SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17(2) (b) THEREUNDER

1. For the quarterly period ended **JUNE 30, 2015**

2. SEC Identification Number **A199701584** 3. BIR Tax Identification No. **000-005-469-606**

4. Exact name of issuer as specified in its charter **PHILIPPINE BUSINESS BANK, INC.**

5. **CALOOCAN**
Province, Country or other jurisdiction of incorporation or organization

6. (SEC Use Only)
Industry Classification Code:

7. **350 Rizal Avenue corner 8th Avenue Gracepark, Caloocan City** **1400**
Address of principal office Postal Code

8. **(02) 363-33-33**
Issuer's telephone number, including area code

9. **NOT APPLICABLE**
Former name, former address, and former fiscal year, if changed since last report.

10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common	**429,166,750**

11. Are any or all of the securities listed on a Stock Exchange?

Yes [x] No [ ]

The Bank was listed in Philippine Stock Exchange last February 19, 2013

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

PHILIPPINE STOCK EXCHANGE **COMMON SHARES OF STOCK**

12. Indicate by check mark whether the registrant:

1. has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)

Yes [√] No [ ]

(b) has been subject to such filing requirements for the past ninety (90) days.

Yes [ ] No [√]

PART I – FINANCIAL INFORMATION

Item I:
Management's Discussion & Analysis of Financial Position and Results of Operations

Item II:
Financial Statements (Attachment 1 - Unaudited Interim Financial Statements)

PART II – OTHER INFORMATION

Please refer to the following:

Attachment 2 – Aging of Past Due Loans and Other Receivables
Attachment 3 – Consolidated Financial Ratios

There are no material disclosures that have not been reported under SEC Form 17-C during the period covered by this report.

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PHILIPPINE BUSINESS BANK, INC.
Issuer

By:

ROLANDO R. AVANTE
President & CEO

ALICE P. RODIL
SVP - Comptroller

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

The accompanying financial reporting package (FRP) of Philippine Business Bank ("PBB" or the "Bank") which comprise the Bank's financial position as of June 30, 2015 and December 31, 2014 and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the six-months periods ending June 30, 2015 and June 30, 2014 have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

A. Management's Discussion and Analysis

	For the six-months ended			
	6/30/2015	6/30/2014	Variance	%
Core income				
Net interest income	₱ 1,207,558,189	₱ 1,071,618,032	₱ 135,940,157	12.7
Service charges, fees and commissions	42,870,390	38,202,374	4,668,016	12.2
Miscellaneous	28,619,625	24,889,826	3,729,799	15.0
	1,279,048,204	1,134,710,232	144,337,972	12.7
Non-interest expenses	(849,844,868)	(746,909,908)	102,934,960	13.8
Core income	**429,203,336**	**387,800,324**	**41,403,012**	**10.7**

The Bank continues to grow its core lending business as income increased by 10.7% to ₱429.2 million.

Net interest income for the six month period increased by 12.7% as the interest income in loans and other receivables increased by ₱213.7 million, a 19.1% increase Year-over-Year (YoY) while interest expense increased by ₱76.9 million, a 27.6% growth YoY.

Service charges, fees and commissions increased by ₱4.7 million, or 12.2% YoY. Miscellaneous income grew by ₱3.7 million or 15.0%, which bolstered core revenue to ₱1.28 billion, up 12.7%.

However, non-interest expenses grew by 13.8% YoY primarily as a result of the growth in business volumes and the consequent increase in support function requirements from the Bank's continuing expansion of its branch network. As of June 30, 2015 the bank has 126 branches, an addition of five (5) branches over the last quarter.

As a result, core income net of operating expenses grew 10.7% or ₱41.4 million YoY, as the Bank continued to strengthen its position in the SME-lending business.

	For the six-months ended			
	6/30/2015	6/30/2014	Variance	%
Core income	₱ 429,203,336	₱ 387,800,324	₱ 41,403,012	10.7
Trading gains (losses)	48,222,448	(10,215,346)	58,437,794	(572.1)
Pre-tax, pre-provision income	**477,425,784**	**377,584,978**	**99,840,806**	**26.4**
Loan loss provisions	(85,925,000)	(34,000,000)	51,925,000	152.7
Taxes	(91,258,465)	(85,252,501)	6,005,964	7.0
Net income	300,242,319	258,332,477	41,909,842	16.2

Moreover, the Bank's trading gains amounted to ₱48.2 million this year from a loss of ₱10.2 million over the same period last year. Therefore, pre-tax pre-provision income increased to ₱477.4 million from last year's ₱ 377.6 million, a 26.4% increase YoY.

The Bank increased its provisioning by ₱51.9 million for the first six months of the year. Net income stood at ₱300.2 million, 16.2% higher YoY from last year's ₱258.3 million.

Annualized Return on Equity (ROE) and Return on Assets (ROA) stood at 7.2% and 1.0%, respectively.

For the quarter ended June 30, 2015 and 2015:

	For the quarter ended			
	6/30/2015	6/30/2014	Variance	%
Core income				
Net interest income	₱ 605,318,588	₱ 551,196,418	₱ 54,122,170	9.8
Service charges, fees and commissions	21,435,034	20,200,433	1,234,601	6.1
Miscellaneous	11,911,947	9,831,338	2,080,609	21.2
	638,665,569	581,228,189	57,437,380	9.9
Non-interest expenses	(429,910,524)	(397,616,159)	32,294,365	8.1
Core income	**208,755,045**	**183,612,030**	**25,143,015**	**13.7**

Net interest income increased by ₱54.1 million or 9.8% compared with the same quarter last year as interest income on loans and receivables grew by ₱60.8 million, a 10.0% growth year-over-year (YoY) while interest expense showed a growth of 25.6% to ₱179.5 million.

Service charges, fees and commissions increased by ₱1.2 million or 6.1%. Miscellaneous fees grew to ₱11.9 million or 21.2% as business volumes continued to expand on the back of the bank's expansion program.

The bank's branch expansion plan contributed to the increase of non-interest expense by ₱32.3 million or 8.1%. Five more branches were opened during the quarter on top of the five opened in the first quarter of the year for a total of ten new branches over the last six months. As of June 30 2015, the Bank had a total of 126 branches nationwide.

By way of sustaining its solid position in the SME-lending business, core income for the quarter stood at ₱208.8 million, 13.7% higher than the last year's ₱183.6 million.

		For the quarter ended			
		6/30/2015	6/30/2014	Variance	%
Core income	₱	208,755,045	₱ 183,612,030	₱ 25,143,015	13.7
Trading gains (losses)		18,187,606	32,161,665	13,974,059	(43.4)
Pre-tax, pre-provision income		**226,942,651**	**215,773,695**	**11,168,956**	**5.2**
Loan loss provisions	(	10,000,000)	(23,000,000)	(13,000,000)	(56.5)
Taxes	(	57,610,137)	(47,300,982)	10,309,155	21.8
Net income		159,332,514	145,472,713	13,859,801	9.5

Trading gains amounted to ₱18.1 million for the quarter versus a gain of ₱32.1 million last year. As a result, pre-tax pre-provision income increased by 5.2% or ₱11.2 million, slower than the growth in the traditional lending business.

The Bank provided an additional ₱10.0 million in provisions for the quarter. Net income was up ₱13.9 million, or 9.5% to ₱159.3 million from ₱145.5 million.

Financial condition as of June 30, 2015 versus December 31, 2014:

Loans and receivables decreased by 4.1% from ₱40.1 billion to ₱38.5 billion as of June 30, 2015. On the other hand, the Bank's loan portfolio from its branch lending group has grown rapidly from approximately ₱2.5 billion by end-2011 to roughly ₱15.3 billion. The Bank's aggressive network expansion over the last three and a half years has clearly contributed to the bank's overall performance.

The bank's NPL ratios increased 29 basis points from 2.33% in the same period last year to 2.62% as of June 2015. The bank's NPL ratio as of end of 2014 was 1.57%.

Trading and Investment Securities increased by 28% or ₱2.2 billion while Investment Properties decreased 7.5% from ₱705.7 million to ₱656.7 million for the first six months of 2015. Total resources increased ₱1.3 trillion from ₱57.9 billion to ₱59.2 billion, up 2.3%.

On the liabilities side, Deposit Liabilities increased by ₱1 billion from ₱46.6 billion to ₱47.7 billion, up 2.2%. Savings Deposits decreased by ₱1.6 to ₱15.7 billion from ₱17.2 billion in December 31, 2014, while Time Deposits stood at ₱31.4 billion, 9.3% higher. Demand Deposits decreased by ₱72.6 million from ₱681 million to ₱ 608.4 million, a decrease of 10.7%.

Total equity has grown by ₱369.6 million to ₱8.4 billion, up 4.6% as of June 30, 2015. The incrementation was due to the improvement on the Banks trading and investment securities at fair value through profit or loss of ₱1.6 billion from the antecedent year's ₱171.9 million, up 944% along with the increase in net income of 9.5%.

B. Key Performance Indicators

Capital Adequacy Ratio, CAR, which is a measure of a bank's financial strength, stood at 20.17% by the end of the second quarter which is 0.17% higher than the previous quarter.

Asset Quality: The Bank's non-performing loans (NPL) ratio increased to 2.62% as of June 30, 2015 from 1.57% in December 31, 2014.

Profitability: Return on equity (ROE) increased from 6.9% in December 31, 2014 to 7.32% in June 30, 2015. Net interest margin decreased from 4.5% to 4.3% but remained flat from the previous quarter.

Liquidity: The Bank's loans-to-deposit ratio as of June 30, 2015 was at 79.57% from 84.7% in December 31, 2014.

Cost efficiency: Cost-to-income ratio improved to 64.3% as of the end of June while in December 31, 2015, the ratio was at 68.3%.

C. Discussions on Key Variable and Other Qualitative and Quantitative Factors

<u>Vertical and Horizontal Analysis</u>

Financial Condition (June 30, 2015 vs. December 31, 2014)

- PBB's assets reached ₱59.2 billion as of June 30, 2015. This is 2.3% higher compared to ₱57.9 billion as of December 31, 2014. Significant changes (more than 5%) in assets were registered in the following accounts:

  a. Cash and Other Cash items declined by ₱331.8 million or 28.3% due to cash management and to reduce non-interest bearing assets.

  b. Due from BSP increased by ₱1,297.5 million or 28.5% due to aggressive generation of deposits in the first six months of the year.

  c. Due from Other Banks decreased by ₱851.2 million or 41.9%.

  d. Investment Securities at fair value through profit or loss increased by ₱1,623.4 million or 944.4%% due to acquisition of various government securities.

  e. Available-For-Sale securities increased by ₱389.4 million due to ROP Dollar securities movement.

  f. Real and Other Properties Owned decreased by 6.9% or ₱49 million due to the transfer of past due accounts to foreclosed properties during first six months of 2015.

- PBB's liabilities amounted to ₱47.7 billion as of June 30, 2015. This is ₱1 billion or 2.2% higher as compared to December 31, 2014 level of ₱46.6 billion, largely due to an increase in Time Deposit.

- High cost liability in the form of Bills Payable was reduced greatly by 98.4% or ₱304.6 million from ₱309.5 million in December 2014 to ₱4.9 million in June 2015. This is because of the pre-termination of the re-purchase agreements.

Results of Operations for the Second quarter ended June 30, 2015 and June 30, 2014

- The Bank's core income, composed of net interest income and fee-based income and exclusive of trading gains, increased from ₱183.6 million to ₱208.8 million or a 13.69% growth rate. PBB posted a ₱159.3 million net income for the second quarter ending June 30, 2015. This is a 9.5% or ₱13.9 million increase compared to the same quarter last year. The increase was due to the growth in interest income on loans by ₱60.8 million or 10% from ₱605.9 million in the second quarter of 2014 to ₱666.7 million in the second quarter of 2015. Difficult market conditions resulted in a decrease in trading gain of ₱14 million in the second quarter of 2015 compared to trading income booked in the second quarter of June last year amounting to ₱32.1 or a net decrease of 43.5%.

- Interest income on investment and trading securities grew by 26.7% to ₱105.1 million in the second quarter of 2015 from ₱83 million in the second quarter of 2014. Total interest income increased by 13.2% or ₱91.8 million compared to the same period last year.

- Service charges, fees and commissions increased by 6.1% from ₱20.2 million in the second quarter of 2014 to ₱21.4 million for the same period this year resulting from an increase in the volume of transaction of consumer lending.

- Miscellaneous Income increased in the second quarter of 2015 by 21.2% from ₱9.8 million in 2014 to ₱11.9 million in the same period of 2015.

- Manpower costs continued to rise from ₱118.7 million in the second quarter of 2014 to ₱123.4 million in the same quarter this year on account of business expansion and a larger branch network.

- The Bank continued its conservative provisioning on account of its loan contraction by sustaining ₱10.0 million for general loan loss provision.

- Taxes and licenses increased by 70.0% as a direct result of increased operating income, Depreciation and amortization, Insurance expense increased by 7.1% and 29% respectively, and Miscellaneous expense decreased by 29.9% on account of business expansion.

Significant Elements of Income or Loss

Significant elements of the net income of the Bank for the period ended June 30, 2015 came from its operations. A significant portion came from the core business of interest income on loans and trading gains/losses from the sale of Peso securities.

Known trends, demands, commitments, events or uncertainties

There are no known demands, commitments, events or uncertainties that will have a material impact on the Bank's liquidity within the next twelve (12) months.

Events that will trigger direct or contingent financial obligation

There are no events that will trigger direct or contingent financial obligation that is material to the Bank, including any default or acceleration of an obligation.

Material off-balance sheet transactions, arrangements or obligations

There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Bank with unsolicited entities or other persons created during the reporting period other than those disclosed in the financial statements.

Significant Elements of Income or Loss

Significant elements of the consolidated net income for the six months period ended June 30, 2015 and 2014 came from its continuing operations.

Seasonal Aspects

There are no seasonal aspects that had a material effect on the Bank's financial position and results of operations.

Attachment 1

PHILIPPINE BUSINESS BANK, INC.
As of June 30, 2015 (Unaudited) and December 31, 2014 (Audited)
And for the Six Months Ended June 30, 2015 and 2014 (Unaudited)

PHILIPPINE BUSINESS BANK, INC. A SAVINGS BANK
UNAUDITED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2015 AND December 31, 2014
(Amounts in Philippine Pesos)

		Unaudited June 30, 2015		Audited December 31, 2014
RESOURCES				
CASH AND OTHER CASH ITEMS	P	842,242,650	P	1,174,011,464
DUE FROM BANGKO SENTRAL NG PILIPINAS		5,851,969,158		4,554,441,827
DUE FROM OTHER BANKS		1,180,340,846		2,031,581,088
TRADING AND INVESTMENT SECURITIES				
At Fair Value Through Profit or Loss		1,795,280,526		171,891,804
Available-For-Sale		2,105,143,639		1,715,736,721
Held-To-Maturity		6,120,608,171		5,962,970,252
LOANS AND OTHER RECEIVABLES - Net		38,451,160,010		40,110,256,377
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net		541,175,623		515,766,476
INVESTMENT PROPERTIES - Net		656,723,797		705,735,722
OTHER RESOURCES - Net		1,658,041,561		912,123,484
TOTAL RESOURCES	P	59,202,685,981	P	57,854,515,215
LIABILITIES AND EQUITY				
DEPOSIT LIABILITIES				
Demand	P	608,430,918	P	681,026,719
Savings		15,669,669,218		17,224,051,369
Time		31,375,812,765		28,714,329,538
Total Deposit Liabilities		47,653,912,901		46,619,407,626
BILLS PAYABLE		4,949,377		309,521,852
ACCRUED EXPENSES AND OTHER LIABILITIES		3,151,833,268		2,903,219,245
Total Liabilities		50,810,695,546		49,832,148,723
EQUITY		8,391,990,435		8,022,366,492
TOTAL LIABILITIES AND EQUITY	P	59,202,685,981	P	57,854,515,215

PHILIPPINE BUSINESS BANK, INC. A SAVINGS BANK
UNAUDITED STATEMENTS OF INCOME
FOR SIX MONTHS PERIOD ENDED JUNE 30, 2015 AND JUNE 30, 2014
(Amounts in Philippine Pesos)

	For the quarter ended June 30, 2015	For the quarter ended June 30, 2014	Unaudited For the six months ended June 30, 2015	Unaudited For the six months ended June 30, 2014
INTEREST INCOME				
Loans and other receivables	**P 666,721,836**	P 605,883,994	**P 1,331,685,917**	P 1,117,972,111
Investment and trading securities	**105,110,870**	82,955,769	**204,155,664**	216,855,961
Securities purchased under reverse repurchase agreements	-	-	-	-
Due from Bangko Sentral ng Pilipinas and other banks	**14,415,265**	5,562,369	**27,221,266**	15,386,692
	786,247,971	694,402,132	**1,563,062,847**	1,350,214,764
INTEREST EXPENSE				
Deposit liabilities	**179,547,552**	142,918,884	**352,267,325**	277,444,465
Bills payable	**1,381,831**	286,830	**3,237,333**	1,152,267
	180,929,383	143,205,714	**355,504,658**	278,596,732
NET INTEREST INCOME	**605,318,588**	551,196,418	**1,207,558,189**	1,071,618,032
IMPAIRMENT LOSSES	**10,000,000**	23,000,000	**85,925,000**	34,000,000
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES	**595,318,588**	528,196,418	**1,121,633,189**	1,037,618,032
OTHER INCOME				
Trading gains - net	**18,187,606**	32,161,665	**48,222,448**	(10,215,346)
Service charges, fees and commissions	**21,435,034**	20,200,433	**42,870,390**	38,202,374
Miscellaneous	**11,911,947**	9,831,338	**28,619,625**	24,889,826
	51,534,587	62,193,436	**119,712,463**	52,876,854
OTHER EXPENSES				
Salaries and other employee benefits	**123,421,226**	118,727,824	**259,957,022**	228,814,431
Taxes and licenses	**119,701,013**	70,398,880	**164,536,105**	131,663,638
Management and other professional fees	**28,658,174**	26,620,078	**47,701,683**	44,975,187
Depreciation and amortization	**37,930,730**	35,432,620	**73,887,254**	70,113,281
Insurance	**34,190,026**	26,507,942	**59,365,741**	48,776,857
Representation and entertainment	**7,411,514**	7,891,822	**14,745,661**	16,859,749
Miscellaneous	**78,597,841**	112,036,993	**229,651,402**	205,706,765
	429,910,524	397,616,159	**849,844,868**	746,909,908
PROFIT BEFORE TAX	**216,942,651**	192,773,695	**391,500,784**	343,584,978
TAX EXPENSE	**57,610,137**	47,300,982	**91,258,465**	85,252,501
NET PROFIT	**P 159,332,514**	P 145,472,713	**P 300,242,319**	P 258,332,477
Earnings Per Share				
Basic			**P 0.69**	P 0.60
Diluted			**P 0.69**	P 0.60

PHILIPPINE BUSINESS BANK, INC. A SAVINGS BANK
UNAUDITED STATEMENTS OF COMPREHENSIVE INCOME
FOR SIX MONTHS PERIOD ENDED JUNE 30, 2015,AND JUNE 30, 2014
(Amounts in Philippine Pesos)

	For the quarter ended June 30, 2015	For the quarter ended June 30, 2014	**Unaudited For the six months ended June 30, 2015**	Unaudited For the six months ended June 30, 2014
NET PROFIT	**P 159,332,514**	P 145,472,713	**P 300,242,319**	P 258,332,477
OTHER COMPREHENSIVE INCOME				
Fair value loss on available-for-sale securities during the year - net	**(410,524.00)**	(8,839,767.00)	**(188,780.00)**	121,384,211.00
Fair value (loss) gain recycled to profit or loss	**(88,254,345.00)**	325,258,242.00	**(31,009,613.00)**	321,804,551.00
Amortization of fair value loss on reclassified securities	**(8,731,995.00)**	-	**(6,043,316.00)**	-
	(97,396,864.00)	316,418,475.00	**(37,241,709.00)**	443,188,762.00
TOTAL COMPREHENSIVE INCOME	**P 61,935,650**	P 461,891,188	**P 263,000,610**	P 701,521,239

PHILIPPINE BUSINESS BANK, INC. A SAVINGS BANK
UNAUDITED STATEMENTS OF CHANGES IN EQUITY
FOR SIX MONTHS PERIOD ENDED JUNE 30, 2015, AND JUNE 30, 2014
(Amounts in Philippine Pesos)

	Capital Stock		Additional Paid-in	Surplus		Unrealized Fair Value Gains (Losses) on Available-for-sale	Accumulated Actuarial	Total
	Preferred Stock	Common Stock	Capital	Appropriated	Unappropriated	Securities	Gains (Losses)	Equity
BALANCE AS OF JANUARY 1, 2015	620,000,000	4,291,667,500	1,998,289,444	-	1,768,430,192	(519,742,021)	(29,655,290)	8,128,989,825
Prior period adjustment	-	-	-	-	-	-		-
Proceeds from capital stock issuance	-	-	-	-	-	-		-
Total comprehensive income (loss)	-	-		-	300,242,319	(37,241,709)	-	263,000,610
BALANCE AS OF JUNE 30, 2015	**620,000,000**	**4,291,667,500**	**1,998,289,444**	**-**	**2,068,672,511**	**(556,983,730)**	**(29,655,290)**	**8,391,990,435**
BALANCE AS OF JANUARY 1, 2014	620,000,000	3,433,334,000	1,998,396,816	P 1,764,202	2,045,920,225	(1,043,281,000)	(29,655,291)	7,026,478,952
Prior period adjustment	-	-	(107,372)	-	942,862	-		835,490
Cash dividends	-	-		-	(62,325,500)	-		(62,325,500)
Total comprehensive income (loss)	-	-	-	-	258,332,477	443,188,762	-	701,521,239
BALANCE AS OF JUNE 30, 2014	**620,000,000**	**3,433,334,000**	**1,998,289,444**	**1,764,202**	**2,242,870,064**	**(600,092,238)**	**(29,655,291)**	**7,666,510,181**

PHILIPPINE BUSINESS BANK, INC. A SAVINGS BANK
UNAUDITED STATEMENTS OF CASH FLOWS
FOR SIX MONTHS PERIOD ENDED JUNE 30, 2015, AND JUNE 30, 2014
(Amounts in Philippine Pesos)

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	P 391,500,784	P 343,584,978
Adjustments for:		
Depreciation and amortization	73,887,254	35,623,526
Impairment losses	85,925,000	34,000,000
	-	-
Operating profit before working capital changes	551,313,038	413,208,504
Decrease (increase) in financial assets at fair value through profit or loss	(1,623,388,722)	(336,239,933)
Increase (decrease) in hold-to-maturity	(157,637,919)	(5,961,887,092)
Decrease in AFS		5,697,550,512
Increase in loans and other receivables	1,573,171,367	(3,256,817,615)
Decrease (increase) in other resources	(720,140,577)	(281,131,406)
Increase (decrese) in deposit liabilities	1,034,505,275	4,029,111,807
Increase (decrease) in accrued expenses and other liabilities	410,762,812	278,004,905
	-	-
Cash generated from (used in) operations	1,068,585,274	581,799,682
Cash paid for income taxes	(172,561,421)	(74,804,221)
Net Cash From (Used in) Operating Activities	896,023,853	506,995,461
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of available-for-sale (AFS) securities	1,293,884,829	98,605,790
Proceeds from sale of AFS securities	(1,720,533,456)	344,582,972
Proceeds from sale of investment and other properties	49,011,925	31,517,843
Net acquisitions of bank premises, furniture, fixtures and equipment	(99,296,401)	(57,249,551)
	-	-
Net Cash From (Used In) Investing Activities	(476,933,103)	417,457,054
CASH FLOWS FROM FINANCING ACTIVITIES		
Net borrowings (payments) of bills payable	(304,572,475)	(172,598,995)
	-	-
Net Cash From (Used in) Financing Activities	(304,572,475)	(172,598,995)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	114,518,275	751,853,520
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		
Cash and other cash items	1,174,011,464	735,667,668
Due from Bangko Sentral ng Pilipinas	4,554,441,827	3,597,209,300
Due from other banks	2,031,581,088	671,482,943
Securities purchased under reverse repurchase agreements	-	-
	7,760,034,379	5,004,359,911
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		
Cash and other cash items	842,242,650	560,825,105
Due from Bangko Sentral ng Pilipinas	5,851,969,158	4,071,504,612
Due from other banks	1,180,340,846	1,123,883,714
Securities purchased under reverse repurchase agreements	-	-
	7,874,552,654	5,756,213,431

PHILIPPINE BUSINESS BANK, INC. A SAVINGS BANK
NOTES TO UNAUDITED FINANCIAL STATEMENTS
JUNE 30, 2015 AND DECEMBER 31, 2014
(Amounts in Philippine Pesos or As Indicated)

A. CORPORATE MATTERS

1.1 Incorporation and Operations

Philippine Business Bank, Inc. A Savings Bank (the Bank or PBB) was incorporated in the Philippines on January 28, 1997 to engage in the business of thrift banking. It was authorized to engage in foreign currency deposit operations on August 27, 1997 and in trust operations on November 13, 2003. As a banking institution, the Bank's operations are regulated and supervised by the Bangko Sentral ng Pilipinas (BSP). In this regard, the Bank is required to comply with rules and regulations of the BSP such as those relating to maintenance of reserve requirements on deposit liabilities and those relating to adoption and use of safe and sound banking practices, among others, as promulgated by the BSP.
The Bank's activities are subject to the provisions of the General Banking Law of 2000 (Republic Act No. 8791) and other relevant laws. On April 1, 2010, PBB is the first savings bank in the Philippines that obtained the BSP approval to issue foreign letters of credit and pay/accept/negotiate import/export drafts/bills of exchange under Republic Act No. 8791 and 7906 and the Manual of Regulations for Banks.

On January 9, 2013, the Philippine Stock Exchange (PSE) approved the Bank's application for the listing of its common shares. The approval covered the initial public offering (IPO) of 101,333,400 unissued common shares of the Bank at P31.50 per share and the listing of those shares in the PSE's main board on February 19, 2013 (see Note 21.1).

As of June 30, 2015 and December 31, 2014, the Bank operates within the Philippines with 125 and 116 branches, respectively, located nationwide.

The Bank's registered address, which is also its principal place of business, is at 350 Rizal Avenue Extension corner 8th Avenue, Grace Park, Caloocan City.

1.2 Approval of the Financial Statements

The financial statements of the Bank as of and for the year ended June 30, 2015 (including the comparative financial statements as of December 31, 2014 and for the years ended June 30, 2014) were authorized for issue by the Bank's Board of Directors (BOD)

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

◦ *Basis of Preparation of Financial Statements*

a) *Statement of Compliance with Philippine Financial Reporting Standards*

The financial statements of the Bank have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC), from the pronouncements issued by the International Accounting Standards Board, and approved by the Philippine Board of Accountancy (BOA).

The financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

b) *Presentation of Financial Statements*

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Bank presents a statement of comprehensive income separate from the statement of profit or loss.

The Bank presents a third statement of financial position as of the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are not required to be disclosed.

c) *Functional and Presentation Currency*

These financial statements are presented in Philippine pesos, the Bank's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the financial statements of the Bank are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the Bank operates. The financial statements of the Bank's foreign currency deposit unit (FCDU) which is reported in its functional currency, the United States (US) dollars, are translated into Philippine peso using the closing exchange rate (for the statement of financial position accounts) and average exchange rate during the year (for profit and loss accounts).

- ***Adoption of Amended PFRS and Interpretations***

(a) *Effective in 2014 that are Relevant to the Bank*

In 2014, the Bank adopted for the first time the following amendments and interpretations to PFRS that are relevant to the Bank and effective for financial statements for the annual period beginning on or after January 1, 2014:

PAS 32 (Amendment)	:	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities
PAS 36 (Amendment)	:	Impairment of Assets – Recoverable Amount Disclosures for Non-financial Assets
PAS 39 (Amendment)	:	Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting
Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 21	:	Levies

Discussed below are the relevant information about these amended standards and interpretation.

(1) PAS 32 (Amendment), *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*. The amendment provides guidance to address inconsistencies in applying the criteria for offsetting financial assets and financial liabilities. It clarifies that an entity must currently have a right of set-off that is not contingent on a future event, and must be legally enforceable in the normal course of business; in the event of default; and, in the event of insolvency or bankruptcy of the entity and all of the counterparties. The amendment also clarifies that gross settlement mechanisms (such as through a clearing house) with features that both eliminate credit and liquidity risks and process receivables and payables in a single settlement process, will satisfy the criterion for net settlement. The Bank's existing offsetting and settlement arrangements for its financial instruments with its counterparties are not affected by the amendment; hence, such did not have an impact on the presentation of financial assets and financial liabilities on the Bank's financial statements for any periods presented.

(2) PAS 36 (Amendment), *Impairment of Assets – Recoverable Amount Disclosures for Non-financial Assets.* The amendment clarifies that disclosure of information about the recoverable amount of individual asset (including goodwill) or a cash-generating unit is required only when an impairment loss has been recognized or reversed during the reporting period. If the recoverable amount is determined based on the asset's or cash-generating unit's fair value less costs of disposal, additional disclosures on fair value measurement required under PFRS 13, *Fair Value Measurement*, such as but not limited to the fair value hierarchy, valuation technique used and key assumptions applied should be provided in the financial statements. This amendment did not result in additional disclosures in the financial statements since the recoverable amounts of the Bank's non-financial assets where impairment losses have been recognized were determined based on value-in-use which have been adequately disclosed in accordance with PAS 36 (see Note 16).

(3) PAS 39 (Amendment), *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*. The amendment provides some relief from the requirements on hedge accounting by allowing entities to continue the use of hedge accounting when a derivative is novated to a clearing counterparty resulting in termination or expiration of the original hedging instrument as a consequence of laws and regulations, or the introduction thereof. The Bank enters into transactions involving derivative instrument; however, since it does not apply hedge accounting, the amendment did not have any impact on the Bank's financial statements.

(4) Philippine Interpretation IFRIC 21, *Levies.* This interpretation clarifies that the obligating event as one of the criteria under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, for the recognition of a liability for levy imposed by a government is the activity described in the relevant legislation that triggers the payment of the levy. Accordingly, the liability is recognized in the financial statements progressively if the obligating event occurs over a period of time and if an obligation is triggered on reaching a minimum threshold, the liability is recognized when that minimum threshold is reached. This amendment had no significant impact on the Bank's financial statements.

d) *Effective in 2014 that are not Relevant to the Bank*

Among the amendments to PFRS which are effective for the annual period beginning or after January 1, 2014, the Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and PAS 27, *Separate Financial Statements*, in relation to the exception from consolidation for an investment entity of its investments in subsidiaries are not relevant to the Bank.

e) *Effective Subsequent to 2014 but not Adopted Early*

There are new PFRS, amendments and annual improvements to existing standards effective for annual periods subsequent to 2014, which are issued by the FRSC, subject to the approval of the BOA. Management will adopt the following relevant pronouncements in accordance with their transitional provisions and, unless otherwise stated, none of these are expected to have significant impact on the Bank's financial statements:

2 PAS 19 (Amendment), *Employee Benefits – Defined Benefit Plans – Employee Contributions* (effective from July 1, 2014). The amendment clarifies that if the amount of the contributions from employees or third parties is dependent on the number of years of service, an entity shall attribute the contributions to periods of service using the same attribution method (i.e., either using the plan's contribution formula or on a straight-line basis) for the gross benefit.

3 PAS 1 (Amendment), *Presentation of Financial Statements – Disclosure Initiative* (effective from January 1, 2016). The amendment encourages entities to apply professional judgment in presenting and disclosing information in the financial statements. Accordingly, it clarifies that materiality applies to the whole financial statements and an entity shall not reduce the understandability of the financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. Moreover, the amendment clarifies that in determining the order of presenting the notes and disclosures, an entity shall consider the understandability and comparability of the financial statements.

4 PAS 16 (Amendment), *Property, Plant and Equipment*, and PAS 38 (Amendment), *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization* (effective from January 1, 2016). The amendment in PAS 16 clarifies that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment. In addition, amendment to PAS 38 introduces a rebuttable presumption that an amortization method that is based on the revenue generated by an activity that includes the use of an intangible asset is not appropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of an intangible asset are highly correlated. The amendment also provides guidance that the expected future reductions in the selling price of an item that was produced using the asset could indicate an expectation of technological or commercial obsolescence of an asset, which may reflect a reduction of the future economic benefits embodied in the asset.

5 PFRS 9 (2014), *Financial Instruments* (effective from January 1, 2018). This new standard on financial instruments will eventually replace PAS 39 and PFRS 9 (2009, 2010 and 2013 versions). This standard contains, among others, the following:

3.01 three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments;

3.02 an expected loss model in determining impairment of all financial assets that are not measured at FVTPL, which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset; and,

3.03 a new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

In accordance with the financial asset classification principle of PFRS 9 (2014), a financial asset is classified and measured at amortized cost if the asset is held within a business model whose objective is to hold financial assets in order to collect the contractual cash flows that represent solely payments of principal and interest (SPPI) on the principal outstanding. Moreover, a financial asset is classified and subsequently measured at fair value through other comprehensive income if it meets the SPPI criterion and is held in a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets. All other financial assets are measured at FVTPL.

In addition, PFRS 9 (2014) allows entities to make an irrevocable election to present subsequent changes in the fair value of an equity instrument that is not held for trading in other comprehensive income.

The accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether or not they are closely related, and, in most arrangements, does not require separation from the host contract.

For liabilities, the standard retains most of the PAS 39 requirements, which include amortized cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The amendment also requires changes in the fair value of an entity's own debt instruments caused by changes in its own credit quality to be recognized in other comprehensive income rather than in profit or loss.

The Bank does not expect to implement and adopt PFRS 9 (2014) until its effective date. In addition, management is currently assessing the impact of PFRS 9 (2014) on the financial statements of the Bank and it will conduct a comprehensive study of the potential impact of this standard prior to its mandatory adoption date to assess the impact of all changes.

6 Annual Improvements to PFRS. Annual improvements to PFRS (2010-2012 Cycle) and PFRS (2011-2013 Cycle) effective for annual periods beginning on or after July 1, 2014, and to PFRS (2012-2014 Cycle) effective for annual periods beginning on or after January 1, 2016, made minor amendments to a number of PFRS. Among those improvements, the following amendments are relevant to the Bank but management does not expect those to have material impact on the Bank's financial statements:

Annual Improvements to PFRS (2010-2012 Cycle)

(a) PAS 16 (Amendment), *Property, Plant and Equipment*, and PAS 38 (Amendment), *Intangible Assets*. The amendments clarify that when an item of property, plant and equipment, and intangible assets is revalued, the gross carrying amount is adjusted in a manner that is consistent with a revaluation of the carrying amount of the asset.

(b) PAS 24 (*Amendment*), *Related Party Disclosures*. The amendment clarifies that an entity providing key management services to a reporting entity is deemed to be a related party of the latter. It also clarifies that the information required to be disclosed in the financial statements are the amounts incurred by the reporting entity for key management personnel services that are provided by a separate management entity and not the amounts of compensation paid or payable by the management entity to its employees or directors.

(c) PFRS 8 (Amendment), *Operating Segments*. This amendment requires disclosure of the judgments made by management in applying the aggregation criteria to operating segments. This includes a description of the segments, which have been aggregated and the economic indicators, which have been assessed in determining that the aggregated segments share similar economic characteristics. It further clarifies the requirement to disclose for the reconciliations of segment assets to the entity's assets if that amount is regularly provided to the chief operating decision maker.

(d) PFRS 13 (Amendment), *Fair Value Measurement*. The amendment in the basis of conclusion of PFRS 13 clarifies that issuing PFRS 13 and amending certain provisions of PFRS 9 and PAS 39 related to discounting of financial instruments did not remove the ability to measure short-term receivables and payables with no stated interest rate on an undiscounted basis, when the effect of not discounting is immaterial.

Annual Improvements to PFRS (2011-2013 Cycle)

α. PFRS 13 (Amendment), *Fair Value Measurement*. The amendment clarifies that the scope of the exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis (the portfolio exception) applies to all contracts within the scope of and accounted for in accordance with PAS 39 or PFRS 9, regardless of whether they meet the definition of financial assets or financial liabilities as defined in PAS 32.

β. PAS 40 (Amendment), *Investment Property*. The amendment clarifies the interrelationship of PFRS 3 and PAS 40 in determining the classification of property as an investment property or owner-occupied property, and explicitly requires an entity to use judgment in determining whether the acquisition of an investment property is an acquisition of an asset or a group of asset in accordance with PAS 40, or a business combination in accordance with PFRS 3.

χ. PFRS 3 (Amendment), *Business Combinations*. It clarifies that PFRS 3 does not apply to the accounting for the formation of any joint arrangement under PFRS 11, *Joint Arrangement*, in the financial statements of the joint arrangement itself.

Annual Improvements to PFRS (2012-2014 Cycle)

1. PAS 19 (Amendment), *Employee Benefits*. The amendment clarifies that the currency and term of the high quality corporate bonds, which were used to determine the discount rate for post-employment benefit obligations, shall be made consistent with the currency and estimated term of the post-employment benefit obligations.

2. PAS 34 (Amendment), *Interim Financial Reporting - Disclosure of Information "Elsewhere in the Interim Financial Report"*. The amendment clarifies the meaning of disclosure of information "elsewhere in the interim financial report" and requires the inclusion of a cross-reference from the interim financial statements to the location of this referenced information. The amendment also specifies that this information must be available to users of the interim financial statements on the same terms as the interim financial statements and at the same time, otherwise the interim financial statements will be incomplete.

3. PFRS 5 (Amendment), *Non-current Assets Held for Sale and Discontinued Operations*. The amendment clarifies that when an entity reclassifies an asset (or disposal group) directly from being held for sale to being held for distribution (or vice-versa), the accounting guidance in paragraphs 27-29 of PFRS 5 does not apply. It also states that when an entity determines that the asset (or disposal group) is no longer available for immediate distribution or that the distribution is no longer highly probable, it should cease held-for-distribution accounting and apply the guidance in paragraphs 27-29 of PFRS 5.

4. PFRS 7 (Amendment), *Financial Instruments – Disclosures*. The amendment provides additional guidance to help entities identify the circumstances under which a contract to "service" financial assets is considered to be a continuing involvement in those assets for the purposes of applying the disclosure requirements of PFRS 7. Such circumstances commonly arise when, for example, the servicing is dependent on the amount or timing of cash flows collected from the transferred asset or when a fixed fee is not paid in full due to non-performance of that asset.

5. PFRS 7 (Amendment), *Financial Instruments - Applicability of Amendments to PFRS 7 to Condensed Interim Financial Statements*. This amendment clarifies that the additional disclosure required by the recent amendments to PFRS 7 related to offsetting financial assets and financial liabilities is not specifically required for all interim periods. However, the additional disclosure is required to be given in condensed interim financial statements that are prepared in accordance with PAS 34, *Interim Financial Reporting*, when its inclusion would be necessary in order to meet the general principles of PAS 34.

- ***Business Combinations***

Business acquisitions are accounted for using the acquisition method of accounting.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of a business combination over the Bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired entity or net assets. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. (see Note 2.16).

Negative goodwill which is the excess of the Bank's interest in the net fair value of net identifiable assets acquired over acquisition cost is charged directly to profit or loss.

For the purpose of impairment testing, goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The cash-generating units or groups of cash-generating units are identified according to operating segment.

If the business combination is achieved in stages, the acquirer is required to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in profit or loss or other comprehensive income, as appropriate.

Any contingent consideration to be transferred by the Bank is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with PAS 37 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

- ***Segment Reporting***

Operating segments are reported in a manner consistent with the internal reporting provided to the Bank's chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments.

In identifying its operating segments, management generally follows the Bank's products and services as disclosed in Note 5.

Each of these operating segments is managed separately as each of these services requires different technologies and resources as well as marketing approaches. All inter-segment transfers are carried out at arm's length prices. The measurement policies of the Bank used for segment reporting under PFRS 8 is the same as those used in its financial statements. In addition, corporate resources which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

There have been no changes from prior periods in the measurement methods used to determine reported segment profit or loss.

The Bank's operations are organized according to the nature of the products and services provided. Financial performance on operating segments is presented in Note 8.

- ***Financial Instruments***

(a) Financial Assets

Financial assets, which are recognized when the Bank becomes a party to the contractual terms of the financial instrument. Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at FVTPL, loans and receivables, HTM investments and AFS securities. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. The designation of financial assets is re-evaluated at every reporting date at which date a choice of classification or accounting treatment is available, subject to compliance with specific provisions of applicable accounting standards.

Regular purchases and sales of financial assets are recognized on their trade date. All financial assets that are not classified as at FVTPL are initially recognized at fair value, plus any directly attributable transaction costs. Financial assets carried at FVTPL are initially recognized at fair value and transaction costs related to it are recognized in profit or loss.

The foregoing categories of financial instruments of the Bank are more fully described below.

1. *Financial Assets at FVTPL*

This category includes financial assets that are either classified as held for trading or that meets certain conditions and are designated by the Bank to be carried at FVTPL upon initial recognition. All derivatives fall into this category, except for those designated and effective as hedging instruments.

Financial assets at FVTPL are measured at fair value, and changes therein are recognized in profit or loss. Financial assets (except derivatives and financial instruments originally designated as financial assets at FVTPL) may be reclassified out of fair value through profit or loss category if they are no longer held for the purpose of being sold or repurchased in the near term.

2. *Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money or services directly to a debtor with no intention of trading the receivables. Included in this category are financial assets arising from direct loans to customers, securities purchased under reverse repurchase agreements (SPURRA), unquoted debt securities, sales contract receivables and all receivables from customers and other banks.

The Bank's financial assets categorized as loans and receivables are presented as Cash and Other Cash Items, Due from BSP, Due from Other Banks, Loans and Other Receivables, and Other Resources (specifically Security deposits, Petty cash fund and Foreign currency notes and coins on hand) in the statement of financial position. For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, due from BSP and other banks and SPURRA.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment losses, if any. Impairment loss is provided when there is objective evidence that the Bank will not be able to collect all amounts due to it in accordance with the original terms of the receivables (see Note 2.5.4).

The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognized in profit or loss.

3. *HTM Investments*

This includes non-derivative financial assets with fixed or determinable payments and a fixed date of maturity. Investments are classified as HTM if the Bank has the positive intention and ability to hold them until maturity. Investments intended to be held for an undefined period are not included in this classification.

If the Bank were to sell other than an insignificant amount of HTM investments, the whole category would be tainted and reclassified to AFS securities under PFRS, and the Bank will be prohibited from holding investments under the HTM investments category for the next two financial reporting years after the year the tainting occurred. The tainting provision under PFRS will not apply if the sales or reclassifications of HTM investments are (i) so close to maturity or the financial asset's call date that changes in the market rate of interest would not have a significant effect on the financial asset's fair value; (ii) occur after the Bank has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or (iii) are attributable to an isolated event that is beyond the control of the Bank, is nonrecurring and could not have been reasonably anticipated by the Bank. The Bank currently holds listed sovereign bonds and corporate bonds designated into this category.

Subsequent to initial recognition, the HTM investments are measured at amortized cost using the effective interest method, less impairment losses, if any. Impairment loss, which is the difference between the carrying value and the present value of estimated future cash flows of the investment, is recognized when there is objective evidence that the investment has been impaired (see Note 2.5.4). Any changes to the carrying amount of the investment, including impairment loss, are recognized in profit or loss.

4. *AFS Securities*

This category includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Bank's AFS securities include government securities and corporate bonds.

All financial assets within this category are subsequently measured at fair value. Gains and losses from changes in fair value are recognized in other comprehensive income and are reported as part of the Revaluation Reserves account in equity, except for interest and dividend income, impairment losses and foreign exchange differences on monetary assets, which are recognized in profit or loss.

When the financial asset is disposed of or is determined to be impaired, the cumulative fair value gains or losses recognized in other comprehensive income is reclassified from equity to profit or loss and is presented as reclassification adjustment within other comprehensive income even though the financial assets has not been derecognized.

Reversal of impairment losses are recognized in other comprehensive income, except for financial assets that are debt securities which are recognized in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

All income and expenses, including impairment losses relating to financial assets are recognized in the statement of profit or loss.

Non-compounding interest and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured.

The financial assets are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

(b) Derivative Financial Instruments

The Bank uses derivative financial instruments to manage its risks associated with fluctuations in foreign currency. Such derivative financial instruments are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The Bank's derivative instruments provide economic hedges under the Bank's policies but are not designated as accounting hedges. Consequently, any gains or losses arising from changes in fair value are taken directly to profit or loss for the period.

(c) Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the resulting net amount is reported in the statement of financial position when there is a legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and must be legally enforceable for both entity and all counterparties to the financial instruments.

(d) Impairment of Financial Assets

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (events) has (have) an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about certain loss events, including, among others: *(i)* significant financial difficulty of the issuer or debtor; *(ii)* a breach of contract, such as a default or delinquency in interest or principal payments; *(iii)* it is probable that the borrower will enter bankruptcy or other financial reorganization; *(iv)* the disappearance of an active market for that financial asset because of financial difficulties; or *(v)* observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

- *Assets Carried at Amortized Cost*

  The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and 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, the Bank includes the asset in a group of financial asset with similar credit risk characteristics and collectively assesses them for impairment. Financial 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 of impairment.

  If there is objective evidence that an impairment loss on loans and other receivables or HTM investments carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit loss that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss. If loans and other receivables or HTM investments have a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price. 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 foreclosures less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past due status and other relevant factors). 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.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank. 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 on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of 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.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures, including approval from the management and the BOD, have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in profit or loss.

When possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur.

- *Assets Carried at Fair Value*

  The Bank assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as AFS securities, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the
  assets are impaired. If any such evidence exists for AFS securities, 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 profit or loss – is removed from equity and recognized in profit or loss.

  Impairment losses recognized in the statement of profit or loss on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as AFS securities 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 profit or loss.

- *Assets Carried at Cost*

  The Bank assesses at the end of each reporting period whether there is objective evidence that any of the unquoted equity securities which are carried at cost, may be impaired. The amount of impairment loss is the difference between the carrying amount of the equity security and the present value of the estimated future cash flows discounted at the current market rate of return of a similar asset. Impairment losses on assets carried at cost cannot be reversed.

(e) Financial Liabilities

Financial liabilities include Deposit Liabilities, Bills Payable and Accrued Expenses and Other Liabilities (excluding tax-related payables and post-employment benefit obligation) and are recognized when the Bank becomes a party to the contractual terms of the instrument. All interest-related charges are recognized as Interest Expense in the statement of profit or loss.

Deposit liabilities and bills payable are recognized initially at their fair value, which is the issuance proceeds (fair value of consideration received) net of direct issue costs, and are subsequently measured at amortized cost using effective interest method for maturities beyond one year, less settlement payments. Any difference between proceeds net of transaction costs and the redemption value is recognized in the profit or loss over the period of the borrowings.

Accrued expenses and other liabilities are recognized initially at their fair value and subsequently measured at amortized cost, using effective interest method for maturities beyond one year, less settlement payments

Dividend distributions to shareholders are recognized as financial liabilities upon declaration by the Bank and approval by the BSP.

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

- ***Other Resources***

Other resources pertain to other assets controlled by the Bank as a result of past events. These are recognized in the financial statements when it is probable that the future economic benefits will flow to the Bank and the asset has a cost or value that can be measured reliably.

- ***Bank Premises, Furniture, Fixtures and Equipment***

Land is stated at cost. Bank premises, furniture, fixtures and equipment are carried at acquisition cost less accumulated depreciation and amortization and any impairment losses.

The cost of an asset comprises its purchase price and directly attributable cost of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred.

Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

Building	50 years
Furniture, fixtures and equipment	5-7 years
Transportation equipment	5 years

Leasehold improvements are amortized over the term of the lease or the estimated useful life of the improvements of 5 to 20 years, whichever is shorter.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.16).

The residual values and estimated useful lives of Bank premises, furniture, fixtures and equipment (except land) are reviewed and adjusted if appropriate, at the end of each reporting period.

An item of bank premises, furniture, fixtures and equipment, including the related accumulated depreciation, amortization and impairment loss, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. 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 item) is included in profit or loss in the year the item is derecognized.

- ***Investment Properties***

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the supply of services or for administrative purposes.

Investment properties are accounted for under the cost model. The cost of an investment property comprises its purchase price and directly attributable cost incurred. These include land and building acquired by the Bank from defaulting borrowers. For these assets, cost is recognized initially at fair value of the investment properties unless: (i) the exchange transaction lacks commercial substance; or (ii) neither the fair value of the asset received nor the asset given up is reliably measurable. The difference between the fair value of the asset received as determined by independent appraisal companies accredited by the BSP and the carrying amount of the loan settled through foreclosure of investment properties is recognized as Gain or loss on foreclosure under Miscellaneous Income or Expense account in the statement of profit or loss. Investment properties except land are depreciated over a period of five to ten years.

Investment property is derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized as Gain or loss on sale of properties under Miscellaneous Income or Expenses in the year of retirement or disposal.

- ***Intangible Assets***

Intangible assets include goodwill, acquired branch licenses and computer software included as part of other resources which are accounted for under the cost model. The cost of the asset is the amount of cash or cash equivalents paid or the fair value of the other considerations given to acquire an asset at the time of its acquisition.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. Capitalized costs are amortized on a straight-line basis over the estimated useful life lives of these intangible assets are considered finite. In addition, intangible assets are subject to impairment testing as described in Note 2.16. Costs associated with maintaining computer software and those costs associated with research activities are recognized as expense in profit or loss as incurred.

Goodwill represents the excess of the cost of acquisition over the fair value of the net assets acquired and branch licenses at the date of acquisition. Goodwill and branch licenses are classified as intangible assets with indefinite useful life, and thus, not subject to amortization but to an annual test for impairment (see Note 2.16). For purposes of impairment testing, goodwill and branch licenses are allocated to cash-generating units and is subsequently carried at cost less any allowance for impairment losses.

When an intangible asset is disposed of, the gain or loss on disposal is determined as the difference between the proceeds and the carrying amount of the asset and is recognized in profit or loss.

2.10 Provisions and Contingencies

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example, legal disputes or onerous contracts.

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

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to the Bank that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements. On the other hand, any reimbursement that the Bank is virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

2.11 Equity

Capital stocks represent the nominal value of the common and preferred shares that have been issued.

Additional paid-in capital includes any premium received on the issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital.

Appropriated surplus pertains to appropriations made by the Bank for a portion of the Bank's income from trust operations in compliance with BSP regulations.

Unappropriated surplus includes all current and prior period results of operations as disclosed in the statement of profit or loss, less appropriated surplus and dividends declared.

Revaluation reserves comprise remeasurements of post-employment defined benefit plan and unrealized fair value gains (losses) on mark-to-market valuation of AFS securities, net of amortization of fair value gains or losses on reclassified financial assets.

2.12 Related Party Relationships and Transactions

Related party transactions are transfers of resources, services or obligations between the Bank and its related parties, regardless whether a price is charged.

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

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

2.13 Revenue and Expense Recognition

Revenue is recognized to the extent that it is probable that the revenue can be reliably measured; it is probable that future economic benefits will flow to the Bank; and the cost and expenses incurred and to be incurred can be measured reliably. Cost and expenses are recognized in profit or loss upon utilization of the assets or services or at the date these are incurred. In addition, the following specific recognition criteria in the succeeding page must also be met before revenue is recognized:

1. *Interest Income and Expense*

Interest income and expense are recognized in the statement of profit or loss for all financial instruments using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount future cash flows for the purpose of measuring the impairment loss.

2. ***Trading Gains***

Trading gains are recognized when the ownership of the security is transferred to the buyer and is computed as the difference between the selling price and the carrying amount of the security. Trading gains also result from the mark-to-market valuation of the securities classified as FVTPL at the valuation date and gain or loss from foreign exchange trading.

3. ***Service Charges, Fees and Commissions***

Service charges, fees and commissions are generally recognized on an accrual basis when the service has been provided. Other service fees are recognized based on the applicable service contracts, usually on a time-appropriate basis.

2.14 Leases

The Bank accounts for its leases as follows:

- *Bank as Lessee*

  Leases, which do not transfer to the Bank substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments (net of any incentive received from a lessor) are recognized as expense in profit or loss on a straight-line basis over the lease term. Associated costs, such as insurance and repairs and maintenance, are expensed as incurred.

- *Bank as Lessor*

  Leases, which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset, are classified as operating leases. Lease income from operating leases is recognized in profit or loss on a straight-line basis over the lease term.

The Bank determines whether an arrangement is, or contains, a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

2.15 Foreign Currency Transactions and Translation

The accounting records of the Bank's regular banking unit are maintained in Philippine pesos while the FCDU are maintained in US dollars. Foreign currency transactions during the period are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign exchange gains and losses resulting from the settlement of foreign currency denominated transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Changes in the fair value of monetary financial assets denominated in foreign currency classified as AFS securities are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in the carrying amount are recognized in other comprehensive income.

2.16 Impairment of Non-financial Assets

The Bank's premises, furniture, fixtures and equipment, investment properties, goodwill, branch licenses, other properties held for sale (classified as Miscellaneous under Other Resources) and other non-financial assets are subject to impairment testing. Intangible assets with an indefinite useful life or those not yet available for use are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, assets are tested for impairment either individually or at the cash-generating unit level.

An impairment loss is recognized for the amount by which the asset or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value in use, based on an internal discounted cash flow evaluation. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors. Impairment loss is charged pro rata to the other assets in the cash generating unit.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the cash generating units' recoverable amount exceeds its carrying amount.

2.17 Employee Benefits

The Bank provides post-employment benefits to employees through a defined benefit plan and defined contribution plans, and other employee benefits which are recognized as follows:

(a) *Post-employment Defined Benefit Plan*

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Bank, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Bank's defined benefit post-employment plan covers all regular full-time employees. The post-employment plan is tax-qualified, non-contributory and administered by a trustee bank.

The liability recognized in the statement of financial position for defined benefit post-employment plans is the present value of the defined benefit obligation (DBO) at the end of the reporting period less the fair value of plan assets. The DBO is calculated annually by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows using interest rates based on zero coupon government bonds as published by Philippine Dealing & Exchange Corporation (PDEX) that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest) are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Interest Expense account in the statement of profit or loss.

Past-service costs are recognized immediately in profit or loss in the period of a plan amendment or curtailment.

(i) *Post-employment Defined Contribution Plan*

A defined contribution plan is a post-employment plan under which the Bank pays fixed contributions into an independent entity (e.g. Social Security System and Philhealth). The Bank has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred and are normally of a short-term nature.

(c) Termination Benefits

Termination benefits are payable when employment is terminated by the Bank before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognizes termination benefits at the earlier of when it can no longer withdraw the offer of such benefits and when it recognizes costs for a restructuring that is within the scope of PAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

(d) Bonus Plans

The Bank recognizes a liability and an expense for employee bonuses, based on a formula that is fixed regardless of the Bank's income after certain adjustments and does not take into consideration the profit attributable to the Bank's shareholders. The Bank recognizes a provision where it is contractually obliged to pay the benefits, or where there is a past practice that has created a constructive obligation.

(e) Compensated Absences

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of the reporting period. They are included in the Accrued Expenses and Other Liabilities account in the statement of financial position at the undiscounted amount that the Bank expects to pay as a result of the unused entitlement.

2.18 Income Taxes

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the reporting period. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is accounted for using the liability method, on temporary differences at the end of each reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

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

2.19 Earnings Per Share

Basic earnings per share (EPS) is determined by dividing net profit by the weighted average number of common shares subscribed and issued during the period, after retroactive adjustment for any stock dividend declared in the current period.

The diluted EPS is also computed by dividing net profit by the weighted average number of common shares subscribed and issued during the period. However, net profit attributable to common shares and the weighted average number of common shares outstanding are adjusted to reflect the effects of potentially dilutive convertible preferred shares as approved by the SEC. Convertible preferred shares are deemed to have been converted to common shares at the issuance of preferred shares.

As of June 30, 2015 and 2014, the Bank has no convertible preferred shares.

2.20 Trust and Fiduciary Operations

The Bank acts as trustee and in other fiduciary capacity that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and their income arising thereon are excluded from these financial statements, as these are neither resources nor income of the Bank.

2.21 Events After the End of the Reporting Period

Any post-year-end event that provides additional information about the Bank's financial position at the end of the reporting period (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

C. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Bank's financial statements in accordance with PFRS requires management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Judgments and estimates 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. Actual results may ultimately differ from these estimates.

(a) Critical Management Judgments in Applying Accounting Policies

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

- *Classifying Financial Assets at HTM Investments*

  In classifying non-derivative financial assets with fixed or determinable payments and fixed maturity, such as bonds, as HTM investments, the Bank evaluates its intention and ability to hold such investments up to maturity. Management has confirmed its intention and determined its ability to hold the investments up to maturity.

  If the Bank fails to keep these investments at maturity other than for the allowed specific circumstances for example, selling an insignificant amount close to maturity, it will be required to reclassify the entire class to AFS securities. The investments would therefore be measured at fair value and not at amortized cost. However, the tainting provision will not apply if the sales or reclassifications of HTM investments are so close to maturity or the financial asset's call date that changes in the market rate of interest would not have a significant effect on the financial asset's fair value; occur after the Bank has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or are attributable to an isolated event that is beyond the control of the Bank, is nonrecurring and could not have been reasonably anticipated by the Bank.

- *Impairment of AFS Securities*

  The determination when an investment is other-than-temporarily impaired requires significant judgment. In making this judgment, the Bank evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

  Based on the recent evaluation of information and circumstances affecting the Bank's AFS securities, management concluded that no assets are impaired as of June 30, 2015 and December 31, 2014. Future changes in those information and circumstance might significantly affect the carrying amount of the assets.

- *Distinguishing Investment Properties and Owner-occupied Properties*

  The Bank determines whether a property qualifies as investment property. In making this judgment, the Bank considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to properties but also to other assets used in the production or supply process.

  Some properties may comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in providing services or for administrative purposes. If these portions can be sold separately (or leased out separately under finance lease), the Bank accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in providing services or for administrative purposes.

  Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Bank considers each property separately in making its judgment.

- *Classifying of Acquired Properties and Determining Fair Value of Investment Properties and Other Properties Held-for-Sale*

  The Bank classifies its acquired properties (foreclosed properties) as Bank Premises, Furniture, Fixtures and Equipment if used in operations, as other properties held for sale presented as part of Miscellaneous under Other Resources if the Bank expects that the properties (properties other than land and building) will be recovered through sale rather than use, as Investment Properties if the Bank intends to hold the properties for capital appreciation or as financial assets in accordance with PAS 39. At initial recognition, the Bank determines the fair value of the acquired properties based on valuations performed by both internal and external appraisers. The appraised value is determined based on the current economic and market conditions as well as the physical condition of the property.

- *Distinguishing Operating and Finance Leases*

  The Bank has entered into various lease agreements. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities.

  As of June 30, 2015 and December 31, 2014, the Bank has determined that all its leases are operating leases.

- *Recognition of Provisions and Contingencies*

  Judgment is exercised by management to distinguish the difference between provisions and contingencies. Policies on recognition and disclosure of provisions and contingencies are discussed in Note 2.10.

(*β*) Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of resources and liabilities within the next reporting period:

- *Evaluating Impairment of Financial Assets (AFS Securities, HTM Investments and Loans and Other Receivables)*

  The Bank reviews its AFS securities, HTM investments and loans and other receivable to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in profit or loss, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the portfolio before the decrease can be identified with an individual item in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers or issuers in a group, or national or local economic conditions that correlate with defaults on assets in the group, including, but not limited to, the length of the Bank's relationship with the customers, the customers' current credit status, average age of accounts, collection experience and historical loss experience.

  Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

  The carrying value of loans and other receivables and the analysis of the related allowance for impairment on such financial assets are shown in Notes 10. There are no impairment losses recognized on AFS securities and HTM investments in June 2015 and December 31, 2014.

- *Fair Value of Financial Instruments*

  Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the end of the reporting period.

- *Estimating Useful Lives of Bank Premises, Furniture, Fixtures and Equipment and Investment Properties Except Land*

  The Bank estimates the useful lives of bank premises, furniture, fixtures and equipment and investment properties based on the period over which the assets are expected to be available for use. The estimated useful lives of bank premises, furniture, fixtures and equipment and investment properties are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

  Based on management assessment, there is no change in the estimated useful lives of these assets during the year. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

- *Determining Realizable Amount of Deferred Tax Assets*

  The Bank reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

- *Estimating Impairment Losses of Non-financial Assets*

  Except for intangible assets with indefinite useful lives (i.e. goodwill and acquired branch licenses), PFRS requires that an impairment review be performed when certain impairment indications are present. The Bank's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.16. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

  There are no impairment losses recognized in goodwill, acquired branch licenses, bank premises, furniture, fixtures and equipment.

- *Valuation of Post-employment Benefits*

  The determination of the Bank's obligation and cost of post-employment benefit plan is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. A significant change in any of these actuarial assumptions may generally affect the recognized expense and the carrying amount of the post-employment benefit obligation in the next reporting period.

D. **RISK MANAGEMENT OBJECTIVES AND POLICIES**

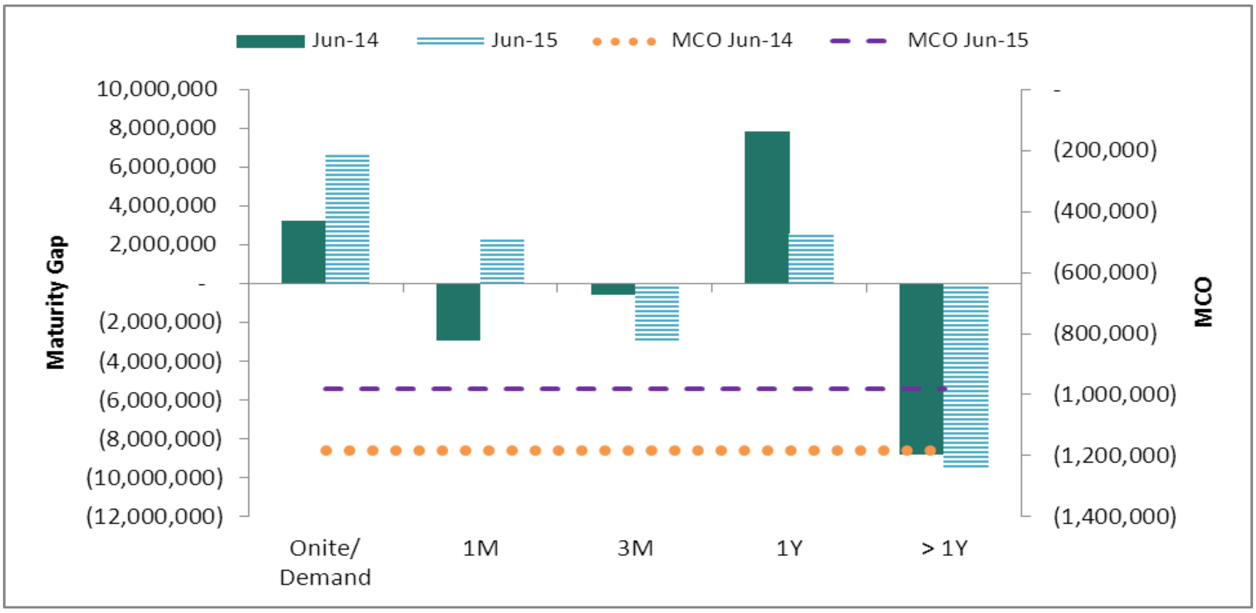
The Bank's financial risks sums up the credit and market risk exposures as a result of its dealings and inventory of financial instruments inherent in its banking functions. The Bank's BOD formulates the corporate risk policy, sets risk tolerances and appetite and provide risk oversight function through the Risk Management Committee (RiskCom), which in turn supervises the Chief Risk Officer and Head of the Risk Management Center in the development and implementation of risk policies, processes and guidelines. The Bank's policy in managing its financial risks is embodied in the BOD-approved Risk Management Manuals.

a.Liquidity Risks

Liquidity risk is the risk to income and capital as a result of the Bank failing its commitment for funds as they fall due. The Bank manages its liquidity risk through the management's monitoring of various liquidity ratios, Treasury's weekly and regular assessment of liquidity gaps, and the maturity ladder. To control liquidity gap risks, a quantitative ceiling to the net outflow of funds of the bank called Maximum Cumulative Outflow (MCO) limit is observed per currency based on the recommendation of management, which model and assumptions are reviewed by the Asset and Liability Committee (ALCO) and the RiskCom prior to the confirmation by the BOD.

Additional measures to mitigate liquidity risks include reporting of funding concentration, available funding sources, and liquid assets analysis. More frequent analysis of projected funding source and requirements as well as pricing strategies is discussed thoroughly during the weekly Asset and Liability Committee meetings.

The analysis of the cash flow gap analysis of resources, liabilities, capital funds and off-statement financial position items as of June 30, 2015 and June 30, 2014 is presented below (amounts in thousands).



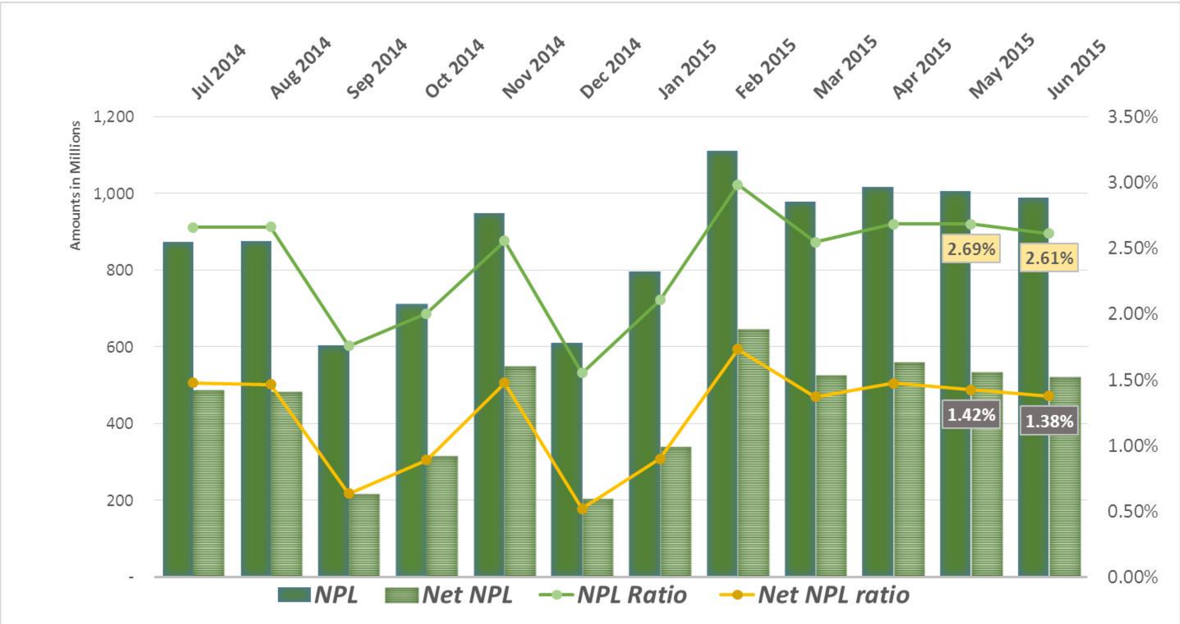
b. Credit Risks

Credit risk pertains to the risk to income or capital due to non-payment by borrowers or counterparties of their obligations, either in full or partially as they fall due, deterioration in the credit quality of a borrower, issuer or counterparty, and the reduced recovery from a credit facility in the event of default. This is inherent in the Bank's lending, investing, and trading and is managed in accordance with the Bank's credit risk framework of risk identification, measurement, control and monitoring.

Credit risk is managed through a continuing review of credit policies, systems, and procedures. It starts with the definition of business goals and setting of risk policies by the Board of Directors (BOD). Account officers and credit officers directly handle credit risk as guided by BOD-approved policies and limits. The Risk Management Center, as guided by the RiskCom, performs an independent portfolio oversight of credit risks and reports regularly to the BOD and the RiskCom.

The Bank sets aside loan loss provisions pursuant to the requirement of the BSP and performs regular impairment analysis consistent with the Philippine Accounting Standards (PAS).

Pursuant to regulatory requirements and best practices, the Bank also conducts sensitivity analysis and stress testing of the credit portfolio to assess sensitivity of the Bank's capital to BOD-approved credit risk scenarios. As of June 30, 2015, the ratio of the Bank's loan loss provisions to its non-performing loans is at 85%. The table below shows the NPL and Net NPL trend of the Bank for the 12-month period ending June 30, 2015:



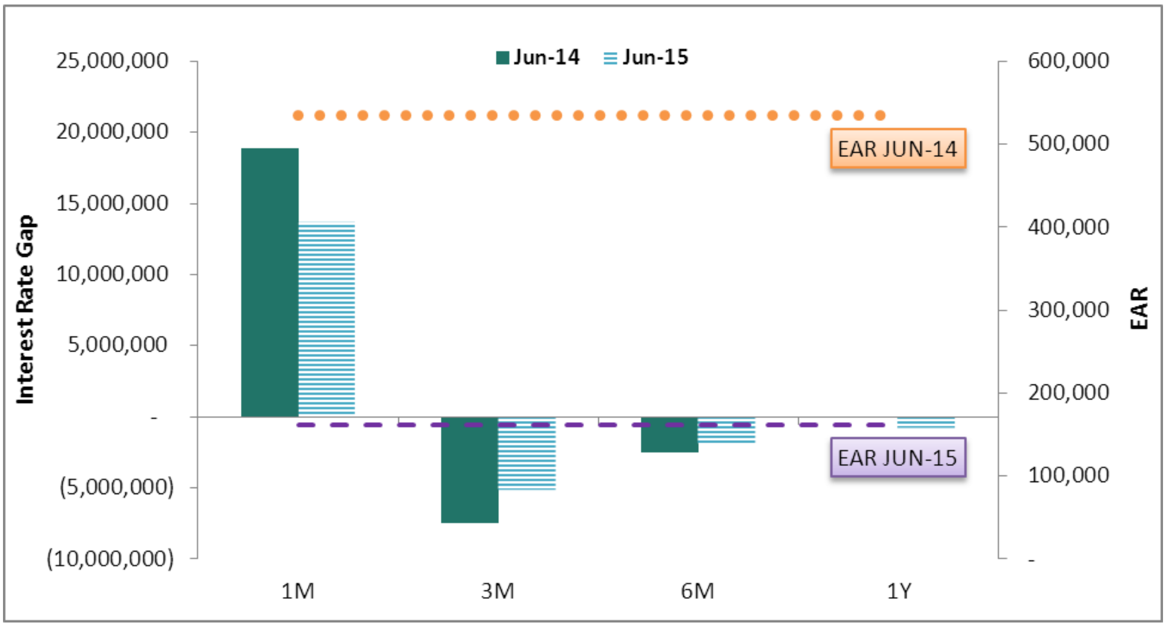
NPL Ratio = (PD + ITL) / Gross Loans
Net NPL = NPL – Specific Loan Provision
Net NPL Ratio = Net NPL / Gross Loans

c. Interest Rate Risks

Interest rate risk is the probability of decline in net interest earnings as a result of an adverse movement of interest rates.

In measuring interest rate exposure from an earnings perspective, the Bank calculates the Earnings at Risk (EAR) to determine the impact of interest rate changes on the Bank's accrual portfolio. The EAR is the potential decline in net interest income due to the adverse movement in interest rates. A negative interest rate sensitivity gap position implies that EAR increases with a rise in interest rates, while a positive interest rate sensitivity gap results in a potential decline in net interest rate income as interest rates fall. To supplement the EAR, the Bank regularly employs sensitivity analysis on the Bank's interest rate exposure.

To mitigate interest rate risk, the Bank follows a prudent policy on managing assets and liabilities so as to ensure that exposure to interest rate risk are kept within acceptable levels. The BOD has also approved the EAR Limit which is reviewed regularly. Interest rate gap & EAR are presented below (in thousands).



d. Price Risks

In measuring the magnitude of exposures related to the Bank's trading portfolio arising from holding of government and other debt securities, the Bank employs Value-at-Risk (VaR) methodology. VaR is an estimate of the amount of loss that a given risk exposure is unlikely to exceed during a given time period, at a given level of statistical confidence. Analytically, VaR is the product of: (a) the sensitivity of the market value of the position to movement of the relevant market risk factors, and (b) the volatility of the market risk factor for the given time horizon at a specified level of statistical confidence. Typically, the Bank uses a 99% confidence level for this measurement (i.e. losses could exceed the VaR in one out of 100 trading days). As the VaR methodology requires a minimum historical period of reckoning with market movements from a transparent discovery platform, the Bank uses yield and price data from the Philippine Dealing Exchange Corporation and Bloomberg in the calculation of the volatility of rates of return and security prices, consistent with BSP valuation guidelines.

In assessing market risk, the Bank scales the calculated VaR based on assumed defeasance or holding periods that range from one day and 10 days consistent with best practices and BSP standards.

As a prudent market risk control and compliance practice, the BOD has approved a market risk limit system which includes: (1) VaR limit on a per instrument and portfolio; (2) loss limit on per investment portfolio (3) off-market rate limits on per instrument type; and (4) holding period for investment securities.

In recognition of the limitations of VaR related to the assumptions on which the model is based, the Bank supplements the VaR with a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Bank's overall position.

Table below shows HFT and FX VaR statistics from January-June 2015:

Value-at-Risk		
in Thou PHP		
	HFT	FX
Average	124,104	1,401
High	224,541	3,921
Low	0	0

e.FX Risks

The Bank manages its exposure to effects of fluctuations in the foreign currency exchange rates by maintaining foreign currency exposure within the existing regulatory guidelines and at a level that it believes to be relatively conservative for a financial institution engaged in that type of business.

The Bank's foreign currency exposure is primarily limited to the foreign currency deposits, which are sourced within the Philippines or generated from remittances by Filipino expatriates and overseas Filipino workers. Also, foreign currency trading with corporate accounts and other financial institutions is a source of foreign currency exposure for the Bank. At the end of each month, the Bank reports to the BSP on its acquisition and disposition of foreign currency resulting from its daily transactions.

The Bank always maintains the BSP required asset cover for its foreign-currency liabilities.

E. ***SEGMENT REPORTING***

The Bank's main operating businesses are organized and managed separately according to the nature of services and products provided and the different markets served, with each segment representing a strategic business unit. These are also the basis of the Bank in reporting to its chief operating decision-maker for its strategic decision-making activities.

Management currently identifies the Bank's three service lines as primary operating segments.

(a) ***Consumer banking*** – includes auto financing, home financing, and salary or personal loans;

(b) ***Commercial banking*** – includes term loans, working capital credit lines, bills purchase and discounting lines; and,

(c) ***Treasury Operations*** – manages liquidity of the Bank and is a key component in revenue and income generation through its investment and trading activities.
These segments are the basis on which the Bank reports its segment information. Transactions between the segments are on normal commercial terms and conditions.

Segment revenues and expenses that are directly attributable to primary operating segment and the relevant portions of the Bank's revenues and expenses that can be allocated to that operating segment are accordingly reflected as revenues and expenses of that operating segment. Revenue sharing agreements are used to allocate external customer revenues to a segment on a reasonable basis.

The contribution of these various business activities to the Bank's revenues and income for the six month period ended June 30, 2015:

	Statement of income			
	Commercial Banking	**Consumer Banking**	**Treasury Operations**	**Total**
June 30, 2015 (Unaudited)				
Net interest income	987	84	136	1,207
Non-interest income	72	0	48	120
Total income (after interest expense)	1,059	84	184	1,327
Operating expenses	677	34	225	936
Pre-tax profit	382	50	-41	391
Net profit	293	40	-33	300

Statement of Financial Position

As of June 30, 2015 (Unaudited)	**Commercial Banking**	**Consumer Banking**	**Treasury Operations**	**Total**
Total Resources				
Segment assets	38,729	2,213	17,896	58,838
Intangible assets				53
Deferred tax assets				312
	38,729	2,213	17,896	59,203
Total Liabilities	35,315	2,012	13,484	50,811
Other segment information				
Depreciation and amortization	51	3	20	74
Capital expenditures	18	1	7	26

The contribution of these various business activities to the Bank's revenues and income for the six months period ended June 30, 2014:

Statement of Income

Period Ended **June 30, 2014 Unaudited**	**Commercial Banking**	**Consumer Banking**	**Treasury Operations**	**Total**
Net interest income	842	70	159	1,071
Non-interest income	63	0	-10	53
Total income (after interest expense)	905	70	149	1,124
Operating expenses	557	29	195	781
Pre-tax profit	348	41	-46	343
Net profit	262	33	-37	258

Statement of Financial Position

As of June 30, 2014 Unaudited	**Commercial Banking**	**Consumer Banking**	**Treasury Operations**	**Total**
Total Resources				
Segment assets	34,744	1,775	15,191	51,710
Intangible assets				45
Deferred tax assets				260
	34,049	1,775	15,191	52,015
Total Liabilities	31,058	1,706	11,585	44,349
Other segment information				
Depreciation and amortization	49	3	18	70
Capital expenditures	15	1	6	22

F. ***CASH AND DUE FROM BSP***

This account is composed of the following:

	2015	2014
Cash and other cash items	**P 842,242,650**	P 1,174,011,464
Due from BSP		
Mandatory reserves	**3,381,969,158**	3,414,441,827
Other than mandatory reserves	**2,470,000,000**	1,140,000,000
	5,851,969,158	4,554,441,827
	P 6,694,211,808	P **5,728,453,291**

G. ***DUE FROM OTHER BANKS***

The balance of this account represents deposits with the following:

	2015	2014
Local banks	**P 575,002,917**	P 1,493,241,853
Foreign banks	**605,337,929**	538,339,235
	P 1,180,340,846	P 2,031,581,088

The breakdown of due from other banks by currency follows:

	2015	2014
US dollars	**P 673,354,205**	P 463,361,884
Philippine pesos	**506,986,641**	1,568,219,204
	P 1,180,340,846	P 2,031,581,088

H. ***FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS***

This account is composed of held for trading government securities with fair value of Php1.795 billion as of June 30, 2015 and Php171.9 million as of December 31, 2014 which earn interest ranging from 3.63% to 8.00% and 5.9% in 2015 and 2014. Total interest income earned amounted to Php10.10 million and Php44.3 million in 2015 and 2014 respectively and is included as part of Interest Income on Investment and trading securities in the statement of income.

The Related unrealized fair value gains or loss, presented as part of Trading Gains – net in 2015 and 2014 statement of income, amounted to a loss of Php39.758 million and a gain of Php17.09 million respectively. Realized trading gains, presented as part of Trading Gains – net in 2015 and 2014 statements of income, amounted to a loss of Php49.9 million and a loss of Php5.02 million, respectively.

I. ***AVAILABLE-FOR-SALE SECURITIES***

This account is mainly composed of the following:

	2014	2014
Government securities	**P 992,546,545**	P 741,219,667
Other private debt instruments	**1,112,597,094**	974,517,054
	P 2,105,143,639	P 1,715,736,721

As to currency, this account consists of the following:

	2015	2014
Philippine pesos	**P 95,897,131**	P 5,433,837,585
Foreign currencies	**2,009,246,508**	2,691,758,525
	P 2,105,143,639	P 8,125,596,110

Changes in the AFS securities are summarized below.

	2015	2014
Balance at beginning of year	**P 1,715,736,721**	P 7,908,049,843
Additions	**1,293,884,829**	443,590,778
Reclassificatin		(5,623,596,459)
Disposals	**(877,136,002)**	(1,172,147,778)
Fair value gains	**(31,009,613)**	124,563,684
Foreign currency revaluation	**(16,975,551)**	10,487,626
Elimination of tax component		
Amortization of premium	**20,643,254**	24,789,027
	P 2,105,143,639	P 1,715,736,721

J. *LOANS AND OTHER RECEIVABLES*

Loans and other receivables consist of the following:

	2015	2014
Receivables from customers:		
Loans and discounts	**P 33,863,505,728**	P 33,824,150,253
Bills purchased	**1,147,258,172**	1,703,226,381
Customers' liabilities on acceptances, letters of credit and trust receipts	**2,907,536,387**	3,945,258,885
	37,918,300,287	39,472,635,519
Unearned discount	**(106,117,708)**	(104,429,610)
	37,812,182,579	39,368,205,909
Other receivables:		
Unquoted debt securities	**1,116,605,031**	1,242,808,397
Accrued interest receivable	193**,509,863**	153,712,571
Sales contracts receivable	**108,647,152**	118,337,176
Accounts receivable	88**,733,213**	76,537,289
Deficiency claims receivable – net	**52,794,819**	56,874,809
	1,560,290,078	1,648,270,242
	39,372,472,657	41,016,476,151
Allowance for impairment losses	**(921,312,647)**	(906,219,774)
	P 38,451,160,010	P 40,110,256,377

As of June 30, 2015 and December 31, 2014 non-performing loans of the Bank amounted to Php994.1 million and Php601.5 million, respectively, while restructured loans amounted to Php93.6 million and Php114.3 million, respectively.

The maturity profile of the Bank's loans and discounts follows (amounts in thousands):

	2015	2014
Within one year	**P 25,386,285**	P 29,174,034
Beyond one year	**12,532,015**	10,298,602
	P 37,918,300	P 39,472,636

The Bank's concentration of credit as to industry for its loans and discounts portfolio follows (amounts in thousands):

	2015	2014
Wholesale and retail trade	**P 13,727,453**	14,426,930
Administrative and support services	**5,099,338**	7,712,045
Construction	**8,906,639**	7,206,797
Manufacturing (various industries)	**5,959,446**	6,108,277
Activities of private household as employed and		
Undifferentiated goods and services and producing		
Activities of households for own use	**1,517,251**	2,051,399
Transportation and storage	**1,996,637**	1,067,807
Electricity, gas, steam and air-conditioning supply		463,065
Agriculture, fishery and forestry	**511,536**	336,316
Mining and quarying	**700,000**	100,000
	P 37,918,300	P 39,472,636

As to security, loans and discounts are classified into the following (amounts in thousands):

		2015		2014
Secured:				
Real estate mortgage	**P**	**12,842,219**	P	12,329,560
Deposit hold-out		**2,057,043**		2,300,522
Chattel mortgage		**1,839,801**		1,933,400
Others		**551,496**		622,833
Unsecured		**20,627,741**		22,286,321
	P	**37,918,300**	P	39,472,636

K. ***CAPITAL STOCK***

Capital stock consists of:

	Number of Shares		Amount	
	Jun 30, 2015	**Dec 31, 2014**	**Jun 30, 2015**	**Dec 31, 2014**
	Unaudited	**Audited**	**Unaudited**	**Audited**
Preferred shares - P10 par value				
Authorized – 130,000000 shares				
Issued, fully paid and outstanding	62,000,000	62,000,000	620,000,000	620,000,000
Common shares - P10 par value				
Authorized – 870,000,000 shares in				
2013 Issued, fully paid and				
outstanding				
Balance at the beginning of the year	429,166,750	343,333,400	4,291,667,500	3,433,334,000
Stock dividends		85,833,350		858,333,500
Issued during the year				
Balance at beginning of period	429,166,750	429,166,750	4,291,667,500	4,291,667,500

The Bank's preferred shares are nonvoting, nonconvertible, and are redeemable at the option of the Bank. These shares are entitled to non-cumulative dividend of 8% per annum.

On February 18, 2013, the Bank offered its 101,333,400 unissued common shares by way of IPO at P31.50 per share resulting in the recognition of additional paid-in capital of P1,998.4 million, net of transactions costs (see Notes 1 and 21.4).

On July 16, 2012, the BOD and the stockholders representing at least two-thirds of the issued and outstanding capital stock approved the following amendments, among others, to the articles of incorporation of the Bank: (i) increase in the authorized capital stock to P10 billion divided into 870 million common shares with par value of P10 per share and 130 million preferred shares with par value of P10 per share from P3 billion authorized capital stock divided into 17 million common shares with par value of P100 per share and 13 million preferred shares with par value of P100 per share; and, (ii) change in the features of preferred shares from redeemable and non-convertible to redeemable and convertible to common shares at par value at the option of the Bank. On November 27, 2012, the BOD approved the revocation of the July 16, 2012 approval to change the features of preferred shares to redeemable and convertible to common at par value. The amended articles of incorporation (excluding the change of the features of preferred shares to redeemable and convertible to common shares) were approved by the BSP and SEC on October 16, 2012 and November 16, 2012, respectively.

As of June 30, 2015, the Bank has 100 holders of its equity securities listed in the PSE and its share price closed at P18.00. The Bank has 429,166,750 million common shares traded in the PSE as of June 30, 2015.

L. *DIVIDENDS*

On May 5, 2014, the BOD approved the declaration of cash dividends amounting to P62.3 million for all issued and outstanding preferred shares and stock dividends totaling 85.8 million common shares amounting to P858.3 million for all issued and outstanding common shares to stockholders on record for the year ended December 31, 2013. The dividend distribution was approved by the stockholders representing at least two-thirds of the issued and outstanding capital stock and the BSP on May 30, 2014 and June 26, 2014, respectively.

On July 16, 2012, the stockholders representing at least two-thirds of the issued and outstanding capital stock, approved the declaration of cash dividends amounting to P100.4 million for all issued and outstanding preferred shares and stock dividends totaling 20 million common shares amounting to P2.0 billion for all issued and outstanding common shares to stockholders on record for the year ended December 31, 2011. The dividend distribution was approved by the BSP on October 17, 2012.

M. *RELATED PARTY TRANSACTIONS*

The Bank's related parties include entities under common ownership, key management and others. These includes Loans and Deposit Liabilities to related parties as of June 30, 2015 and December 31, 2014 amounted to Php7.09 billion and Php6.90 billion respectively.

N. ***EARNINGS PER SHARE***

Basic Earnings Per Share

	For the Six Months Ended			
		June 30, 2015		June 30, 2014
		Unaudited		Unaudited
Net profit	**P**	**300,242,319**	P	258,332,477
Dividends on preferred shares		**-**		-
Net profit attributable to common shareholders		**300,242,319**		258,332,477
Dividend by the weighted average number of outstanding common shares		**429,166,750**		429,166,750
Basic earnings per share	**P**	**.69**	P	.60

As of June 30, 2015 and December 2014, the Bank has no convertible preferred shares.

O. ***EQUITY TRANSACTIONS***

The PSE and the Philippine SEC approved the Bank's application for the listing of its common stock on January 9, 2013 and on February 5, 2013, respectively. The approval covered the initial public offering (IPO) of 101,333,400 million unissued common shares of the Bank at Php31.50 offer price per share and the listing of those shares on PSE's main board on February 19, 2013.

The total proceeds raised by the Bank from the sale of primary offer shares amounted to Php3.2 billion while the net proceeds (after deduction of direct costs related to equity issuance) amounted to Php3 billion.

P. *APPLICATION OF PROCEEDS FROM IPO*

For the quarter ended June 30, 2015, the applications of the net proceeds are broken down as follows:

Use of Proceeds	**Amount in Pesos**
Financial assets at FVTPL and AFS Financial assets	238,057,669
Branch Expansion	100,000,000
Information Technology Infrastructure	61,942,331
General Corporate Purpose	2,608,620,480
Total	3,008,620,480

Please note that General Corporate Purpose pertain to the funding of Bank's loans to customers.

Attachment 2

SCHEDULE OF AGING OF LOANS RECEIVABLES

(PSE Requirement per Circular No. 2164-99)

As of June 30, 2015

Current Accounts (by maturity)	
Up to 12 months	29,174,089,807
Over 1 year to 3 years	3,070,786,685
Over 3 years to 5 years	3,015,125,015
Over 5 years	3,227,749,293
Past due and items in litigations	990,839,565
Loans Receivables (gross)	39,478,590,365
Less:	
Unearned and other deferred income	106,117,708
Allowance for credit losses	921,312,647
Loans Receivables (Net)	38,451,160,010

Attachment 3

CONSOLIDATED FINANCIAL RATIOS

(As Required by SRC Rule)

	June 30, 2015	June 30, 2014
Current Ratio (1)	109.94%	83.58%
Solvency Ratio (2)	1.17%	1.17%
Debt-to-equity (3)	6.05%	5.78%
Asset-to-equity (4)	7.05%	6.78%
Interest rate coverage ratio (5)	210.13%	223.33%
Return on Equity (6)	7.32%	7.03%
Return on Assets (7)	1.03%	1.04%
Net Interest Margin (8) (9)	4.31%	4.49%
Cost-to-Income Ratio (10)	64.03%	66.42%

Notes:

(1) Current assets divided by current liabilities
(2) Total assets divided by total liabilities
(3) Total liabilities divided by total equity
(4) Total assets divided by total equity
(5) Income before interest and taxes divided by interest expense
(6) Net income divided by average total equity for the periods indicated (annualized)
(7) Net income divided by average total assets for the periods indicated (annualized)
(8) Net interest income divided by average interest-earning assets (incl. interbank loans, trading and investment securities and loans)
(9) Starting April 2012, the BSP stopped paying interest on reserves on customer deposits of banks. The Q1 2013 computation considered the Bank's deposit with BSP as non-earning. In Q1 2012 and previous to that, it is considered part of earning assets. NIM is Q1 2012 would have been 7.3% if this was to be calculated on same basis as that of Q1 2013
(10) Other expenses (excl. provision for impairment and credit losses) divided by the sum of interest and other income for the periods indicated