form 17-A as required by and submitted to the Securities and Exchange Commission. Copies of this report may be obtained free of charge upon written request to the Office of the Finance Group Head.

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