Embracing Oppurtunities

2015 ANNUAL REPORT

PHILIPPINE BUSINESSBANK
a savings bank

Making Things Happen... Today!

OUR MISSION

The basis for the Bank's growth shall be our commitment for higher standards everyday, in everything we do in providing competitive products and services and through enthusiastic execution and teamwork in producing satisfaction - for our customers, our shareholders, our associates and our communities.

OUR VISION

By making things happen today, Philippine Business Bank will help build strong business communities where people can achieve their dreams

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ABOUT US

Philippine Business Bank (PBB) began operations on February 12, 1997 largely catering to the needs of small and medium scale businesses. The Bank's significant achievement in serving the SME market laid the foundation of its phenomenal growth, establishing 15 branches in just two years from the start of operations.

Today, PBB has grown with a network of branches nationwide, offering a range of innovative banking services. Building on a solid reputation and leveraging on strategic plans, PBB is setting the wheels of progress in high gear

OUR FINANCIAL HIGHLIGHTS

	2013	2014	2015
TOTAL RESOURCES IN BILLION PESOS	47.158	57.854	65.582
DEPOSIT LIABILITIES IN BILLION PESOS	37.882	46.619	55.016
NET INCOME IN MILLION PESOS	1004.05	536.205	502.142
TOTAL LOANS IN BILLION PESOS	31.600	40.11	41.738
CAPITAL FUND IN BILLION PESOS	7.026	8.022	8.47

LETTER TO STOCKHOLDERS FROM THE
CHAIRMAN EMERITUS

I would like to take this opportunity, on behalf of everyone at Philippine Business Bank, to express my deepest appreciation to our clients, employees, investors and partners who have believed in us and supported us over the past year as we embarked on our journey as a public company.

It has been a volatile time for global markets, and we have watched these developments closely. We have a clear vision of where PBB is and where it is headed. Over the past year we have become healthier, stronger and more confident and have made great progress in our strategic development.

The Philippines is one of the most dynamic economies in the East Asia region, with sound economic fundamentals and a globally recognized competitive workforce. Growth in the Philippines has been averaged above 5% in the past decade, significantly higher than in the previous decades.

Following high growth of above 6% in the past three years, growth was at 5.8% in 2015. However, the 6.2% average growth rate over the last six years has been the highest the Philippines has achieved since the 1970's. The Philippines is one of only two major economies in East Asia Region, along with Vietnam, to accelerate its quarterly growth from Q1 to Q2. Due to the slow start, economic growth is expected to settle at 5.8%.

The country has earned investment grade ratings from major credit rating agencies as a result of its sound macroeconomic fundamentals. It is increasingly characterized by robust inclusive economic growth, low and stable inflation, healthy current account surplus, more-than-adequate international reserves, and a sustainable fiscal position – a combination never before seen in its history. However, with GDP growth having reached its potential, the country should make use of its sound fiscal position to fund much needed infrastructure to sustain high growth in the following decades.

The Philippine banking community has faced 2015 with confidence given its strong balance sheet, solid capital base that exceeds global standards, product innovations, and adherence to international standards for governance and risk management.

Definitely, the banks still need to continue working together to achieve a more inclusive financial system that promotes inclusive growth, strengthen consumer protection, forestall emerging risks, and ensure financial stability at all times.

Certainly, there is much more that our banks have empowered and continue to support. On that note, PBB is crafting the way forward to a better, stronger and more comprehensive banking system -- from the cities to the countryside.

Looking ahead, volatility and uncertainty will continue to beset economies and financial markets around the world. We believe that our disciplined approach in maintaining a strong balance sheet and funding base will help us to stay resilient and give us the capacity to support customers through this cycle. PBB has withstood the challenge of times for the past eighteen years. We believe our philosophy in balancing growth with stability will continue to guide us in navigating the uncertain terrain ahead.

I thank the PBB family for your commitment, not only to your work, but also to the clients that you serve. I also thank our partners and those who continue to trust and support PBB. Thank you very much for making us a part of your life.

Sincerely,

Alfredo M. Yao
Chairman Emeritus

MESSAGE FROM THE

CHAIRMAN

MY CRYSTAL YEARS WITH PBB

INVESTING IN PBB'S FUTURE

Fifteen years ago, I joined Philippine Business Bank with the belief that even in an established industry like banking, we could succeed with a new approach — a dedication to assessing risk and an obsession with providing the best customer service to help us do it. In the ensuing years, we combined our depth of dedication, driven by our commitment, with an ever-widening range of long-term solutions to provide more and more clients a reason to come to PBB.

From our company's beginning, we have succeeded because we've stayed true to our core values — Making Things Happen...Today!

It worked because we never stopped innovating. We have always looked for ways to invest in improving our technology, our goal to train our people, our approach to risk management and our ability to meet our clients' needs. At the core is a recognition that we cannot coast on reputation, past successes or size, but must engage in an ongoing process of reinvention.

Today, in the face of the many obstacles making our clients' near- and long-term investment objectives more complex, we continue to look every day for new ways to endow in PBB to better meet their needs.

PBB, has been moving ahead confidently on the road to progress, prosperity, growth, expansion and development. In line with its forward-looking vision, PBB has been growing remarkably well, successfully achieving its various targets over the past eighteen years. The year gone by we saw the company's growth, scale new levels as we continued to march towards achievement of new goals and realization of new dreams.

Yes, we have grown, we became better and we have molded ourselves to become stronger. But we opt to remain grounded, levelheaded, easy to reach and delighted to serve.

PBB shares these traits from our Chairman Emeritus, Amb. Alfredo M. Yao. His vision has always been our guiding star, his leadership style is what keeps us moving forward.

As Chairman of the Board, I have been a believer of these three qualities that helped us pave the way to progress: Dasal, Sipag at Tiyaga (Prayers, Diligence and Perseverance). These have allowed us to overcome the challenges, convert opportunities, and unite to deliver profitable outcomes.

We have a longstanding reputation for excellent customer service. We continually seek innovative and creative ways to meet the needs of our guests. We maintain high standards in every aspect of our business, from ethics and social sustainability to diversity and inclusion.

It is your continued efforts and support which have allowed us to endeavor on continuous improvement. By continuously challenging ourselves, and striving to deliver quality service across all levels, we will continue to pave the way towards a prosperous and sustainable future of PBB.

We look forward to continuing along our successful path together with you.

Sincerely,

FRANCIS T. LEE
Chairman

LETTER TO STOCKHOLDERS FROM THE PRESIDENT

Dear Fellow Shareholders,

I am pleased to announce that Philippine Business Bank has delivered solid financial performance along with strong and consistent long-term shareholder returns despite a challenging year in a tough business environment.

2015 was a significant year for PBB. We made our largest acquisition to date when we acquired Insular Savers Bank, Inc. and Bataan Savings and Loan, Inc. We have also continued to benefit from our measured and targeted approach to growth, in our key markets of the provincial areas. This was clearly demonstrated by the strong performance achieved by our client-related businesses – commercial banking, business lending, investment banking and branch banking – which lifted our earnings to a new high.

PBB's Performance

During periods of uncertainty, our strong balance sheet continues to be a competitive advantage. The Bank reported a net profit after tax of Php502.142 million. Total assets were Php 65.582 billion at the end of 2015 which is 13.36% increase from last year's Php 57.854 billion. Total loans reached Php 41.738 billion and client deposits rose 18.01% from last year's Php 46.619 billion to Php 55.016 billion this year.

An increase of 6.1% to its pro- forma recurring net income of Php537.1 million through the end of 2015 from ₱506.1 million in the same period last year. The Bank's recurring net profit includes the earnings of Insular Savers Bank (ISB), a rural bank PBB acquired in mid-2015, while the comparative figure of ₱506.1 million for 2014 excludes one- time gains recognized during that year. The Bank's pro-forma recurring core income1 reached ₱883.9 million this year. Pro-forma recurring pre-tax pre-provision profit (PTPP2) grew 0.51% Year-over-Year (YoY) to ₱953.4 million from ₱948.6 million in 2014.3

Capital fund stood at Php 8.470 billion, while the Group's capital position remained above the BSP's minimum requirements with Capital Adequacy Ratio Tier 1 (CAR) and Total CAR at 17% and 17.7% respectively as of December 31, 2015.

[1] Core income is total revenues ex-trading gains/(losses) less non-interest expenses

[2] Pre-tax pre-provision profit is net revenues less non-interest expenses

[3] PHILIPPINE BUSINESS BANK RECURRING NET INCOME UP 6.1% Landmark year for PBB highlighted by key acquisitions and branch network expansion, Dave Sison, April 14, 2016

LETTER TO STOCKHOLDERS FROM THE **PRESIDENT**

Outlook

The operating environment in 2015 is expected to be more challenging.

While we remain watchful of potential global headwinds and vigilant to emerging risks, we will continue to allocate resources to build deep and lasting relationships with our clients, business partners and communities. We have the resilience and capacity to support all our stakeholders for the long run. Importantly, while we position ourselves for prudent growth, we remain firmly committed in investing in our people and technology, maintaining a diversified funding base and having a disciplined risk management framework. We will uphold a rigorous focus on our control environment, enhance our monitoring capabilities and further strengthen our systems and processes.

Our capabilities in the areas of personalized customer service will be further enhanced to ensure that PBB continues to deliver a superior and differentiated client experience. We have made great progress in executing our growth strategy in 2015.

PBB's Strategy Is To Build The Infrastructure Of Commerce For The Future. Expansion Is Only The First Step.

What we are building is an open, transparent and collaborative infrastructure for commerce. At the end of December 2015, PBB has 1,216 employees, and 134 branches.

Expansion has been a way to establish a physical presence in a new community. Branches represent channels to nurture lifelong clients by building relationships, providing hands-on support and targeting our offerings.

Through our extensive expansion endeavors, coupled with strategic partnerships and provision of innovative banking services, the bank has nurtured such reputation, helping scores of SMEs prosper and, in turn, the economy grow.

Thus, PBB has successfully developed a reputation as a partner that small and medium-sized enterprises (SMEs), vital drivers of the economy, can count on.

PBB's phenomenal growth is a testament to our success in leveraging on our reputation and implementing the strategic plans competently.

PBB's focus of expansion has shifted away from Metro Manila. In the past few years, only a handful of branches were established in Metro Manila whereas more than 70 were set up in the provinces, mostly in Southern Luzon, Visayas and Mindanao, whose local economies have the potential to grow.

We plan for the future and long-term development. We will further invest in third- and fourth-tier cities and rural districts in the coming years in addition to fortifying our market leadership in major cities. We believe that building a truly viable network connecting people and our banking services all across the Philippines is essential to realizing its full economic potential.

In addition to building our own branches, PBB has made significant acquisitions over the years. Insular Savers Bank, Bataan Savings and Loan Inc., and Cavite-based Rural Bank of Kawit Inc., rural banks with notable deposit and client bases in the respective areas in which they operate.[4]

ISB has eight branches and has a portfolio of consumer loans and bus and auto financing and three are from Bataan Savings and Loan, Inc. The acquisition of Bataan Savings and Loan, Inc. accelerates the Bank's expansion of its network in the SME- rich area in the Subic-Bataan business corridor.

[4] *Subject to BSP approval, PBB acquired*

LETTER TO STOCKHOLDERS FROM THE **PRESIDENT**

Talent Development Follows.

Over the years we have made significant investments in talent development succession planning so that at every stage of our development, we will have a strong team of young leaders to rise to the occasion.

In our rapidly changing operating environment, we know the innovation and creativity of our people is our greatest asset. We will continue to challenge, reward and develop our talent to ensure our sustained growth and success.

PBB has also been devoting resources into training our workforce to make them more responsive to our clients whose needs are evolving. As we expand the business, definitely the demand for a better skill set of our people also increases. Our people have to be attuned to the demands of the work and the environment.

PBB is a company driven by its vision, and our development is guided by strong company culture and values. We have always been idealistic yet realistic. As the CEO, I assure you we will continue to strengthen PBB, enabling the success of more people and creating more value for our clients and partners, the community and our shareholders.

Continuous Innovation

We continue to improve our technology and products in order to win market share through innovation and technology — we never rely on the strategy of simply increasing headcount. In the coming years, we will have the opportunity and capability to build the most efficient business organization among the large global companies while creating the most job opportunities.

In fact, PBB's private cloud strategy was awarded the Best Cloud Based Programme by the Asian Banker Technology Implementation Awards 2015. After undergoing a stringent evaluation, we are the only bank from the Philippines among the list of winners with over 65 banks from across Asia Pacific, Middle East and Africa submitting over 150 project details for evaluation.

The private cloud implementation has resulted in strong growth and efficiency. In fact, PBB has put in place a strong private cloud structure, with the data center achieving an uptime of 99.98% with server and storage capacity scalable to meet the bank's projected needs over the next five years. The system provides the bank with improved operational efficiency at reduced cost requirements, coupled with growth in transactions meeting annual goal.

Following its implementation, PBB has improved time-to-market and pursued aggressive branch expansion with faster business processes. The bank already has many of its core and mission critical systems in private cloud. Implementing this cloud strategy transformation saw the number of PBB branches growing by over 48% since implementation in June 2013.

Strategic Partnership

Another undertaking that the bank has continually engaged in is drawing strategic partners and potential investors.

While, our initial focus will be on acquisition and expanding our thrift banking franchise. As part of that process, we will take extra care to maintain the strong risk management practices and credit discipline we have worked so hard to instill over these past few years. We will continue to grow franchises with appropriate risk-adjusted returns, improve our profitability by exiting non-strategic portfolios, remain disciplined on expense management and return excess capital to our shareholders while maintaining strong capital ratios.

Focusing and Capturing the Opportunity in the Future

With the new fiscal year upon us, we remain highly focused in a complex macroeconomic environment, and we believe we are well-positioned to deliver on our fiscal 2016 priorities. We continue to realign resources to ensure that we are innovating and making investments that are in the best interests of our shareholders, customers, and partners. We continue to strive to deliver profitable growth and generate long-term shareholder value. We also plan to continue taking advantage of the opportunities in front of us, executing on our vision and strategy and winning in our client and geographic segments.

PBB is a great company with an exceptional track record, a strong culture of innovation, a passion for client success, and the talent to deliver results. We believe our ability to anticipate and respond to both challenges and opportunities is a fundamental part of our DNA, and we plan to continue to improve, adjust and reinvent as necessary to ensure our success going forward. We value your partnership as we position the company to lead into the future. I strongly believe it will be an exciting journey for us all, and I want to thank you for your on-going commitment, support, and trust.

May I also express my gratitude to my fellow Board members for their valuable advice and guidance. My heartfelt thanks also go to all management and staff of PBB for helping make 2015 a great year. To all our clients and shareholders, thank you for your unwavering support.

At PBB, we make things happen...today!

Sincerely,

ROLANDO R. AVANTE
President

PBB Participates in the Renminbi Transfer System (RTS)

L-R: PBB's Presidents & CEO, Mr. Rolando R. Avante; Bank of China's Country Head Mr. DengJunand PBB's SVP & Treasurer, Mr. Joseph Edwin S. Cabalde

Philippine Business Bank (PBB) has recently entered into an agreement with Bank of China, Manila Branch and is in participation of the Renminbi Transfer System.

Statistics from China's Ministry of Commerce shows that China and the Philippines bilateral trade volume exceeded USD $38 billion in 2013. China now has become the third largest trade partner of the Philippines which account for 14 percent of the total trade as of July 2014. In terms of imports, China was the Philippines' biggest source as it accounted for 13.01 percent of all shipments in 2014, government data showed.

Given the magnitude and importance of the country's transactions with China, it is only appropriate that the Philippines would have a safe and efficient payment and transfer service for Renminbi.

In 2013, the RMB Transfer System (RTS) jointly developed by Manila Branch of Bank of China and Philippine Dealing System (PDS) was put into official operation, which established that RMB had become the second foreign currency after US dollars for real-time domestic clearing and the first currency for real time cross-border clearing in the Philippines.

BSP expects this to provide bank members and their clients the facility to execute real-time payments in and transfers of, renminbi to domestic and international counterparties.

There are 11 banks offering renminbi-denominated products and services such as deposits, remittances, and trade settlement and Philippine Business Bank (PBB) is one of these banks.

PBB is pleased to offer a gamut of Renminbi products to the Philippine market. This is in addition to the bank's current offerings of deposit products, consumer loans, corporate credit facilities, treasury, trust, cash management services and emerging markets banking products.

"At PBB, our expertise, knowledge and products can help our clients tap the benefits presented by the continued internationalization of Renminbi (RMB) and the liberalization of China's RMB Cross Border Trade Settlement Scheme," remarked Rolando R. Avante, president and CEO of PBB.

From 2009 to 2012, renminbi deposits rose from 0.05 percent to 0.22 percent of the Philippine banking industry's deposit liabilities, and comprised around 0.22 percent to 1.04 percent of the total foreign exchange deposit liabilities, respectively.

The ability of renminbi account holders to denominate, settle and clear transaction with parties conducting businesses in renminbi minimizes exposure to exchange rate fluctuations of a third currency.

PBB announced that beginning February 20, the bank will start offering in all its branches the RMB savings account and trade financing.

PBB Awarded The Best Cloud Based Programme

Philippine Business Bank, PBB, the financial arm of the Yao Group of Companies announced that their private cloud strategy was awarded the Best Cloud Based Programme by the Asian Banker Technology Implementation Awards 2015.

"After undergoing a stringent evaluation, Philippine Business Bank has successfully won the Best Cloud Based Programme, together with its IT Partner IBM" remarked PBB's IT Head. "We are the only bank from the Philippines among the list of winners!" PBB's IT Head added.

In conjunction with the Asian Banker Achievement Awards – which is widely acknowledged by the financial services industry as the highest possible accolade available to professionals and banks in the industry as recognised in the Asia Pacific region, The Asian Banker Technology Implementation Awards recognize leadership in the implementation of technology projects in a wide variety of areas.

Winners are determined through thorough evaluation of submissions alongside field research and interviews conducted by Asian Banker staff. Evidence of innovation is sought such as new concepts, new technologies where appropriate, or creative thinking that distinguishes the project and sets it apart. Evaluation of the implementation is based on the belief that successfully implemented projects start with a clear business case, balance the risks involved, consider a variety of approaches and are delivered within time and budget.

The award ceremony was held last April 15 in conjunction with The Asian Banking Summit 2015 at the Hong Kong Convention Centre. The programme attracts a substantial number of submissions describing a range of innovative solutions that clearly demonstrate how IT can deliver significant benefits to the business of banking. This year is no exception with over 65 banks from across Asia Pacific, Middle East and Africa submitting over 150 project details for evaluation.

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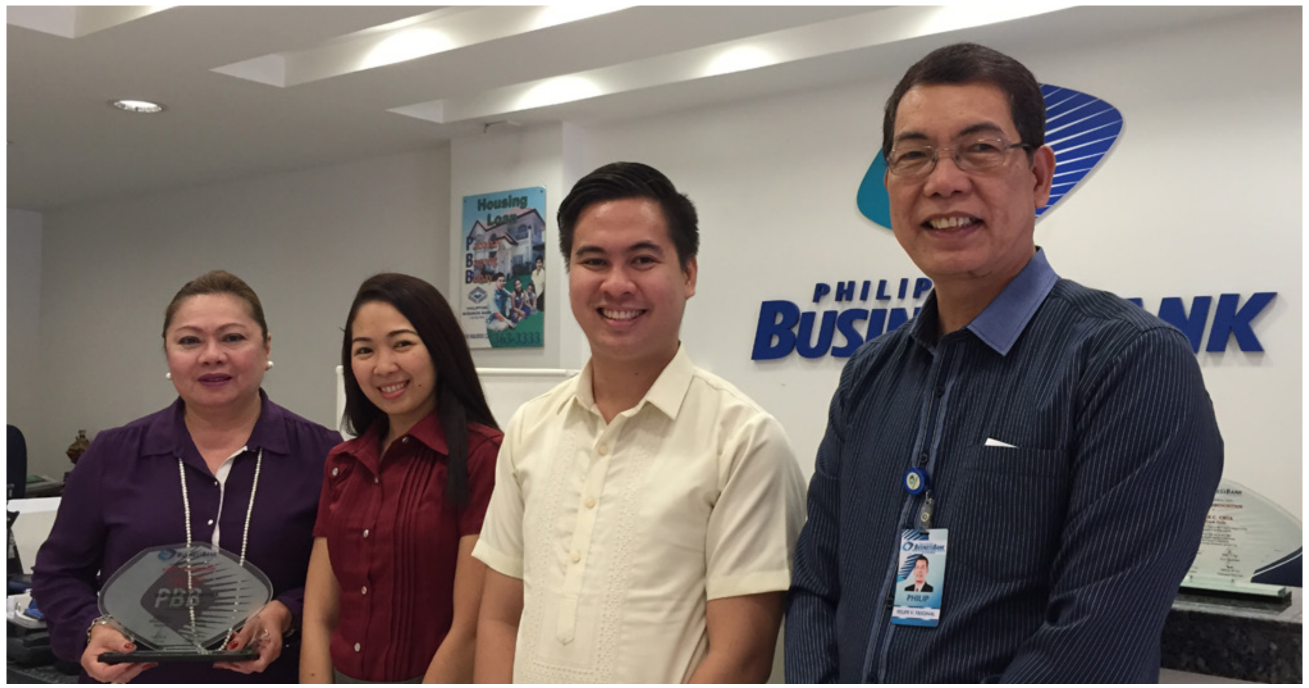
PBB Iloilo Branch Is Awarded 2014 Branch Of The Year



Before the partnership of Philippine Business Bank and Medicus Cancer Institute came into being, PBB's 2014 Branch of the Year – Iloilo Branch, headed by Ms. Helen C. Chua, initially established a business relationship with the Medicus Group. Then everything else followed, as the inaugural contract signing happened last October 7, 2015.

As banking becomes more digitized, clients still crave a human connection. Our Iloilo Branch always ensures a rewarding customer experience.

"Becoming the branch of the year came as a surprise," recalls Helen C. Chua. "I did not expect Iloilo Branch to bag the award since there were more than 100 branch contenders," she added.

"This distinction was based on the branch's performance over the past year, owing to its growth in earning assets, deposit liabilities, effective cost management, profitability, strategic relationships, customer service, competitive pricing and cross-selling of products, as well as other subjective criteria, including reputation and management excellence," was according to Mr. Felipe V. Friginal, FVP and branch banking group head.

PBB Announces The Launch Of New Partnership With Medicus Cancer Institute

Philippine Business Bank recently announced the launch of a new partnership with Medicus Cancer Institute, creating an integrated oncology services program to better serve the greater Iloilo City community. This new partnership brings the financial services of PBB to the clinical program of MCI.

This partnership gives MCI's patients enhanced access to groundbreaking clinical trials, broader screening and diagnostic tools, treatment options, expanded psychosocial support and enhanced pain management therapies.

"With the support of PBB, MCI will define the very best in cancer care, incorporating personalized precision medicine to bring more cures to more patients," remarked Dr. Vicente Villareal, president of MCI. "Expected to become operational in the first quarter of 2016, the Medicus Cancer Institute will be Western Visayas' first cancer institute with facilities at par with those in Manila and Cebu," added Dr. Villareal.

Last May 2014, Philippine Business Bank and Medicus Cancer Institute began to explore a business relationship that would build off an existing partnership. At present, we are proud to launch this new partnership that will provide integrated and enhanced care in medical oncology services.

"This alliance allows us to connect with the communities MCI serves," said Rolando R. Avante president and CEO, PBB. "This opportunity to partner with MCI creates a model of integration that will transform cancer care to the highest quality clinical care to

cancer patients," Mr. Avante added.

"The key driver for asset growth will be the opening of new outlets, the branch expansion in high growth areas where robust SME markets are located, specifically on the provinces and secondary cities. The management is also looking for connections and ways to expand in the Visayas-Mindanao area," concluded Mr. Avante.

ROLANDO R. AVANTE

Growing To Compete

COMPETITION IN the local banking industry is already cutthroat with the present environment, and as bigger foreign banks are poised to set up shop in the country, the drive to earn market share would only be intensified. But even with that in mind, Philippine Business Bank (PBB) President Rolando R. Avante remains optimistic that an integrated financial landscape through the full implementation of the ASEAN (Association of Southeast Asian Nations) Economic Community (AEC) would be beneficial even to savings banks such as PBB.

"The threat is definitely competition. It's just like eating in one table and fighting over food with just ourselves, and still you invite more people to join, then of course you'll just have more competition," Mr. Avante told BusinessWorld in an interview. However, he pointed out that the unfolding of the AEC would also generate opportunities to build partnerships that are favorable to both local and foreign banks.

"The Bangko Sentral ng Pilipinas (BSP) has announced the entry or the interest of two Korean banks. The Taiwanese are also there. For a while, there was an interest from the Malaysians and the Japanese also. So these entries are viewed as a two-pronged thing. It's an opportunity and a threat," Mr. Avante said.

"The opportunity is that they get to partner with a local bank and that bodes well in terms of bigger capitalization. Hopefully, there will be a lot of economies of scale and there will be cross-border transaction."

But even as opportunities start to abound, raising competitiveness is still at the top of PBB's priority list. In recent years, the bank has continuously added its branches across the archipelago and has made a couple of acquisitions as well.

"In our own way, we are trying to keep track and base with the growth of what is required of the system," he said. "That's why the strategic intention of the bank has been very careful. We're very precise when we decided we will increase the branches."

In 2013, PBB also launched its initial public offering (IPO). Mr. Avante said that they had enough capital then to move up and become a universal bank, but opted not to push through. Although expansion efforts are now needed to become more competitive in the AEC, it was the right decision for them, he said.

"After the IPO, we and the market thought that we can already be a universal bank. I think we were at P8 billion and the capitalization requirement then was at around P5.5 billion," he said. "So, it comes out that there was wisdom for us not to push through. Because if that happened, yes we would have been a universal bank, but now we would have to catch up to grow capital. And now that is around P20 billion. We wouldn't only need to double the capital, we would have needed around 60%."

Today, PBB is bent on improving efficiencies through enhancing information technology infrastructure and human resource development to raise its competitiveness.

"If there is one biggest investment for Philippine banks right now, it's to create a lot of efficiencies. It's also a challenge for us — to attract good talents. That's a challenge in some organizations. You have to have the right people," he said. "When I got in, training and development wasn't much a priority. But if we want to expand, we have to have more people who are capable."

Aside from individual efforts from banks, Mr. Avante also noted that the government also plays a chief role in preparing the industry for the AEC. And the BSP, in particular, has been efficient in doing so, he added.

"The regulators have the ability to prepare the market — either through new regulations or implementing regulations that affect the industry locally and globally to address certain issues," he said.

*As seen on
Business World's Special Feature
CEOS' VIEWS ON
ASEAN INTEGRATION
FRIDAY-SATURDAY
OCTOBER 16-17, 2015*

ALICE P. RODIL

Backed By Her Family

ALICE P. RODIL, chief financial officer, senior vice-president and comptroller of Philippine Business Bank (PBB), began her banking career 36 years ago.

Having rose from the ranks, Ms. Rodil knows how it is to start from the bottom. This, perhaps, tells of her management style, which she describes as democratic yet practical.

"I am strict when the situation asks for it," she told BusinessWorld in an e-mail.

Ms. Rodil graduated from the Polytechnic University of the Philippines in 1978 with a bachelor's degree in Accounting, cum laude. She jump-started her professional life as a bookkeeper at the United Coconut Planters Bank (UCPB). It was also there where she met her life's major work influence.

"My very first boss in UCPB is considered my mentor, Mr. Antonio S. Boncon. He trained me in all areas of management," she narrated.

Nearly two decades later, she decided to shift paths and work for PBB, a fairly newcomer in the local thrift bank landscape then, when former PBB president Alfredo M. Yao offered her a job. She has had no regrets since.

"I am honored to handle these positions as a listed company. I am at the position where everybody is watching how we run the bank and how we comply with all the strict requirements in banking and as a public company," said Ms. Rodil.

According to her, 2014 was a bountiful year for PBB because it has met its requirements, specifically on compliance and strict competition issues, among others. Ms. Rodil likewise thinks that the humble thrift bank will continue to be positive and inspired so that it could meet its remaining target for 2015 in spite of stiff competition.

Good governance, fairness, and transparency are some of the corporate values that Ms. Rodil holds high regard for. Although these values have long been ingrained in PBB's business philosophy, she also follows these personally and by heart.

"We believe that we can never go wrong [with these] and will continue to bring PBB to soaring heights with this credo," she added.

Furthermore, Ms. Rodil believes that having handled and juggled both family and work like efficiently through the years is already an achievement in itself for a woman like herself. She added that she is grateful for having the full support of her husband and children along the way.

"Reaching the dreamed position in our corporate life can be best achieved if we can be successful in mixing family and career," said Ms. Rodil.

*As seen on
Business World's Special Feature
WHO IS WHO:
WOMEN IN BANKING
FRIDAY-SATURDAY
APRIL 24-25, 2015*

PBB And PLGIC Announce Strategic Partnership

Philippines Business Bank and Paramount Life and General Insurance Corporation have agreed to form a strategic partnership to better serve their clients towards financial security.

The partnership shall be a thrust towards the education of Filipino about the true value of Financial Planning and Family Protection.

Each Filipino has their own dreams and aspirations, with this program, the clients will be given tailor-fitted service that is based on their needs and wishes for their families.

Together, PBB and PLGIC envision every Filipino to have peace of mind today for the future.

PBB And BUFFEX

The Bulacan Food Fair and Exposition (BUFFEX) celebrated its 3rd successful anniversary and biggest food exhibit in Bulacan last September 7 – 10, 2015. It continued to showcase famous food merchandises and other products known in the province. More or less 80 companies and ten local government units participated in the BUFFEX including officials and employees from the national agencies and local government units, Department of Science and Technology, Department of Trade and Industry, Department of Agriculture, Philippine Exporters Confederation, Inc. (PhilExport), Philippine Chamber of Commerce and Industry and stakeholders from restaurant and catering services and culinary schools among others.

Food lovers from Bulacan and nearby cities and provinces enjoyed the four-day food fair at The Pavilion, Hiyas ng Bulacan Convention Center in the city of Malolos. The event showcased the best of Bulacan foods as well as the ingenuity and craftsmanship of local entrepreneurs in partnership of the Provincial Government of Bulacan and Bulacan Chamber of Commerce and Industry, the project proponent.

PBB is proud to take part in this event as one of its partners and sponsors. Majority of the local entrepreneurs who participated in BUFFEX have business relationship with the Bank. PBB's objective is to extend financial services to these SMEs without complexities.

14th CHAIRMAN'S CUP
Invitational Golf Tournament

PBB Prepares For The Upcoming ASEAN Integration

On May 15 and 16, 2015, the Employers Confederation of the Philippines (ECOP) rolled out the 35th National Conference of Employers (NCE 35) on the theme, "Evolving ASEAN Market: Towards Inclusive Growth and Prosperity," held at the Marriott Hotel. The NCE 35 gathers together CEOs, entrepreneurs, and business leaders to confront issues vis-à-vis the ASEAN integration by 2015. The Conference theme focused on the challenges and opportunities arising from the free flow of goods and services as well as labor mobility.

The Conference is a springboard for the top honchos of the business sector and corporate executives to tackle concerns on labor-management relations and the general business climate.

PBB, as a private sector, supports the government as it pursues a development strategy that revolves around a development plan anchored on infrastructure investments, higher governance standards, talent development and employment generation through the bank's expansion strategy. PBB is exploring new pathways to create opportunity and benefit for the communities it serves.

PBB Supports The PFA

The Philippines took center stage in the global franchising industry when Franchise Asia Philippines 2015 opened its gates to about 500 homegrown and foreign and over 50,000 attendees, including business experts, and trade buyers, making it the biggest, grandest and most anticipated franchising event in the world this year.

The SMX Convention Center was the venue of the festivities including the International Franchise Conference held last June 10 and 11. Among the topics discussed at the two-day International Conference were: Retail 2025: Reconfigure for Success; The CFO Forum: Managing Growth; The CMO Forum: Marketing Strategies to Different Generations; Emergence of a New Franchise Leader in a Chaotic World; The Future of Digital Marketing and its Impact to Business; The CEO Forum: Business Leadership and Strategies Amidst Globalization; and The ZEE Forum: Inspiration and Insights from Successful Franchisees.

After international conference was the International Franchise Expo held last June 12 to 14, the biggest franchise showcase in the world today with almost 10,000 square meters in exhibit area, covering all four halls of the SMX Convention Center. It was a showcase of the best unlimited business opportunities ranging from established and successful brands—both local and international—to new and promising franchise concepts covering every sector at various investment levels.

Bannered under the theme "Opportunities and challenges In An Integrated Global Economy," Franchise Asia Philippines 2015 aims to sustain and strengthen PFA's core mission of affirming the Philippines' position as the Center for Franchise Development in Asia, as PBB joins PFA's mission as one of its members and sponsors.

The small and medium enterprise (SME) sector will continue to be the main focus of PBB. As the economy continues to be strong, a lot of SME clients, especially in the outlying areas, will need additional capital and that is where PBB comes in.

The Bank is of service to the economy if PBB lends more to the SMEs. The Bank's objective is to spur business in communities and create an impact in the areas where PBB is present.

PBB Participates in Print Philippines 2015

The Philippine Business Bank (PBB), the financial arm of the Yao Group of Companies, participated as one of the sponsors and exhibitors of the Print Philippines 2015.

The Printing Industries Association of the Philippines (PIAP), is the biggest and most active association of printers in the Philippines. It recently concluded its 4-day exhibit at the SMX Convention Center in Pasay City last September 9 – 12, 2015. This is PIAP's 52nd year of service to the nation.

This year's guest speaker is the Hon. Conchita Carpio – Morales. Upon her retirement as Associate Justice of the Supreme Court, Justice Conchita Carpio Morales was appointed as Ombudsman of the Philippines. Her appointment was announced by President Benigno S. Aquino III during his second State of the Nation Address in July 2011, making her the fifth Ombudsman since the Office of the Ombudsman became operational 25 years ago in May 1988.

The Ombudsman focused her keynote speech on the creation of the Investment Ombudsman Team (IOT). "The IOT will draw in more investments in the country," Hon. Morales said. "With the establishment of the investment ombudsman office, we advance the policy thrust of the Aquino administration for good governance and transparency, and attract more investors in the country." Hon. Morales added.

With the manufacturers and suppliers showcasing and introducing their latest machines, technologies and services, this show has delivered quantifiable results for the member companies and attendees as they have attributed higher profits and improved production capabilities from this and its previous events.

PBB focuses to serve the SME market. With its participation in this event, more Filipino businessmen will now have access to working capital and funding business expansion as PBB comes to them with sincere purpose of supporting their financial requirements.

PBB 18TH ANNIVERSARY

OUR
EVENT HIGHLIGHTS

PBB Stockholders' Meeting

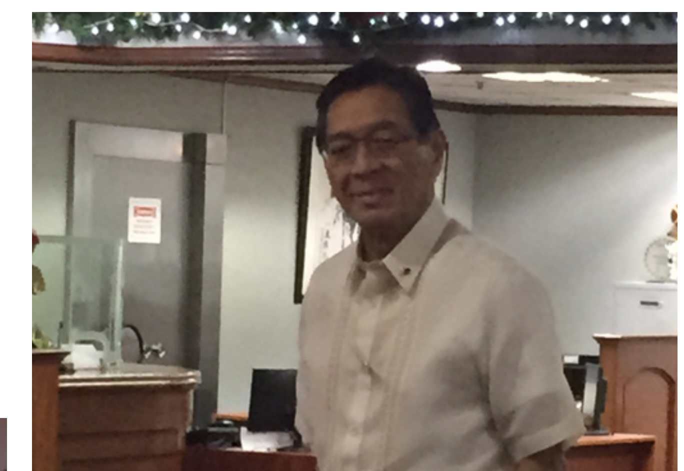
PBB Special Stockholders' Meeting

PBB Christmas Party

The Carolers From Northern Rizal Yorklin School

Christmas is in the air, you can hear the season's cheer in every street where carolers walk around singing the familiar songs of the season. The same tune can be heard in PBB, where the students of the Northern Rizal Yorklin School cheerfully carolled the Management of Philippine Business Bank, to get everyone in the Christmas spirit. This has been the school's yearly tradition.

For more than a decade, PBB has been supporting the school on its efforts to put all children on a path to success. PBB is pleased to support the Northern Rizal Yorklin School, which includes many of the bank's grantee partners.



PBB supports the Philippine Chamber of Commerce & Industry

The recently concluded 41st Philippine Business Conference and Expo held at the Grand Ballroom of Marriott Hotel, was supported by the Philippine Business Bank – the financial arm of the Yao Group of Companies.

With this year's theme: "One. Global Filipino: Strategic Partnerships for Global Competitiveness," which focuses on promoting synergies and building strategic alliances to deliver the promise of competitive environments, global integration of economies and value-added formation of industries to enable business to gain competitive advantage to grow and expand more quickly and efficiently.

The event laid down the roadmap that will strategically position Philippine industries and enterprises to seize the global market as it moves towards international trade partnerships.

As stressed by this year's PCCI President, Amb. Alfredo M. Yao: "PCCI is dedicated to serving the business community and providing education and support services to further evolve local industries and enterprises - particularly small- and medium-size enterprises - into globally competitive ventures. PCCI has focused its strategies to create synergies among government, local businesses led by the chambers and development stakeholders."

PBB takes part in that same strategy; support for the financing of projects implemented for SMEs which is the key policy objective of the Bank, as the SME sector represents the engine of growth and innovation.

PBB Cebu Branch Inauguration

Enterprise Risk Management Framework

Managing the various kinds of risks Philippine Business Bank encounters in its businesses is an integral part of its operations. PBB has developed an integrated Risk Management Framework involving the Board of Directors, Senior Management, the Business Units and the Bank's Risk Management Group.

The Board of Directors sets PBB's risk management direction through the Risk Oversight Committee (ROC). It is mandated to set risk appetite, approve frameworks, policies and processes for managing risk, and accept risks beyond the approval discretion provided to management. This Committee continuously operates at the forefront of PBB's risk governance by specifying the risk taking parameters, tolerances and expected rewards by which business risks are to be taken. Furthermore, it allocates appropriate capital for absorbing potential losses from various risks attendant in the risk taking activities.

The Bank's Enterprise Risk Management framework employs an integrated approach to the identification, measurement, control and disclosure of risks in all aspects of the banking operations. The risk management infrastructure covers operational, market and liquidity, credit and counterparty and other downside risks consistent with risk management guidelines of the regulatory agencies and aligned with best practices on risk management.

The ROC, supported by Enterprise Risk Management Group (ERMG) and in constant coordination with executive and other board-level committees, oversees the risk profile and risk management framework/processes of PBB. This ensures that risks arising from the Bank's business activities are properly managed and integrated into/used as basis for overall governance, strategy and planning, decision making and accountability purposes at all relevant levels of the organization.

The Enterprise Risk Management Group (ERMG), headed by the Chief Risk Officer, develops and reviews Risk Policies, and raises to management the various aspects of risk facing PBB. In addition, it also performs an oversight and monitors the performance of the different Business Units.

The Bank's philosophy is that responsibility for risk management resides at all levels in the organization. The Bank's corporate governance aimed to achieve corporate culture, processes and structures that are directed towards the effective management of potential opportunities and adverse effects. ERMG shall continue to improve the framework in support of the Bank's strategic plans in order to achieve its mission, vision and objectives.

Every organization's optimal efficiency depends heavily on the effectiveness of its risk management processes thus PBB's day-to-day activities are undertaken under the integrated risk management approach.

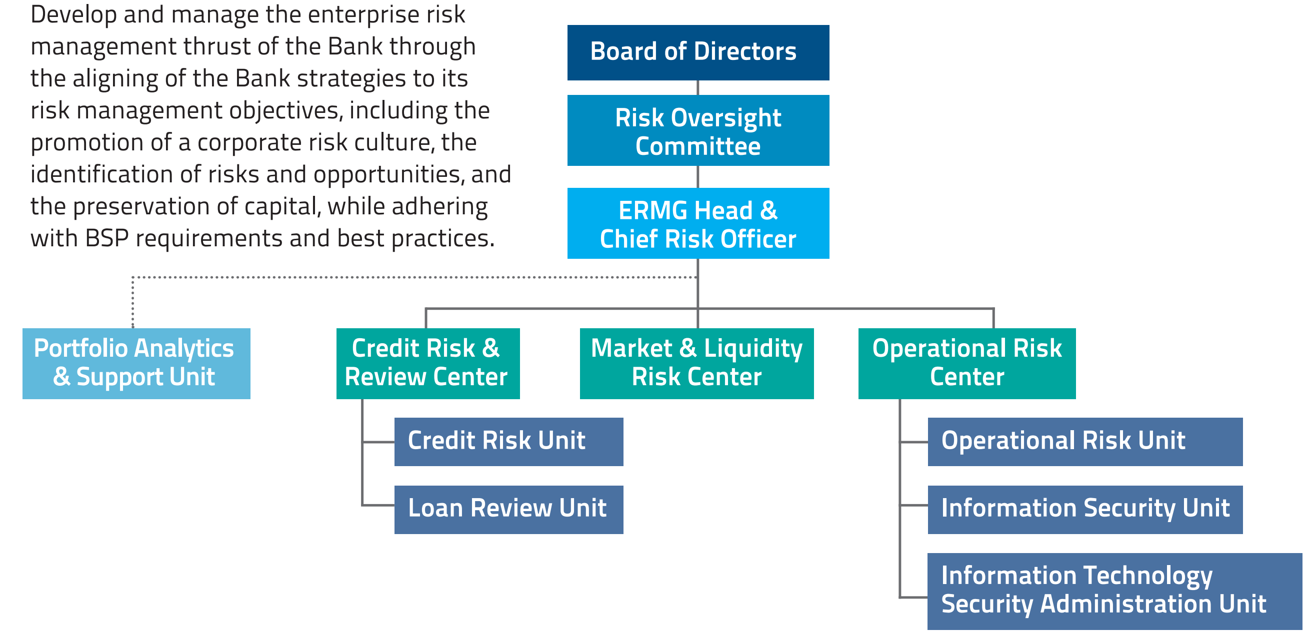
PBB RISK MANAGEMENT CULTURE

- The Group envisions to have risk and return consciousness in the Bank, anchored on reliable Management Information System, conversant and competent risk takers/constituents and good internal control, monitoring and escalation system.
- Further, the Group was established to institutionalize the Risk Management Process, to wit:

Identity	Assess	Control	Monitor and Report
▪ Identify key risk exposures	▪ Measure extent of exposure and impact to earnings, capital, liquidity ▪ Prioritize risk exposures	▪ Implement the risk appetite of the Board through risk policies	▪ Monitor effectiveness of controls

OVERVIEW: ERMG ORGANIZATIONAL STRUCTURE

Develop and manage the enterprise risk management thrust of the Bank through the aligning of the Bank strategies to its risk management objectives, including the promotion of a corporate risk culture, the identification of risks and opportunities, and the preservation of capital, while adhering with BSP requirements and best practices.



Credit Risks

PBB takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss to PBB by failing to discharge an obligation. Credit exposures arise principally in loans and advances, debt securities and other bills.

The Bank boasts of its knowledge of the SME segment as one of its strengths. Hence, the Bank puts acknowledgment in its qualitative assessment of its loan portfolio in addition to the quantitative aspects of credit risk assessment. The Bank has a very thorough pre-approval screening of loan accounts and has taken the initiative to implement an internal credit scoring model to measure and monitor credit risks for its covered portfolio. This is complemented by a regular credit review process as well as monthly portfolio risk evaluation to identify risk trends and credit risk red flags. The Bank sets aside adequate loss provisions to cover for its credit risks consistent with BSP regulations and following accounting standards.

PBB assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty. PBB has internal credit risk rating system that measure the borrower's credit risk based on quantitative and qualitative factors. For retail, the consumer credit scoring system is a formula-based model for evaluating each credit application against a set of characteristics that experience has shown to be relevant in predicting repayment. PBB regularly validates the performance of the rating systems and their predictive power with regard to default events, and enhances them if necessary

The PBB structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a regular basis and subjected to annual or more frequent review, when considered necessary. Limits on large exposures and credit concentration are approved by the Board of Directors.

When entering into new markets or new industries, the PBB focuses on corporate accounts and retail customers with good credit rating and customers providing sufficient collateral, where appropriate or necessary.

In recognition of the need for risk management measures to complement its continuously growing loan portfolio, the Bank has initiated a bank-wide credit process streamlining program in 2015 to ensure that commensurate controls are in place while the Bank continues to device ways to improve its credit process and service delivery. The Bank also has instituted improvements in its credit policies, which includes stricter monitoring of large exposures and credit concentrations to ensure portfolio diversification.

PBB RISK MANAGEMENT CULTURE: CREDIT RISK & REVIEW CENTER

- Manage the risk that can lead to potential loss of earnings or capital as a result of the Bank's lending operations;
- It furthers to maximize the Bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters;
- Formulation and review of credit risk management policies and procedures;
- Assist the Board thru Risk Oversight Committee in the oversight of the lending and other related activities of the Bank;
- Oversee credit risk and its impact to financial risk; conduct lecture on risk management as needed.

Credit Risk Identification	Credit Limit Structure & Limit Change Management	Scoring Models
▪ Loan Portfolio Analysis ▪ Industry Analysis ▪ Account Profitability Analysis ▪ Past Due Analysis ▪ Stress Testing	▪ Statutory/Regulatory Limits -Single Borrower's Limit -Risk Asset Classification ▪ Concentration Limits -Specific Industry -Borrower Group -Counterparty Exposure -Country Risk	▪ Internal Credit Risk Rating System ▪ Internal Credit Scoring Model

Market and Liquidity Risks

The Bank continues to review its treasury limits system to ensure that it only enters into transactions allowed under its existing policies and that adequate capital is available to cover for risk exposures.

The Bank has an automated system for the trading (front office), settlements and control (back office), and risk measurements and analyses (middle office) processes. This includes, among others, the integration of pre-deal limit checking, on-demand position monitoring, automated limit reporting and breach approval, and preset value-at-risk (VaR) calculations. The Bank utilizes the delta-normal model for its VaR calculations and is complemented by regular stress testing and backtesting procedures.

PBB stands by its reputation in high regard as evidenced by the faithful performance of its commitments and by upholding the trust bestowed upon it by its clients. This, and the management of potential losses related to funding and trading liquidity are the reasons the Bank seriously manages liquidity risks. It has a functional Asset and Liability Committee which oversees the regular liquidity management of the Bank through the Treasury Services Group and with oversight from the Board through the Risk Oversight Committee. Regular liquidity gap reports and maximum cumulative outflow monitoring is done on management level. The Bank also has a comprehensive Liquidity Contingency Plan which identifies specific fund sources during potential liquidity crunch scenarios. Stress testing is also done regularly to complement its liquidity risk measurement tools.

PBB is also very keen in its interest rate gap position. Management uses repricing gap reports, earning-at-risk (EAR), and sensitivity analysis to lookout for the potential effect of a rising or a falling interest rate scenario to the Bank's interest income objective. Management monitors compliance to set EAR limits regularly to ensure that interest rate risks sought are within the bounds set by the Board.

PBB RISK MANAGEMENT CULTURE: MARKET & LIQUIDITY RISK CENTER

Manage the market risk from Treasury Services Group's (TSG) activities as well as the Bank's exposure to liquidity risk and interest rate risks in the Banking book;

Trading Book	Banking Book
VaR	Interest Rate Gap/EAR
Duration	Liquidity Gap/MCO
MTM	Stress Testing
PnL	Sensitivities
Stress Testing	

Operational Risk Management

"CONTROL FIRST BEFORE TRANSACTION EXECUTION" – This is PBB's motto and being fostered among all PBB employees.

Operational risk is the risk arising from failure of people, systems, process, and external event. It is under these areas that the monitoring tools and risk assessments are organized.

The main goals of Operational Risk Management are:

- Develop an internal risk assessment methodology and operational risk data base management system linked to the operational risk management and business planning process
- Strengthen the risk control system to reduce risk, manage disruption, ensure business continuity, reduce overall costs and improve service efficiency
- Ensure compliance with other local and global risk and capital regulation (e.g. MORB of the BSP, BIS) at all times i.e. under normal and stressed operating conditions
- Streamline the PBB risk governance structure for the control and oversight of operational risk
- Empower business units with the responsibility and accountability of the business risks they assume on a daily basis
- Institutionalize a risk culture and sensitivity to potential losses including people empowerment, accountability and ownership of risks
- Minimize the potential for loss to avoid potentially large or catastrophic operational risk losses thus ensuring that capital resources are preserved;
- Create an organizational culture that places high priority on effective operational risk management and adherence to sound operating controls.
- Promote high ethical and integrity standards, and for establishing a culture within the organization that emphasizes and demonstrates to all levels of personnel the importance of risk awareness and internal control

PBB promotes a corporate risk culture and sensitivity to potential losses through regular trainings and ongoing bank wide risk awareness program.

Part and parcel of Operational Risk Management in PBB are the IT and Information Security risk management. The Bank values the confidentiality, availability, and integrity of all the information it holds. This includes the protection of client information to the full extent allowable under the law as well as the utmost protection of its clients utilizing information technology systems. To uphold this, the Bank regularly updates its information security policies and make sure that it is properly implemented and disseminated across all units of the Bank.

The bank adheres to the mandated definition of the Bangko Sentral ng Pilipinas (BSP) for IT risk under BSP Cir. No. 808 series of 2013. Technology has become one of the major players in most of the Bank's decisions when considering projects that require solutions or automation. With the increased number of dependency on technology, the risk associated with its use increases. Use of technology to improve efficiency or effectiveness of business processes may result to Information Technology Risk due to unmanaged projects and/or resources.

As part of the strategic goals, PBB needs to constantly introduce new or enhanced products and services, improve systems and processes, and implement updates and innovations in IT to secure and manage voluminous information and maintain their competitive position. IT projects, when managed improperly, often result in late deliveries, cost overruns, or poor quality applications. Inferior applications can result in underused, unsecure, or unreliable systems. Retrofitting functional, security, or automated-control features into applications is expensive, time consuming, and often results in less effective features. Therefore, PBB carefully manages IT-related projects to ensure they meet organizational needs on time and within budget.

Information Security Risk also takes place with the use of technology due to possible compromise of confidentiality, integrity and availability of information and systems. Because of the underlying information technology and security risks, the use of IT/S Risk Management Framework becomes essential to ensure that both Information Technology and Security Risks are properly identified, measured, managed/controlled, monitored and reported.

PBB RISK MANAGEMENT CULTURE: OPERATIONAL RISK CENTER

Manage the risk that can lead to potential loss of earnings or capital as a result of failures or weakness(es) of people, systems and internal processes or events external to the bank through which a bank operates.

Operational Risk	Information Security	Information Technology
▪ Operational Risk and Control Self-Assessment (ORCSA) ▪ Loss Event Monitoring ▪ KRIs, & KPIs ▪ BCP exercise ▪ Legal Case Monitoring ▪ Personnel Attrition ▪ Business Impact Analysis (BIA) ▪ Awareness Program	▪ Evaluation of Existing INFOSEC/IT Risk policies (e.g. SDLC, Information Classification, Network, Anti-Virus, Cybersecurity, Password, Email, Access controls, ITG facilities), etc ▪ Risk Assessment ▪ Information Asset Register ▪ Awareness Program	▪ Security/Event/ Network Log Monitoring - Security Violations ▪ Special ID Usage ▪ Virus Detection ▪ User Access Control

Enterprise Risk Management Milestones for 2015

The focus of the Enterprise Risk Management Group (ERMG) in 2015 was the strengthening of the Group's risk capabilities. To that extent, the following were the highlights of activities for the year 2015:

▪ The Market & Liquidity Risk Center was involved in the continuous enhancement of the Treasury system to reflect the Bank's strategies commensurate to its risk appetite for its market risk control and monitoring. The implementation is expected to improve the management of the trading to market volatility exposure.

▪ In terms of franchise development, the Bank has received the approval of the regulatorsfor the Type 2 Derivative License to be able to offer FX Forward contract to its trade finance clients.

▪ As to liquidity risk, the Maximum Cumulative Outflow model was tweaked by enhancing the report to distinguish the liquidity gap by books and currency and by improving the model assumptions through the study of historical behaviour of deposits & ROPA.

▪ Completion of the BCP documentation, as well as the completion of several BCP drills within the year to improve the awareness of Business Continuity and Disaster preparedness.

▪ The Bank has completed its bank-wide operational risk and control self-assessment (ORCSA) in support of the enterprise risk management thrust of the Bank. With this is also an enterprise-wide training on risk awareness. This will ensure appreciation and measurement of the key risks of each unique business and support units of the Bank and how these relate to the over-all objectives and strategies.

▪ Performed Information security and risk awareness programs thru the regular classroom orientation for newly hired employees, regular employees, periodic email blasts/advisories, to educate employees and clients.

▪ PBB has instituted various strengthening/hardening of the IT Risk Mitigating Tools –
  - Installation of firewalls, anti-virus for endpoint, email and internet
  - Logs review thru Security Information & Event Management
  - Established robust/strong Password Policy, regular change of password, limited number of password attempts.
  - Embarked on the EMV project where identity chips will replace the outdated magnetic strips. This is expected to go-live by late 2016.
  - Engaged a third party to perform external Vulnerability Assessment and penetration testing (VAPT) especially for the newly implemented E-Banking for Corporate Clients.
  - Prepared and implemented the use of IT Project Risk Assessment to provide reasonable assurance that the risks related to certain projects are identified and monitored; Conducted Project Health Checks on identified critical systems to provide reasonable assurance that the required process and project documentation are observed
  - Implemented the use of Information Asset Register (IAR) to identify all the information assets, their CIA value, the asset owner, location, and risk level to ensure that appropriate controls are implemented based on the value of assets.

▪ PBB has embarked on Data Warehousing project(s) - aimed to provide more relevant reports and analytics to the various business units of the Bank.
  -ROC & key executives were provided with their respective dashboards showing various analytics and reports thus, allowing them to effectively manage and monitor their respective portfolio as to balances, levels, profile, account movements, latest account status, concentration risks, performance level by business unit/branch. Current and historical trend analysis is readily available.
  -Treasury Analytics and Reports for Treasury related transactions entered in Guava are available in the dashboards. The reports are used by the Treasury Executives, Front Desk Officers, Treasury Operations, Risk Management Group, Credit and Control Department and other business units as needed.

PBB
RISK MANAGEMENT PROFILE

(Amounts in P0.000million)

Item	Nature of Item	2015	2014	2013
A.	Tier 1 (Core plus Hybrid) Capital			
A.1	Core Tier 1 Capital			
(1)	Paid-up common stock	5,365	4,292	3,433
(2)	Deposit for common stock subscription			-
(3)	Paid-up perpetual and non-cummulative preferred stock	620	620	620
(4)	Deposit for perpetual and non-cumulative preferred stock subscription			-
(5)	Additional paid-in capital	1,998	1,998	1,998
(6)	Retained earnings	578	1,128	1,044
(7)	Undivided profits	554	640	1,006
(8)	Net gains on fair value adjustment of hedging instruments in a cash flow hedge of available for sale equity securities			
(9)	Cumulative foreign currency translation			
(10)	Minority interest in subsidiary financial allied undertakins(i.e., RBs and venture capital corporations (VCCs) for TBs, and RBs for Coop Banks) which are less than wholly-owned (for consolidated basis)1/			
(11)	Sub-toal [Sum of A.1 to A.1(10)]	9,115	8,678	8,102
A.2	Deductions from Core Tier 1 Capital			
	Common stock treasury shares (for consolidated basis)			
(2)	Perpetual and non-cumulative preferred stock treasury shares (for consolidated basis)			
(3)	Net unrealized losses on available for sale equity securities purchased			
(4)	Unbooked valuation reserves and other capital adjustments based on the latest ROE as approved by the Monetary Board			
(5)	Total outstanding unsecured credt accommodations, both direct and indirect, to DOSRI, net of allowance for credit losses	(13)	(12)	(8)
(6)	Total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates, net of allowance for credit losses			
(7)	Deferred tax assets, net of deferred tax liability 2/	(326)	(286)	(250)
(8)	Goodwill, net of allowance for losses 3/			
(9)	Total Deductions [Sum of A.2 (1) to A.2 (8)]	(339)	(298)	(258)
A.3	Total Core Tier 1 Capital [A.1 (11) minus A.2 (9)]	8,776	8,380	7,844
A.4	Hybrid Tier 1 Capital			
	Perpetual preferred stock			
(2)	Perpetual unsecured subordinated debt			
(3)	Total Hybird Tier 1 Capital [Sum of A.4 (1) and A.4 (2)]			
(4)	Eligible Hybrid tier 1 Capital [Limited to 17.65% of Total core tier 1 Capital (item A.3)]			
A.5	Total Tier 1 Capital [Sum of A.3 and A.4 (4)]	8,776	8,380	7,844
B.	Tier 2 (Supplementary) Capital			
B.1	Upper Tier 2 Capital			
	Paid-up perpetual and cumulative preferred stock			
(2)	Deposit for perpetual and cumulative preferred stock subscription			
(3)	Paid-up limited life redeemable preferred stock with the replacement requirement upon redemption.			
(4)	Deposit for limited file redeemable referred stock subscription with the replacement requirement upon redemption			
(5)	Appraisal incredment reserve - bank premises, as authorized by the Monetary board			
(6)	Net unrealized gains on available for sale equity securities purchased (subject to a 55% discount)			
(7)	General loans loss provision [limited to 1.00% of total credit risk-wighted assets computed per Part I, Itmes B.1 (d)]	376	407	284
(8)	Unsecured subordinated debt with a minimun original maturity of at least 10 years (subject to a cumulative discount factor of 20% per year during the last 5 years to maturity, i.e., 20% if the remaining life is 4 years to less than 5 years, 40% if the remaining life is 3 years to less than 4 years, etc.			
(9)	Hybrid Tier 1 Capital(in excess of the max allowable 15% limit of total Tier 1 Capital) [A.4 (3) minus A.$ (4)]			
(10)	Sub-total [Sum of B.1 (1) to B.1 (9)]	376	407	284
B.2	Deductions from Upper Tier 2			
	Perpetual and cumulative preferred stock treasury shares (for consolidated basis)			
(2)	Limited life redeemable preferred stock treasury shares with the replacement requirement upon redemption (for consolidation basis)			
(3)	Sinking fund for redemption of limited life redeemable preferred stock with the replacement requirement upon redemption			
(4)	Net losses in fair value adjustment of hedging instruments in a cash flow hedge of avilable for sale equity securities			
(5)	Total Deductions [Sum of B.2 (1) to B.2 (4)]			
B.3	Total Upper Tier 2 Capital [B.1 (10) minus B.2 (5)]	376	407	284
B.4	Lower Tier 2 Capital			
	Paid-up limited life redeemable preferred stock without the replacement requirement upon redemption (subject to a cumulative discount factor of 20% per year during the last 5 years to maturity, i.e., 20% if the remaining life is 4 years to less than 5 years, 40% if the remaining life is 3 years to less than 4 years, etc.)			
(2)	Deposit for limited life redeemable preferred stock subscription without the replacement requirement upon redemption			
(3)	Unsecured subordtinated debt with a minimun original maturity of at least 5 years (subject to a cumulative discount factor of 20% per year during the last 5 years to maturity, i.e., 20% if the remaining life is 4 years to less than 5 years, 40% if the remaining life is 3 years to less tha 4 years, etc.)			
(4)	Sub-toal [Sum of B.4 to B.4(3)]			
B.5	Deductions from Lower Tier 2			
	Limited life redeemable preferred stock treasury shares without the replacement requirement upon redemption (for consolidated basis)			
(2)	Sinking fund for redemption of limited life redeemable preferred stock without the replacement requirement upon redemption (limited to the balance of redeemable preferred stock after applying the cumulative discount factor)			
(3)	Total Deductions [Sum of B.5 (1) and B.5 (2)]			
B.6	Total Lower Tier 2 Capital [B.4 (4) minus B.5 (3)]			
B.7	Eligible Amount of Lower Tier 2 Capital (limited to 50% of total Tier 1 capital per Items A.5)			
B.8	Total Tier 2 Capital [Sum of B.3 and B.7]	376	407	284
B.9	Eligible Amount of Tier 2 Capital (limited to 100% of total Tier 1 Capital per Item A.5)	376	407	284
C.	Gross Qualifying Capital (Sum of A.5 and B.9)	9,152	8,787	8,128
	Total Tier 1 Capital (Item A.5)	8,776	8,380	7,844
(2)	Total Tier 2 Capital (Item B.9)	376	407	284
D.	Deductions from Tier 1 and Tier 2 Capital			
	Investments in equity of unconsolidated subsidiary RBs and VCCs for TBs, and RBs for Coop Banks after deducting related goodwill, if any (for solo basis)			
(2)	Investments in other regulatory capital instruments fo unconsolidated subsidiary RBs for Coop Banks (for solo basis)			
(3)	Investments in equity of unconsolidated subsidiary non-financial allied undertakings after deducting related goodwill, if any (for both solo and consolidated basis)			
(4)	Significant minority investments(20%-50% of voting stock) in banks and other financial allied undertakings (for both solo and consolidated basis)			
(5)	Reciprocal investments in equity/other regulatory capital instruments of other banks/quasi-banks/enterprises			
(6)	Total Decutions [Sum of D (1) to D (5)]			
E.	Net Tier 1 and Tier 2 Capital			
E.1	Net Tier 1 Capital 4/ {C (1) minus [D (6) multifly by 50%]}	8,776	8,380	7,844
E.2	Net Tier 2 Capital 4/ {C (2) minus [D (6) multifly by 50%]}	376	407	284
F.	Total Qualifying Capital [C minus D (6)]	9,152	8,787	8,128
G.	Risk Weighted Assets			
G.1	Credit Risk Weighted Assets	42,182	40,675	30,820
G.2	Market Risk Weighted Assets	4,378	139	829
G.3	Operational Risk Weighted Assets	3,250	2,893	1,832
G.4	Total Risk Weighted Assets	49,810	43,707	33,480
H	Capital to Risk Assets			
H.1	Capital Adequacy Ratio (F divided by G.4)	18.4%	20.1%	24.3%
H.2	Tier 1 Capital to Risk Weighted Assets (A.5 divided by G.4)	17.6%	19.2%	23.4%

Table-1 PBB's Capital to Risk and RWA Composition with the CAR and Net Tier 1 Ratio for years ending 2015, 2014, and 2013

BOARD OF DIRECTORS

ALFREDO M. YAO
Chairman Emeritus

FRANCIS T. LEE
Chairman

- Executive Committee
- Manpower, Compensation & Remuneration Committee
- Trust Committee
- Asset & Liability Committee
- Credit Committee
- Bid Committee
- Remedial & Special Assets Committee

PETER N. YAP
Vice-Chairman

- Executive Committee
- Manpower, Compensation & Remuneration Committee
- Management Committee
- Asset & Liability Committee
- Credit Committee
- Committee on Employee Discipline

ROLANDO R. AVANTE
President and CEO

- Executive Committee
Manpower, Compensation
& Remuneration Committee
- Trust Committee
- Asset & Liability Committee
- Credit Committee
- Remedial & Special Assets Committee
- Anti-Money Laundering Committee
- Committee on Employee Discipline
IT Committee

Mr. Peter N. Yap has retired from the bank in March 2016.

BOARD OF DIRECTORS

HONORIO O. REYES - LAO
Director

- Trust Committee
- Risk Oversight Committee

AMADOR T. VALLEJOS, JR
Director

- Audit Committee
- Risk Oversight Committee
- Corporate Governance Committee/ Nomination Committee
- IT Committee

JEFFREY S. YAO
Director

- Audit Committee
- Risk Oversight Committee
- Credit Committee

DR. LETICIA M. YAO
Director

- Trust Committee

ROBERTO A. ATENDIDO
Director

- Audit Committee
- Risk Oversight Committee
- Corporate Governance Committee/ Nomination Committee

PATERNO H. DIZON
Independent Director

- Audit Committee
- Risk Oversight Committee
- Corporate Governance Committee/ Nomination Committee

BENJAMIN R. STA. CATALINA, JR.
Independent Director

- Audit Committee
- Risk Oversight Committee
- Corporate Governance Committee/ Nomination Committee

MANAGEMENT COMMITTEE

ALICE P. RODIL
SVP/ HEAD COMPTROLLER
- Management Committee
- IT Committee
- Committee on Employee Discipline
- Bid Committee

JOSEPH EDWIN S. CABALDE
SVP/ TREASURER
- Management Committee
- Asset and Liability Committee
- IT Committee

RAYMOND T. CO
SVP/ HEAD OF AMG I
- Management Committee
- Asset and Liability Committee
- IT Committee
- Remedial and Special Assets Committee

ROSELLE M. BALTAZAR
FVP/ HEAD OF CENTRAL OPERATIONS
- Management Committee
- IT Committee

AGUSTIN E. DINGLE, JR.
FVP/ HEAD OF COMPLIANCE
- Management Committee
- IT Committee
- Anti-Money Laundering Committee

FELIPE V. FRIGINAL
FVP/ HEAD OF BRANCH BANKING
- Management Committee
- Asset and Liability Committee
- IT Committee
- Bid Committee
- Anti-Money Laundering Committee
- Committee on Employee Discipline
- Credit Committee

BELINDA C. RODRIGUEZ
FVP/ CHIEF RISK OFFICER
- Management Committee
- Risk Oversight Committee

LIZA JANE T. YAO
FVP/ HEAD OF GENERAL SERVICES
- Management Committee
- Asset and Liability Committee
- Bid Committee

FRANCISCO M. LOPEZ
VP/ HEAD OF HUMAN RESOURCES
- Management Committee
- Committee on Employee Discipline

EFREN P. MERCADO
VP/HEAD OF BUSINESS LENDING UNIT I
- Management Committee
- Asset and Liability Committee

EDUARDO R. QUE
VP/ HEAD OF AMG III
- Management Committee
- Asset and Liability Committee

CLARISSA S. RIVERA
VP/ HEAD OF CONSUMER BANKING
- Management Committee
- Asset and Liability Committee

MANAGEMENT COMMITTEE

MA. CONSUELO S. RUFFY
VP/ HEAD OF BUSINESS LENDING UNIT II
- Management Committee
- Asset and Liability Committee

ATTY. ROBERTO S. SANTOS
VP/ CORPORATE SECRETARY/ HEAD OF LEGAL
- Management Committee
- Committee on Employee Discipline
- Remedial and Special Assets Committee
- Anti-Money Laundering Committee

JOHN DAVID D. SISON
VP/ INVESTOR RELATIONS OFFICER/ HEAD OF CORPORATE PLANNING
- Management Committee
- Asset and Liability Committee

MIAMI V. TORRES
VP/ HEAD OF CREDIT SERVICES
- Management Committee
- Credit Committee

MA. DORIS C. DE CHAVEZ
AVP/ HEAD OF CREDIT REVIEW
- Management Committee

ENRICO TEODORO
VP/ OIC OF INFORMATION TECHNOLOGY
- Management Committee
- IT Committee

LUNINGNING T. RAMOS
AVP/ HEAD OF BRANCH OPERATIONS & CONTROL
- Management Committee
- IT Committee

LAURENCE R. RAPANUT
AVP/ HEAD OF AUDIT
- Management Committee
- Audit Committee
- Committee on Employee Discipline
- Bid Committee

TERESITA S. SION
AVP/ HEAD OF TRUST
- Management Committee
- Trust Committee

JUDITH C. SONGLINGCO
AVP/ HEAD OF PRODUCT DEVELOPMENT & CORPORATE AFFAIRS
- Management Committee

ANGELINE H. HWANG
CHIEF LENDING OFFICER (Consultant)
- Management Committee
- Credit Committee

PHILIPPINE BUSINESSBANK a savings bank

Our Products and Services

Savings Account

- Minimum initial deposit/Placement: P1,000.00
- Minimum maintaining balance to earn interest: P1,000.00
- Interest rate: .25% p.a.
- Easy monitoring thru a passbook

Checking Account

- Minimum Initial Deposit/Placement: P2,000.00 (individual) P5,000.00 (corporate)
- Maintaining balance: P2,000.00 (individual) P5,000.00 (corporate)
- Non-interest bearing

Automatic Transfer Account (ATA)

- Minimum Initial Deposit/Placement: P2,000.00 (SA) P5,000.00 (CA)
- Minimum maintaining balance to earn interest: P2,000.00 (Savings)
- Interest rate: .25% p.a. for S/A
- Interest crediting: quarterly for S/A

Payroll Account

- Minimum Initial Deposit/Placement: P100.00 (Savings) P100.00 (Checking) Mother Account -Checking: P50,000.00 + (1,000.00 x No. of Employees)
- Maintaining balance: P100.00 (Savings) P100.00 (Checking) Mother Account -Checking: P50,000.00+ (1,000.00 x No. of Employees)
- Minimum maintaining balance to earn interest: P1,000.00 (Savings)
- Interest rate: .25% p.a. (Savings)
- Interest crediting: quarterly (Savings)

OUR PRODUCTS AND SERVICES

CASA (ATA) (Auto-Transfer)

Individual:

- Minimum Initial Deposit/Placement: P2,000.00 (SA) P5,000.00 (CA)
- Minimum maintaining balance to earn interest: P2,000.00 (Savings)
- Interest rate: .25% p.a. for S/A
- Interest crediting: quarterly for S/A

Corporate:

- Minimum Initial Deposit/Placement: P5,000.00 (SA) P10,000.00 (CA)
- Minimum maintaining balance to earn interest: P5,000.00 (Savings)
- Interest rate: .25% p.a. for S/A
- Interest crediting: quarterly for S/A
- Daily transactions recorded in Passbook/Bank Statement

Campus Savers

- Minimum Initial Deposit/Placement: P100.00
- Maintaining balance: P100.00
- Minimum maintaining balance to earn interest: P500.00
- Interest rate: .25% p.a.
- Interest crediting: quarterly
- Easy monitoring thru a passbook
- Open to all students from elementary to college

Time Deposit

- Minimum Initial Deposit/Placement: P1,000.00
- Minimum maintaining balance to earn interest: P1,000.00
- Interest rate: pre-determined based on the amount and term of placement
- Term of Deposit/Placement: 30 to 360 days
- Interest crediting: at maturity
- Transaction Records: Certificate of Time Deposit

Hi-Green Funds

- Minimum Initial Deposit/Placement: $20,000.00
- Maintaining balance: $20,000.00
- Minimum maintaining balance to earn interest: $20,000.00
- Interest rate: pre-determined based on the amount and term of placement
- Term of Deposit/Placement: 6 months
- Interest crediting: at maturity
- Transaction Records: Certificate of Time Deposit

Hi-5 TD

- Minimum Initial Deposit/Placement: P50,000.00
- Minimum maintaining balance to earn interest: P50,000.00
- Interest rate: pre-determined based on the amount and term of placement
- Term of Deposit/Placement: 5 years+1 day
- Interest crediting: monthly
- Transaction Records: Certificate of Time Deposit

FCDU Savings

Individual:

- Minimum Initial Deposit/Placement: $100.00
- Maintaining balance: $100.00
- Minimum maintaining balance to earn interest: $500.00
- Interest rate: .25% p.a.
- Interest crediting: quarterly

Corporation:

- Minimum Initial Deposit/Placement: $500.00
- Maintaining balance: $500.00
- Minimum maintaining balance to earn interest: $500.00
- Interest rate: .25% p.a.
- Interest crediting: quarterly
- Easy monitoring thru a passbook

FCDU Time Deposit

- Minimum Initial Deposit/Placement: $1,000.00
- Minimum maintaining balance to earn interest: $1,000.00
- Interest rate: pre-determined based on the amount and term of placement
- Term of Deposit/Placement: 30.60.90.180 days
- Interest crediting: at maturity
- Transaction Records: Certificate of Time Deposit

Our Branches

METRO MANILA

A. Mabini - C3
Adriatico -Malate
Banawe
Banawe - Kaliraya
Binondo
Corporate Center
Camarin
Carmen Planas
Commonwealth - Fairview
Congressional Avenue -
Quezon City Branch
Cubao
Del Monte
Edsa - Caloocan
Business Center
Edsa- Monumento
Elcano
Grace Park
Greenhills
Jose Abad Santos
Karuhatan - Malinta
Kaybiga, Caloocan City
Las Piñas
Legaspi Village- Makati
Madrigal Business Park
Main Office (Caloocan)
Makati
Malabon
Malabon - Rizal Avenue
Mandaluyong
Marikina
Marikina - Concepcion
Muntinlupa
Navotas
Novaliches
Ortigas
Pasay
Pasay - Malibay
Pasig-Kapitolyo
Paso De Blas
Paterno - Quiapo
Pedro Gil- Paco
Quintin Paredes
Retiro
Roosevelt
Salcedo Village- Makati
Sucat- Paranaque Branch
The Fort
Timog - Rotonda
Valenzuela
West Avenue

PROVINCIAL

Angeles
Antipolo
Bacolod
Baguio City
Balanga
Baliuag
Batangas
Biñan Laguna
Bocaue
Butuan
Cabanatuan
Cagayan De Oro
Cagayan De Oro - Cogon
Cainta
Calamba
Calapan
Cauayan, Isabela
Cebu - Banilad
Cebu - Talisay
Cebu City - Consolacion
Cebu City - Downtown
Dagupan
Dasmariñas- Cavite
Davao, Bajada
Davao, C.m. Recto
Davao-Sales:
Dipolog City
Dumaguete
Escario Cebu
Gapan
General Santos City
General Santos City - Santiago
General Tinio
Iligan
Ilo-Ilo
Imus
Iriga Albay
Kalibo
La Trinidad, Benguet
Laoag
Legazpi City
Lipa City
Lucena City
Malolos
Mandaue
Masinag - Antipolo
Meycauayan
Molino, Bacoor
Muzon
Puerto Princesa
Roxas City
San Fernando City, La Union
San Fernando, Pampanga
San Pablo
Santiago, Isabela
Sorsogon
Sta. Maria Bulacan
Sta. Rosa, Laguna
Surigao
Tacloban
Tagbilaran
Tagum City, Davao
Tanauan
Tarlac
Taytay
Toril, Davao
Tuguegarao
Urdaneta
Vigan
Zamboanga

OUR BRANCHES

METRO MANILA

A. MABINI - C3
200 A. Mabini St. Maypajo,
Caloocan City
Phone: (632) 287-8895; 287-6621
Fax: (632) 288-1249
Branch Head: Milka Diaz
Email: diaz_ma@pbb.com.ph

ADRIATICO -MALATE
G/F Hostel 1632
Adriatico Street, Malate, Manila
Phone:353- 3258; 450-1482
Fax: 353-3262
Branch Head: Danilo D. Mendiola
Email: mendiola_dd@pbb.com.ph

BANAWE
Unit 5-7 Solmac Bldg. 84 Dapitan cor
Banawe Sts.
Sta. Mesa Heights, Quezon City
Phone: (632) 410-8350; 708-5810;
410-9019
Fax: (632) 410-8656
Branch Head: Elizabeth S. Cheung
Email: cheung_es@pbb.com.ph

BANAWE - KALIRAYA
Motorex Philippines, Inc. Building 148
Banawe cor. Kaliraya St., Barangay
Tatalon, Quezon City
Phone: 448-6613; 711-0918; 711-
1015
Fax: 711-0918
Branch Head: Robert E. Paras
Email:

BINONDO CORPORATE CENTER
1126 Soler St. Binondo, Manila
Phone: (632) 242-0601; 242-7927;
310-3785
Fax: (632) 310-3784
Branch Head: Corazon Gutierrez
Email:gutierrez_cs@pbb.com.ph

CAMARIN
Zabarte Town Center 588 Camarin Road,
corner Zabarte Road, North Caloocan City
Phone: (632) 962-0232; 962-0160; 962-
0627
Fax: (632) 962-0160
Branch Head: Celito Aquilar
Email: aguilar_cq@pbb.com.ph

CARMEN PLANAS
869 Carmen Planas St. Binondo, Manila
Phone: (632) 245-5066; 245-5083;
522-7972
Fax: (632) 245-5226
Branch Head: Alice P. Rañola
Email:ranola_ap@pbb.com.ph

COMMONWEALTH - FAIRVIEW
G/F Datamex - College of St. Adeline,
Commonwealth Avenue, East Fairview
Park Subdivision, Quezon City
Phone: (632) 376-9477; 428-7104
Fax: (632) 376-2358
Branch Head: Imelda Savella
Email:

CONGRESSIONAL AVENUE - QUEZON CITY BRANCH
No. 622 Congressional Avenue, Barangay
Bahay Toro, Quezon City
Phone: 921-2919; 921-2932
Fax: 453-7242
Branch Head: Carminda A. Baculi
Email: baculi_ca@pbb.com.ph

CUBAO
Units D, E & F Timbol Bldg. 915 Aurora
Blvd.
Cubao, Quezon City
Phone: (632) 709-3649; 709-3695
Fax: (632) 438-9966
Branch Head: Sonia C. Sy
Email: sy_sc@pbb.com.ph

DEL MONTE
284-286 Del Monte Ave., Quezon City
Phone: (632) 708-5801; 749-9103; 414-
2726
Fax: (632) 749-9103
Branch Head: Siu Bee Belen Y. Ang
Email: ang_bs@pbb.com.ph

EDSA - CALOOCAN BUSINESS CENTER
574 Epifanio delos Santos, EDSA
Highway,Kalookan City
Phone: (632) 363-2493; 363-0165
Fax: (632) 363-1635
Branch Head: Christina Aquino
Email: aquino_cj@pbb.com.ph

EDSA- MONUMENTO
261 EDSA Highway, Barangay 85,
Zone 8, Caloocan City
Phone: 949-8673
Fax:
Branch Head: Gina Lopez
Email:lopez_gc@pbb.com.ph

ELCANO
730 Elcano St., Binondo, Manila
Phone: (632) 241-9824; 241-5629
Fax: (632) 241-4287
Branch Head: Rosemarie T. Apostol
Email: apostol_rt@pbb.com.ph

GRACE PARK
249 Rizal Avenue Extension corner 7th
Avenue, Grace Park, Caloocan City
Phone: 361-1004; 361-0941; 577-6536
Fax: 361-0941
Branch Head: Merle Perpetua C. Singson
Email: singson_mpc@pbb.com.ph

GREENHILLS
G/F LGI Building, Ortigas Avenue,
Barangay Greenhills, San Juan
Phone: (632) 234-9018; 576-8365
Fax: (632) 234-9016
Branch Head: Ma. Cristina Balaoing
Email:

JOSE ABAD SANTOS
1737-1739 Jose Abad Santos,
Tondo, Manila
Phone: 230-2340; 230-4033; 964-8216
Fax: 230-4099
Branch Head: Antonio C. Chua
Email: chua_ac@pbb.com.ph

KARUHATAN - MALINTA
Ground Floor HPS Building,
McArthur Highway, Karuhatan,
Valenzuela City
Phone: (632) 922-0898; 444-3688
Fax: (632) 922-0891
Branch Head: Anna Melissa B. Laiz
Email: laiz_amb@pbb.com.ph

KAYBIGA, CALOOCAN CITY
Guilmar Marble Corporation Bldg.
297 General Luis Street Kaybiga,
Caloocan City
Phone: (632) 352-7872; 417-0165
Fax: (632) 352-7791
Branch Head: Ruperto Poblete, Jr.
Email: poblete_rc@pbb.com.ph

LAS PIÑAS
Unit 1 & 2 G/F San Beda Commercial
Zapote Alabang Rd., Las Piñas
Phone: (632) 874-7966; 808-7292
Fax: (632) 875-0589
Branch Head: Christine F. Suriaga
Email: suriaga_cf@pbb.com.ph

LEGASPI VILLAGE- MAKATI
Sunrise Terraces, 100 Perea Street,
Legaspi Village, Barangay San
Lorenzo, Makati City
Phone: 551-2416; 551-2419; 310-5929
Fax: 551-2416
Branch Head:Mellany Peralta
Email:

MADRIGAL BUSINESS PARK
Unit 102 G/F Corporate Center
1906 Finance Drive Madrigal Business
Park, Muntinlupa City
Phone: (632) 822-6646; 822-6716
Fax: (632) 822-2706
Branch Head: Florante V. Fajardo
Email: fajardo_fv@pbb.com.ph

MAIN OFFICE (CALOOCAN)
350 Rizal Ave. Ext cor 8th Ave., Grace
Park, Caloocan City
Phone: (632) 363-3333
Fax: (632) 363-0291
Branch Head: Stephen Y. Co
Email: co_sy@pbb.com.ph

MAKATI
137 Yakal Street, Makati City
Phone: (632) 892-6768; 817-5720; 892-
8498
Fax: (632) 812-4755
Branch Head: Dolora Palma
Email:

MALABON
155 Gov. Pascual Ave., Malabon City
Phone: (632) 288-0078; 446-3444; 287-
7873
Fax: (632) 287-7873
Branch Head: Karen Mae Rivera
Email: rivera_kme@pbb.com.ph

MALABON - RIZAL AVENUE
726 Rizal Avenue Barangay Tañong,
Malabon City
Phone: (632) 447-6044; 376-1434; 376-
1433
Fax: (632) 447-6044
Branch Head: Ermirilda Singson
Email:

MANDALUYONG
Unit I, Facilities Centre Shaw Blvd.,
Mandaluyong City
Phone: (632) 470-3244; 718-0103
Fax: (632) 531-3537
Branch Head: Yolanda L. Cruz
Email: cruz_yl@pbb.com.ph

MARIKINA
306 J. P. Rizal St., Sta. Elena Marikina City
Phone: (632) 646-5864; 933-3109
Fax: (632) 646-6294
Branch Head: Emanuele Santos
Email:

MARIKINA - CONCEPCION
Bayan- Bayanan Avenue, Concepcion
Uno, Marikina City
Phone: 955-6172; 948-56-88
Fax: 948-4213
Branch Head:Sherlyn De Guzman
Email:deguzman_sl@pbb.com.ph

MUNTINLUPA
G/F Units 1 & 2 # 50 National Road,
Putatan, Muntinlupa City
Phone: 798-0284; 511-7354; 551-0010
Fax: 551-0010
Branch Head: Jane Aquilino
Email:

NAVOTAS
G/F Teresita Bldg. Northbay Blvd., South
Navotas City
Phone: (632) 355-4143; 355-4159; 383-
1410
Fax: 355-4274
Branch Head: Raisheena L. Daza
Email: daza_rl@pbb.com.ph

NOVALICHES
Krystle Bldg. 858 Quirino Highway
Novaliches, Quezon City
Phone: (632) 936-3467; 938-4038
Fax: (632) 418-3132
Branch Head: Laura B. Anonuevo
Email: anonuevo_lb@pbb.com.ph

ORTIGAS
Ortigas Home Depot Complex P28-29,
Bldg. B #1 Julia Vargas Avenue, corner
Meralco Avenue, Barangay Ugong Pasig
City
Phone: (632) 470-7944; 570-6862;914-
7032
Fax: 570-6863
Branch Head: Marcia Ann G. Guevarra
Email: guevarra_mag@pbb.com.ph

PASAY
2241 C. k. Sy Bldg. Taft Ave., Pasay City
Phone: (632) 551-5830; 836-7108; 836-
7109
Fax: (632) 551-5833
Branch Head: Edna Madamba
Email: madamba_ec@pbb.com.ph

PASAY - MALIBAY
Unit E, J&B Building
641 Epifanio Delos Santos Avenue
(EDSA), Malibay, Pasay
Phone: 622-8158; 403-3231; 403-2386
Fax:
Branch Head: Lorrine G. De Dios
Email:

OUR BRANCHES

PASIG-KAPITOLYO
Ground Fl., Unit 4
Elements on Rosemarie Bldg.,
Pasig Blvd. corner Rosemarie Street,
Pasig City
Phone: (632) 234-0607, 446-0183
Fax: (632) 234-0608
Branch Head: Christine Jane Payson
Email: payson_cjr@pbb.com.ph

PASO DE BLAS
Paso de Blas Road cor. P. Santiago St.
Barangay Paso de Blas, Valenzuela
City
Phone: (632) 292-4136; 292-3575;
293-1933
Fax: (632) 293-1933
Branch Head: Cecilia S. Lopez
Email: lopez_cs@pbb.com.ph

PATERNO - QUIAPO
707 Paterno St., Barangay 307,
Quiapo, Manila
Phone: 354-9670; 354-9695; 310-5217
Fax: 354-9695
Branch Head: Darlene Daphne Sy
Email: sy_ddt@pbb.com.ph

PEDRO GIL- PACO
1077 Pedro Gil St. Paco, Manila
Phone: 498-1952; 354-3239
Fax: 354-5141
Branch Head: Rowena L. Chua
Email: chua_rl@pbb.com.ph

QUINTIN PAREDES
G/F Downtown Center Bldg. Quintin
Paredes St., Binondo, Manila
Phone: (632) 242-8039; 242-0871;
241-7123
Fax: 242-0871
Branch Head: Debbie Tan
Email: tan_tt@pbb.com.ph

RETIRO
No. 84 Units A & B N.S. Amoranto
Ave., Barangay Salvacion, La Loma,
Quezon City
Phone: 625-8213; 711-2175; 711-2538
Fax: (632) 363-0291
Branch Head: Nelson E. Tia
Email:

ROOSEVELT
Sun Square Building, 323 Roosevelt
Avenue, Barangay San Antonio, San
Francisco Del Monte, Quezon City
Phone: 376-1135; 376-1426; 411-6345
Fax: 376-1135
Branch Head: Patricia Lou A. Bautista
Email: bautista_pla@pbb.com.ph

SALCEDO VILLAGE- MAKATI
Unit GDA-1, LPL Center, 130 L.P. Leviste
St., Salcedo Village, Makati City
Phone: 550-2480; 550-2482; 621-9220
Fax: 550-2482
Branch Head: Eliel B. Aparri
Email: aparri_eb@pbb.com.ph
Samson Road
117 D & E Samson Road, Caloocan City
Phone: (632) 310-9068; 332-8506
Fax: (632) 332-9495
Branch Head: Rosalie T. Belen
Email: belen_rt@pbb.com.ph

SUCAT- PARANAQUE BRANCH
Unit B-10-A JAKA PLAZA MALL
A. Santos Avenue, Sucat, Paranaque City
Phone: 552-2548; 501-6247
Fax: 552-2547
Branch Head: Perlita Peralta
Email:

THE FORT
Units 104-105 Forbeswood Towers,
Forbestown Center,
Rizal Drive cor. Burgos Circle, Bonifacio
Global City,
Taguig City
Phone: (632) 856-6653; 856-6654
Fax: (632) 856-6652
Branch Head: Imelda Baleros
Email: baleros_ig@pbb.com.ph

TIMOG - ROTONDA
A.A Tanco Building # 55 Timog Avenue
Cor. Tomas Morato Avenue, Barangay
South Triangle, Quezon City
Phone: 41-0895; 376-9530; 950-6003
Fax:
Branch Head: Maria Senta B. Castro
Email: castro_msb@pbb.com.ph

VALENZUELA
215 McArthur Highway, Karuhatan,
Valenzuela City
Phone: (632) 443-8113; 443-8118;
292-3296
Fax: (632) 443-9030
Branch Head: Imelda D. Uy
Email: uy_id@pbb.com.ph

WEST AVENUE
Unit 102, West Ave. Strip,
53 West Ave., Brgy. Paltok,
Quezon City
Phone: 709-7109; 709-7110
Fax: 411-0355
Branch Head: Aileen M. Halata
Email: halata_am@pbb.com.ph

PROVINCIAL

ANGELES
Lot 5 Blk 1 McArthur Highway,
Angeles City
Phone:(045)626-2088 to 89; 888-7205
Fax: (045)626-2087
Branch Head:Araceli Manalili
Email: manalili_ac@pbb.com.ph

ANTIPOLO
Units 3 & 4 Megathon Bldg.
Circumferential Road,
Brgy. San Roque, Antipolo City
Phone: (632) 697-3051 or 54; 630-
5186
Fax: (632) 697-3018
Branch Head:Elizabeth Sales
Email: sales_ek@pbb.com.ph

BACOLOD
Philamlife Bacolod Bldg., Lacson St.
cor Galo Street,
Bacolod City
Phone:(034) 435-5745; 435-5734;
435-5683
Fax: (034) 435-5744
Branch Head:Ma. Christina Escaño
Email:

BAGUIO CITY
G/F CTTL Bldg. Abanao Ext., Baguio City
Phone:(074) 447-2692; 447-2694
Fax: (074) 447-2693
Branch Head:Mary Ann Sereño
Email: sereno_mads@pbb.com.ph

BALANGA
Don Manuel Banzon Avenue Balanga
City, Bataan
Phone: (047) 237-1137 ; (047) 237-
1136
Fax:
Branch Head:Mark Rickley C. Fuentes
Email: fuentes_mrc@pbb.com.ph

BALIUAG
B.S. Aquino Ave. Bagong Nayon
Baliwag, Bulacan
Phone: (044)673-5216; 673-5452
Fax: (044)766-3485
Branch Head: Loreta Rueda
Email: rueda_lt@pbb.com.ph

BATANGAS
Cifra Plaza, No. 114 Rizal Avenue
corner P. Zamora Street, Barangay 16,
Batangas City
Phone: (043) 702-2385; 702-1182;
702-1162
Fax: (043) 425-0053
Branch Head: Dina Rose M. Cruz
Email: cruz_drm@pbb.com.ph

BIÑAN LAGUNA
G/F S.A.P. Building 5230 National
Highway Brgy.San Vicente, Biñan City,
Laguna
Phone: 049- 576-0209
Fax:
Branch Head:Jesusa N. Lukban
Email:lukban_jn@pbb.com.ph

BOCAUE
Mac Arthur Highway, Barangay
Wakas, Bocaue, Bulacan
Phone: (044) 233-3615
Fax:
Branch Head: Mary Joy R. Figueroa
Email: figueroa_mjr@pbb.com.ph

BUTUAN
Montilla Boulevard cor. T. Calo St.,
Butuan City, Agusan Del Norte
Phone: (085) 815-0512; 815-0513
Fax:
Branch Head:Melchora U. Donoso
Email: donoso_mu@pbb.com.ph

CABANATUAN
Paco Roman St., Cabanatuan City, Nueva
Ecija
Phone: (044) 940-1470; 464-7411; 464-
7417
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6683
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Fax: (632) 681-1658
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G/F Unit 2 Kim-Kat Annex Bldg.,
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Laguna
Phone: (049) 545-0980; 508-0059; 834-
3283
Fax: (02) 420-820
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CALAPAN
Ast Tolentino Building, JP Rizal St., Brgy.
San Vicente,
Calapan City, Oriental Mindoro
Phone: (043) 743-0003; 459-0015;
459-0024
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Email: tagupa_vg@pbb.com.ph

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Maharlika Highway, Barangay San
Fermin,
Cauayan City, Isabela
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Highway Consolacion (Fronting Cebu
Home Builders) Barangay Cansaga,
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CEBU CITY - DOWNTOWN
G/F Lianting Bldg. 130 F. Gonzales
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Fax:
Manager: Chiao Bon C. Sy
Email:

PANABO, DAVAO
Phone:
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Manager:
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Sta. Maria, Bulacan
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BRANCH EXPANSION

MANILA AREA
1. City of Manila
2. City of Manila
3. Quezon City
4. Quezon City
5. Parañaque City (Baclaran Area)

NON - RESTRICTED AREA LUZON AREA
1. Taytay, Rizal
2. Taguig City (The Fort)
3. Balanga, Bataan
4. Santiago, Isabela
5. Vigan City
6. La Trinidad, Benguet
7. Bacoor, Cavite (Molino)
8. San Pedro, Laguna
9. Calapan, Mindoro
10. Iriga, Camarines Norte

VISAYAS AREA
1. Cebu City (Ayala Business Park)
2. Mandaue, Cebu (Banilad)
3. Consolacion, Cebu
4. Dumaguete City
5. Malay, Aklan (Boracay)

MINDANAO AREA
1. Davao City (Toril)
2. Davao City
3. Tagum City, Davao
4. Ozamis City
5. Dipolog City
6. General Santos City 2
7. Iligan (Carry over from 2013 approval)

OFFSITE ATMS

BALIUAG - RUGAY
Rugay Maternity Hospital
M. Cruz St. Sabang Baliuag, Bulacan

COLON - CEBU
V. Peliña Bldg., corner Panganiban St. and Colon St. Cebu City

Domestic - Terminal 4
Check - In Area Terminal 4 (Old Domestic) Domestic Airport, Pasay City

LANANG - BAJADA
Jetti Bloomfields Compound, Lanang Davao City

MANNA MALL
Diversion Road Pagdaraoan San Fernando Zabarte
La Union

MARKET MARKET
Fiesta Market ATM Center, Market-Market, Bonifacio Global, Taguig City

MARY MOUNT
Mary Mount Maternity and Children Hospital, Brgy Camalig Meycauayan, Bulacan

MOLITO
Madrigal Ave. corner Alabang-Zapote Road Alabang Brgy Ayala Alabang Muntinlupa City

NAIA TERMINAL 3
NAIA Terminal 3 Arrival area
Pasay City

OUR
SUCCESS STORY

Investing In The Maritime Industry

Starlite Ferries Chairman Mr. Alfonso G. Cusi

Nevertheless, while PBB was focusing on expansion, it did not deviate from its mission of providing crucial loans to SMEs.

Among its most ambitious loans this year is the roll-on, roll-off (RORO) ferry company Starlite Ferries, a relatively young player in the maritime industry that operates vessels in the Batangas-Calapan and Roxas, Oriental Mindoro-Caticlan-Aklan routes. The company is currently undergoing fleet modernization, with plans to acquire 10 brand-new vessels from Japan in the hopes of replacing its current fleet of refurbished, second-hand ferries.

PBB partnered with Starlite Ferries to fund two of the 10 ships in its modernization effort, at a cost $10 million each. The first ship in the fleet, the M/V Starlite Pioneer, arrived in the Philippines in December and has begun serving the Roxas-Caticlan route. The second ship is expected to arrive in the Philippines in March and enter service in time for the Holy Week.

Starlite Ferries Chairman Mr. Alfonso G. Cusi, from a recent interview, mentioned that through the RO-RO system, the delivery of basic goods and farm produce such as vegetables and livestock is made more easy, economical and efficient as travel time to and from destinations as well as transportation costs are considerably reduced.

Given the vital role being played by domestic shipping to the country's trade, and the triggering effect that trade fosters in regional development, any improvements in domestic shipping would therefore be expected to exert an impact on the country's trade and regional development. The critical role of maritime transport in ensuring an integrated and coordinated transport network is incontestable for an archipelagic country like the Philippines.

What sets Starlite Pioneer apart from all other RO-ROs operating locally is it being a brand-new vessel. Starlite Pioneer is also the first that has been designed and manufactured to take on the challenge of Philippine maritime conditions. Mr. Cusi took pride to tell that it took him two years to design the new RO-RO vessel. "Our ships are not only clean and safe, but we have disciplined and courteous crew members, we are organized and sustainable because we have a fixed schedule. We even became the first choice in terms of sea travel because we have earned the respect of the Mindoroeños." He added, "This new RO-RO vessel has an elevator to care for the elderly and people with disability. For added safety features, CCTVs are installed in our vessel." Mr. Cusi wants to bring back the confidence to the public as he provides safety and comfort to the passengers. He acknowledges his son with the way the vessel was designed. "My son would say, our ship is a courtesy to the people." Currently, RO-RO vessels operating in the Philippines are mostly refurbished units from Japan and that these second-hand RO-ROs were also designed for Japan's calmer inland water and not for our rough waters.

(L-R: Ms. Rachel Gonzales, PBB Acct. Officer; PBB Director Roberto A. Atendido, Ms. Angeline H. Hwang, PBB Chief Lending Officer; Mr. Alfonso Cusi, Chairman of Starlite Ferries; Mr. Rolando R. Avante, PBB President & CEO; Mr. Eduardo R. Que, PBB AMG3 Head)

He envisions the RO-RO system to cut travel time between Luzon and the Visayas. Travelers, with their products can take the Batangas port, take a RO-RO to Oriental Mindoro, then take another RO-RO to Caticlan.

Thus, when Mr. Cusi decided to invest in brand-new vessels designed for our country's special conditions and needs, he thought of presenting his ideas to a bank for financial solutions. Access to capital was his major challenge. He owes the support from his business partner, Mr. Arben Santos. Mr. Santos, a leading maritime authority advocating the phase out of end-of-service RO-ROs, sees the Starlite Pioneer as a significant development in the Philippine shipping industry, adding that Starlite's example of purchasing a brand-new RO-RO vessel designed from the ground up to meet Philippine needs should prove more cost-effective in the long run compared to rehabilitating age-old RO-RO vessels.

During Mr. Cusi's speech at the inaugural ceremony, he remarked: "Sometime last year, a brand new RO-RO Vessel was just a dream, today's monumental launching of Starlight Pioneer will be carved in the history of the Philippine Passenger Shipping Industry. With our gratitude to all who supported this pioneering venture and made this dream a reality. Our deepest gratitude to Philippine Business Bank with special mention to Amb. Alfredo Yao."

The MV Starlite Pioneer will start its operations in Philippine waters beginning this December, where a new era in inter-island travel in the country will be experienced.

Television As A Learning Tool

Halayhayin Elementary School is a public school situated in Pililia, Rizal consisting of 13 classrooms with 15 teachers and 574 students.

To aid the needs of the students enrolled in Halayhayin Elementary School, AMY Foundation recently donated one (1) set of LED Television and DVD Player from which the students can watch educational and informative programs as an additional form of learning.

Recognition Program For Scholarship Donors

An annual gathering of all the scholarship donors and student benefactors of the Philippine Normal University (PNU) was again concluded at the Geronimo Pecson Hall inside the school premises on February 27, 2015.

Among the benefactors present during the program was AMY Foundation, Inc. The certification of appreciation was received by the Coordinator for Volunteers, Ms. Luningning T. Ramos, on behalf of the Foundation.

AMY Foundation has been in partnership with PNU since 2007 in providing scholarships to the financially deprived but academically deserving students.

The Meaning Of Christmas

AMY Foundation sponsored a Christmas Party for the benefit of more than 100 children living in depressed areas near the St. Pancratius Parish located inside La Loma Compound Grace Park, Caloocan. The merriment affair was coordinated by the volunteers of the parish.

The Foundation subsidized the food and Zest-o juice drinks, candies, giveaways, including game prizes. The children actively participated in the parlor games and each child was happy to receive school supplies and a bag full of sweets and candies.

Audited Financial Statements 2015

STATEMENT OF MANAGEMENT'S RESPONSIBILITYFOR FINANCIAL STATEMENTS

The management of **Philippine Business Bank, Inc., A Savings Bank**, is responsible for the preparation and fair presentation of the financial statements for the year ended
December 31, 2015, in accordance with Philippine Financial Reporting Standards (PFRS), including the Supplementary Schedules Required under Annex 68-E of the Securities Regulation Code Rule 68 filed separately from the basic financial statements:

Management responsibility on the financial statements includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the financial statements, and the additional supplementary information, and submits the same to the stockholders.

Punongbayan & Araullo, the independent auditors appointed by the stockholders, has examined the financial statements of the Company in accordance with Philippine Standards on Auditing and, and in its report to the Board of Directors and stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.

Francis T. Lee
Chairman

Rolando R. Avante
President

Alice P. Rodil
Controller

Signed this

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and the Stockholders
Philippine Business Bank, Inc., A Savings Bank
350 Rizal Avenue Extension corner 8th Avenue
Grace Park, Caloocan City

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the year ended December 31, 2015 required by the Bureau of Internal Revenue as disclosed in Note 31 to the financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with Philippine Financial Reporting Standards. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PUNONGBAYAN & ARAULLO

By: Leonardo D. Cuaresma, Jr.
Partner

CPA Reg. No. 0058647
TIN 109-227-862
PTR No. 5321721, January 4, 2016, Makati City
SEC Group A Accreditation
Partner - No. 0007-AR-4 (until Apr. 30, 2018)
Firm - No. 0002-FR-4 (until Apr. 30, 2018)
BIR AN 08-002511-7-2014 (until Aug. 5, 2017)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2018)

April 13, 2016

DECEMBER 31, 2015 AND 2014
(Amounts in Philippine Pesos)

	Notes	2015	2014
RESOURCES			
CASH AND OTHER CASH ITEMS	9	P 1,279,302,155	P 1,174,011,464
DUE FROM BANGKO SENTRAL NG PILIPINAS	9	7,672,637,783	4,554,441,827
DUE FROM OTHER BANKS	10	2,825,982,401	2,031,581,088
TRADING AND INVESTMENT SECURITIES			
At fair value through profit or loss	11	75,942,639	171,891,804
Available-for-sale	12	3,094,538,311	1,715,736,721
Held-to-maturity	13	5,948,727,495	5,962,970,252
LOANS AND OTHER RECEIVABLES - Net	14	41,737,830,222	40,110,256,377
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	15	562,634,722	515,766,476
INVESTMENT PROPERTIES - Net	16	675,770,624	705,735,722
OTHER RESOURCES - Net	17	1,708,795,604	912,123,484
TOTAL RESOURCES		P 65,582,161,956	P 57,854,515,215
LIABILITIES AND EQUITY			
DEPOSIT LIABILITIES	18		
Demand		P 2,318,743,667	P 681,026,719
Savings		19,346,525,011	17,224,051,369
Time		33,350,950,832	28,714,329,538
Total Deposit Liabilities		55,016,219,510	46,619,407,626
BILLS PAYABLE	19	956,250	309,521,852
ACCRUED EXPENSES AND OTHER LIABILITIES	20	2,095,433,359	2,903,219,245
Total Liabilities		57,112,609,119	49,832,148,723
EQUITY	21		
Capital stock		5,984,584,370	4,911,667,500
Additional paid-in capital		1,998,396,816	1,998,396,816
Surplus		1,092,456,161	1,663,231,027
Revaluation reserves		(605,884,510)	(550,928,851)
Total Equity		8,469,552,837	8,022,366,492
TOTAL LIABILITIES AND EQUITY		P 65,582,161,956	P 57,854,515,215

See Notes to Financial Statements.

STATEMENT OF PROFIT OR LOSS

FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013
(Amounts in Philippine Pesos)

	Notes	2015	2014	2013
INTEREST INCOME				
Loans and other receivables	14	P 2,644,242,170	P 2,366,338,136	P 1,814,946,365
Trading and investment securities	11, 12, 13	424,837,162	431,775,906	368,600,681
Due from Bangko Sentral ng Pilipinas and other banks	9, 10	69,705,482	37,236,220	45,503,957
Securities purchased under reverse repurchase agreements		1,858,635	545,833	2,713,239
		3,140,643,449	2,835,896,095	2,231,764,242
INTEREST EXPENSE				
Deposit liabilities	18	753,904,091	596,886,481	489,258,915
Bills payable	19	3,331,735	2,221,806	8,609,402
Others	23	1,082,509	1,508,448	1,738,852
		758,318,335	600,616,735	499,607,169
NET INTEREST INCOME		2,382,325,114	2,235,279,360	1,732,157,073
IMPAIRMENT LOSSES	14, 17	172,050,358	189,887,127	178,193,789
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		2,210,274,756	2,045,392,233	1,553,963,284
OTHER INCOME				
Service charges, fees and commissions		132,425,882	127,487,177	73,829,527
Trading gains - net	11, 12, 13	69,474,667	34,827,391	816,773,032
Miscellaneous - net	22	73,430,963	144,153,797	38,228,379
		275,331,512	306,468,365	928,830,938
OTHER EXPENSES				
Salaries and other employee benefits	23	543,446,728	479,552,337	392,749,657
Taxes and licenses	31	328,317,557	306,352,118	265,247,277
Occupancy	27	250,346,533	209,871,217	172,761,117
Depreciation and amortization	15, 16	137,495,289	122,622,015	105,713,999
Insurance		128,348,739	109,164,821	84,456,483
Management and other professional fees		93,426,123	88,896,599	130,457,358
Representation and entertainment		32,269,518	31,944,122	30,848,276
Miscellaneous	22	266,516,503	224,813,032	172,786,419
		1,780,166,990	1,573,216,261	1,355,020,586
PROFIT BEFORE TAX		705,439,278	778,644,337	1,127,773,636
TAX EXPENSE	25	203,297,274	242,439,233	123,727,024
NET PROFIT		P 502,142,004	P 536,205,104	P 1,004,046,612
Earnings Per Share				
Basic and Diluted	30	P 0.94	P 0.88	P 1.87

See Notes to Financial Statements.

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013
(Amounts in Philippine Pesos)

	Notes	2015	2014	2013
NET PROFIT		P 502,142,004	P 536,205,104	P 1,004,046,612
OTHER COMPREHENSIVE INCOME (LOSS)				
Item that will not be reclassified subsequently to profit or loss				
Remeasurements of post-employment defined benefit plan	23	3,715,322	(2,187,913)	(12,978,354)
Tax income (expense)	25	(1,114,597)	656,374	3,893,506
		2,600,725	(1,531,539)	(9,084,848)
Items that will be reclassified subsequently to profit or loss				
Fair value gains (losses) on available-for-sale securities during the year - net	12	(53,101,385)	124,563,684	(1,042,090,203)
Fair value losses (gains) reclassified to profit or loss	12	6,615,377	393,988,832	(323,766,597)
Amortization of fair value losses on reclassified securities	12, 13	(11,070,376)	4,986,463	-
		(57,556,384)	523,538,979	(1,365,856,800)
Other Comprehensive Income (Loss) - Net of Tax		(54,955,659)	522,007,440	(1,374,941,648)
TOTAL COMPREHENSIVE INCOME (LOSS)		P 447,186,345	P 1,058,212,544	(P 370,895,036)

See Notes to Financial Statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013
(Amounts in Philippine Pesos)

	Notes	Capital Stock: Preferred Stock	Capital Stock: Common Stock	Additional Paid-in Capital	Surplus: Appropriated	Surplus: Unappropriated	Revaluation Reserves: Unrealized Fair Value Losses on Available-for-sale Securities	Revaluation Reserves: Accumulated Actuarial Losses	Total Equity
BALANCE AS OF JANUARY 1, 2015		P 620,000,000	P 4,291,667,500	P 1,998,396,816	P 3,411,900	P 1,659,819,127	(P 519,742,021)	(P 31,186,830)	P 8,022,366,492
Stock dividends	21	-	1,072,916,870	-	-	(1,072,916,870)	-	-	-
Appropriation for trust reserves	21	-	-	-	1,387,487	(1,387,487)	-	-	-
Total comprehensive income (loss)	12, 23, 25	-	-	-	-	502,142,004	(57,556,384)	2,600,725	447,186,345
BALANCE AS OF DECEMBER 31, 2015		**P 620,000,000**	**P 5,364,584,370**	**P 1,998,396,816**	**P 4,799,387**	**P 1,087,656,774**	**(P 577,298,405)**	**(P 28,586,105)**	**P 8,469,552,837**
BALANCE AS OF JANUARY 1, 2014		P 620,000,000	P 3,433,334,000	P 1,998,396,816	P 1,764,202	P 2,045,920,221	(P 1,043,281,000)	(P 29,655,291)	P 7,026,478,948
Stock dividends	21	-	858,333,500	-	-	(858,333,500)	-	-	-
Cash dividends	21	-	-	-	-	(62,325,000)	-	-	(62,325,000)
Appropriation for trust reserves	21	-	-	-	1,647,698	(1,647,698)	-	-	-
Total comprehensive income (loss)	12, 23, 25	-	-	-	-	536,205,104	523,538,979	(1,531,539)	1,058,212,544
BALANCE AS OF DECEMBER 31, 2014		P 620,000,000	P 4,291,667,500	P 1,998,396,816	P 3,411,900	P 1,659,819,127	(P 519,742,021)	(P 31,186,830)	P 8,022,366,492
BALANCE AS OF JANUARY 1, 2013		P 620,000,000	P 2,420,000,000	-	P 873,498	P 1,042,764,313	P 322,575,800	(P 20,570,443)	P 4,385,643,168
Share issuance during the year	21	-	1,013,334,000	1,998,396,816	-	-	-	-	3,011,730,816
Appropriation for trust reserves	21	-	-	-	890,704	(890,704)	-	-	-
Total comprehensive income (loss)	12, 23, 25	-	-	-	-	1,004,046,612	(1,365,856,800)	(9,084,848)	(370,895,036)
BALANCE AS OF DECEMBER 31, 2013		P 620,000,000	P 3,433,334,000	P 1,998,396,816	P 1,764,202	P 2,045,920,221	(P 1,043,281,000)	(P 29,655,291)	P 7,026,478,948

See Notes to Financial Statements.

STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013
(Amounts in Philippine Pesos)

	Notes	2015	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		P 705,439,278	P 778,644,337	P 1,127,773,636
Adjustments for:				
Impairment losses	14, 17	172,050,358	189,887,127	178,193,789
Depreciation and amortization	15, 16	137,495,289	122,622,015	105,713,999
Gain on sale of properties - net	22	(15,028,632)	(27,801,013)	(17,233,626)
Loss (gain) on foreclosure - net	22	2,480,845	(87,676,870)	(6,239,465)
Operating profit before working capital changes		1,002,437,138	975,675,596	1,388,208,333
Decrease (increase) in financial assets at fair value through profit or loss		95,949,165	745,739,073	(917,630,877)
Increase in loans and other receivables		(1,811,234,055)	(9,327,174,393)	(10,892,111,672)
Decrease (increase) in other resources		(740,015,317)	(68,713,507)	67,869,366
Increase in deposit liabilities		8,396,811,884	8,737,396,882	11,433,124,006
Increase (decrease) in accrued expenses and other liabilities		(879,949,701)	745,196,586	373,334,420
Cash generated from operations		6,063,999,114	1,808,120,237	1,452,793,576
Cash paid for income taxes		(185,189,537)	(177,589,674)	-
Net Cash From Operating Activities		5,878,809,577	1,630,530,563	1,452,793,576
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of available-for-sale securities	12	(2,274,907,422)	(443,590,778)	(18,912,353,899)
Proceeds from sale of available-for-sale securities		838,549,448	1,535,846,420	15,422,983,845
Acquisition of bank premises, furniture, fixtures and equipment	15	(178,055,371)	(149,373,100)	(169,372,809)
Proceeds from sale of investment and other properties	16, 17	55,820,368	128,723,649	267,590,427
Proceeds from sale of bank premises, furniture, fixtures and equipment		6,236,962	268,663	2,214,982
Acquisition of held-to-maturity investments		-	-	(8,833,467)
Net Cash From (Used In) Investing Activities		(1,552,356,015)	1,071,874,854	(3,397,770,921)
CASH FLOWS FROM FINANCING ACTIVITIES				
Net borrowings (payments) of bills payable		(308,565,602)	115,594,051	(571,561,716)
Payment of cash dividends	21	-	(62,325,000)	-
Proceeds from share issuance	21	-	-	3,011,730,816
Net Cash From (Used In) Financing Activities		(308,565,602)	53,269,051	2,440,169,100
NET INCREASE IN CASH AND CASH EQUIVALENTS		4,017,887,960	2,755,674,468	495,191,755
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR				
Cash and other cash items	9	1,174,011,464	735,667,668	435,898,545
Due from Bangko Sentral ng Pilipinas	9	4,554,441,827	3,597,209,300	3,073,180,153
Due from other banks	10	2,031,581,088	671,482,943	1,000,089,458
		7,760,034,379	5,004,359,911	4,509,168,156
CASH AND CASH EQUIVALENTS AT END OF THE YEAR				
Cash and other cash items	9	1,279,302,155	1,174,011,464	735,667,668
Due from Bangko Sentral ng Pilipinas	9	7,672,637,783	4,554,441,827	3,597,209,300
Due from other banks	10	2,825,982,401	2,031,581,088	671,482,943
		P 11,777,922,339	P 7,760,034,379	P 5,004,359,911

Supplemental Information on Noncash Investing and Financing Activities:

(1) In 2015 and 2014, the Bank's stockholders approved the declaration of stock dividends on common stocks amounting to P1,072.9 million and P858.3 million, respectively. This was distributed to stockholders in the same years of declaration (see Note 21).

(2) Transfers from loans and other receivables to investment properties as a result of foreclosures amounted to P29.1 million, P284.2 million and P16.9 million in 2015, 2014 and 2013, respectively, (see Note 16), while transfers from loans and other receivables to other resources in 2015 and 2014 amounted to P0.5 million and P1.0 million, respectively, are disclosed in Note 17 (nil in 2013). Amounts mentioned were exclusive of gains (losses) on foreclosure amounting to (P2.5 million), P87.7 million and P6.2 million in 2015, 2014 and 2013, respectively (see Note 22).

(3) On May 29, 2014, the Bank reclassified certain government debt securities from available-for-sale securities to held-to-maturity securities with a market value of P5,623.6 million at the date of reclassification (see Notes 12 and 13).

See Notes to Financial Statements.

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NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014
(Amounts in Philippine Pesos or As Otherwise Indicated)

1. 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 Nos. 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 December 31, 2015 and 2014, the Bank operates within the Philippines with 134 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 December 31, 2015 (including the comparative financial statements as of December 31, 2014 and for the years ended December 31, 2014 and 2013) were authorized for issue by the Bank's Board of Directors (BOD) on April 13, 2016.

2. 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.

2.1 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.

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 at 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) dollar, are translated to Philippine peso based on Philippine Dealing System closing rates (PDSCR) at the end of reporting period (for the statement of financial position accounts) and at the average PDSCR for the period (for profit and loss accounts).

2.2 Adoption of New and Amended PFRS

(a) Effective in 2015 that are Relevant to the Bank

In 2015, the Bank adopted for the first time the following amendment and annual improvements to PFRS which are mandatorily effective for annual periods on or after July 1, 2014 for the Bank's annual reporting period beginning January 1, 2015:

PAS 19 (Amendment)	:	Employee Benefits – Defined Benefit Plans – Employee Contributions
Annual Improvements	:	Annual Improvements to PFRS (2010-2012 Cycle) and PFRS (2011-2013 Cycle)

Discussed below are the relevant information about these amended standard and improvements.

(i) PAS 19 (Amendment), Employee Benefits – Defined Benefit Plans – Employee Contributions. The amendment clarifies that if the amount of the contributions to defined benefit plans 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. The amendment did not have a significant impact on the Bank's financial statements since the Bank's defined benefit plan does not require employees or third parties to contribute to the benefit plan.

NOTES TO FINANCIAL STATEMENTS

(ii) Annual Improvements to PFRS. Annual improvements to PFRS (2010-2012 Cycle) and PFRS (2011-2013 Cycle) made minor amendments to a number of PFRS. Among those improvements, the following amendments are relevant to the Bank but had no material impact on the Bank's financial statements as these amendments merely clarify the existing requirements:

Annual Improvements to PFRS (2010-2012 Cycle)

- PFRS 3 (Amendment), Business Combinations. The amendment clarifies that an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity in accordance with PAS 32, Financial Instruments – Presentation. It also clarifies that all non-equity contingent consideration should be measured at fair value at the end of each reporting period, with changes in fair value recognized in profit or loss.

- PFRS 8 (Amendment), Operating Segments. The 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.

- 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.

- 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.

Annual Improvements to PFRS (2011-2013 Cycle)

- 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.

- 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, Financial Instruments: Recognition and Measurement, or PFRS 9, Financial Instruments, regardless of whether they meet the definition of financial assets or financial liabilities as defined in PAS 32.

- 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.

(b) *Effective in 2015 that are not Relevant to the Bank*

Among the annual improvements to PFRS, which are mandatory for accounting periods beginning on or after July 1, 2014, only PFRS 2 (Amendment), Shared-based Payment – Definition of Vesting Condition is not relevant to the Bank's financial statements.

(c) *Effective Subsequent to 2015 but not Adopted Early*

There are new PFRS, amendments and annual improvements to existing standards effective for annual periods subsequent to 2015, which are adopted by the FRSC, 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:

(i) 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. It further clarifies that in determining the order of presenting the notes and disclosures, an entity shall consider the understandability and comparability of the financial statements.

(ii) 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.

(iii) PFRS 11 (Amendment), Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations (effective from January 1, 2016). This amendment requires the acquirer of an interest in a joint operation in which the activity constitutes a business as defined in PFRS 3 to apply all accounting principles and disclosure requirements on business combinations under PFRS 3 and other PFRSs, except for those principles that conflict with the guidance in PFRS 11.

(iv) 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:

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

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

- 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.

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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 is currently assessing the impact of PFRS 9 (2014) on the financial statements of the Bank to determine whether the effect of PFRS 9 (2014) is significant or not to the financial statements and it is conducting a comprehensive study of the potential impact of this standard to the financial statements and operations of the Bank prior to its mandatory adoption date.

(v) Annual Improvements to PFRS (2012-2014 Cycle) effective for annual periods beginning on or after January 1, 2016. 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:

- 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.

- 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.

- 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.

2.3 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 2.19).

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, Provision, Contingent Liabilities and Contingent Assets, 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.

2.4Segment 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 8.

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.

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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.

2.5Financial Assets

Financial assets are recognized when the Bank becomes a party to the contractual terms of the financial instrument. For purposes of classifying financial assets, an instrument is considered as an equity instrument if it is non-derivative and meets the definition of an equity for the issuer in accordance with the criteria under PAS 32. All other non-derivative financial instruments are treated as debt instruments.

(a) *Classification, Measurement and Reclassification of Financial Assets*

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories: financial assets at FVTPL, loans and receivables, held-to-maturity (HTM) investments and available-for-sale (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. Except for derivative financial instruments and financial assets designated at FVTPL, the designation of financial assets is re-evaluated at the end of each reporting period and at which date, a choice of classification or accounting treatment is available, which is subject to compliance with specific provisions of applicable accounting standards.

Regular purchases and sales of financial assets are recognized on their settlement 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 recorded at fair value and the related transaction costs are recognized in profit or loss.

A more detailed description of the four categories of financial assets is as follows:

(i) *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.

(ii) *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.

(iii) *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 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. 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.

(iv) *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, corporate bonds and equity securities.

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.

(b) 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.

(i) Carried at Amortized Cost – Loans and Receivables and HTM Investments

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 reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date of the impairment is reversed. 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.

(ii) Carried at Fair Value – AFS Financial Assets

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 profit or loss.

Reversal of impairment losses is 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.

(iii) *Carried at Cost – AFS Financial Assets*

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.

(c) *Items of Income and Expense Related to Financial Assets*

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.

(d) *Derecognition of Financial Assets*

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.

2.6 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.

2.7 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.

2.8 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.

In 2014 and 2013, dividend distributions to shareholders are recognized as financial liabilities upon declaration by the Group and subsequent approval of the BSP. In 2015, BSP approval is no longer necessary on dividend recognition in accordance with the liberalized rules for banks and quasi-banks on dividend declaration.

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.

2.9 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.

2.10 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 2.19).

Fully depreciated and fully amortized assets are retained in the accounts until they are no longer in use and no

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further charge for depreciation and amortization is made in respect of those assets.
The residual values, estimated useful lives and method of depreciation and amortization 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.

2.11 Investment Properties

Investment properties pertain to land and buildings or condominium units acquired by the Bank, in settlement of loans from defaulting borrowers through foreclosure or dacion in payment. These properties are held by Bank 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 stated at cost, less accumulated depreciation and any impairment losses (see Note 2.19). The cost of an investment property comprises its purchases price and directly attributable costs incurred such as legal fees, transfer taxes and other transaction costs.

Investment properties except land are depreciated over a period of five to ten years. Depreciation and impairment loss are recognized in the same manner as in bank premises, furniture, fixtures and equipment.

Investment properties, including the related accumulated depreciation and any impairment losses, are 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 investment properties is recognized in profit or loss under the Gain or loss on sale of properties under Miscellaneous Income or Expenses in the statement of profit or loss, in the year of retirement or disposal.

2.12 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 2.19. 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 2.19). 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.

2.13 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.

2.14 Equity

Capital stock represents 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.

2.15 Related Party Transactions and Relationships

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

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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 funded 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.

2.16 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 costs 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 must also be met before revenue is recognized:

(*a*) *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.

(b) Trading Gains or Losses

Trading gains or losses 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 or losses also include 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.

(c) 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.

2.17 Leases

The Bank accounts for its leases as follows:

(a) 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.

(b) 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.

2.18 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.

2.19 Impairment of Non-financial Assets

The Bank's premises, furniture, fixtures and equipment, investment properties, goodwill, branch licenses, computer software, other properties held for sale (classified as part of 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

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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.

2.20 Employee Benefits

The Bank provides post-employment benefits to employees through a defined benefit plan and defined contribution plan, 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 Corp. (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.

(b) 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.

2.21 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 Bank 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.

2.22 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 Securities and Exchange Commission. Convertible preferred shares are deemed to have been converted to common shares at the issuance of preferred shares. As of December 31, 2015 and 2014, the Bank has no convertible preferred shares (see Note 21.1).

2.23 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.

2.24 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.

3. 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.

3.1 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:

(a) *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 as discussed in the succeeding paragraph, 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.

(b) *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 December 31, 2015 and 2014. Future changes in those information and circumstance might significantly affect the carrying amount of the assets.

(c) *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.

(d) *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.

The Bank's methodology in determining the fair value of acquired properties are further discussed in Note 7.

(e) *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 December 31, 2015 and 2014, the Bank has determined that all its leases are operating leases (see Note 27).

(f) *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 2.13 and relevant disclosures are presented in Note 27.

In dealing with the Bank's various legal proceedings, its estimate of the probable costs that may arise from claims and contingencies has been developed in consultation and coordination with the Bank's internal and outside counsels acting in defense for the Bank's legal cases and are based upon the analysis of probable results.

Although the Bank does not believe that its dealing on these proceedings will have material adverse effect on the Bank's financial position, it is possible that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies conducted relating to those proceedings.

3.2 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:

(a) *Evaluating Impairment of Financial Assets (HTM Investments and Loans and Other Receivables)*

The Bank reviews its 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 14. There are no impairment losses recognized on HTM investments in 2015, 2014 and 2013.

(b) *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.

The carrying values of the Bank's financial assets at FVTPL and AFS securities and the amounts of fair value changes recognized on those assets are disclosed in Notes 11 and 12, respectively.

(c) *Estimating Useful Lives of Bank Premises, Furniture, Fixtures and Equipment, Investment Properties Except Land, Branch Licenses and Computer Software*

The Bank estimates the useful lives of bank premises, furniture, fixtures and equipment, investment properties except land, branch licenses and computer software 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, investment properties and computer software 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.

The Bank's branch licenses were regarded as having an indefinite useful lives considering there is no foreseeable limit to the period over which such assets are expected to generate net cash inflows for the Bank. The assessment of having indefinite useful lives is reviewed periodically and is updated whether events and circumstances such as the period of control over these assets and legal or similar limits on the use of these assets continue to support such assessment.

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The carrying amounts of bank premises, furniture, fixtures and equipment and investment properties are analyzed in Notes 15 and 16, respectively. 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.

(*d*) *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. The carrying value of deferred tax assets, which the management assessed to be fully utilized within the next two to three years, as of December 31, 2015 and 2014 is disclosed in Notes 17 and 25.

(e) *Determination of Fair Value of Investment Properties*

The Bank's investment properties are composed of parcels of land and buildings and improvements which are held for capital appreciation or held-for-lease, and are measured using cost model. The estimated fair value of investment properties disclosed in Note 7.4 is determined on the basis of the appraisals conducted by professional appraiser applying the relevant valuation methodologies as discussed therein.

For investment properties with appraisal conducted prior to the end of the current reporting period, management determines whether there are significant circumstances during the intervening period that may require adjustments or changes in the disclosure of fair value of those properties.

A significant change in key inputs and sources of information used in the determination of the fair value disclosed for those assets may result in adjustment in the carrying amount of the assets reported in the financial statements if their fair value will indicate evidence of impairment.

(f) *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 2.19. 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.

Allowance for impairment recognized on investment properties and other properties held for sale are discussed in Notes 16 and 17. There are no impairment losses recognized in goodwill, acquired branch licenses, bank premises, furniture, fixtures and equipment.

(g) 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. Those assumptions are described in Note 23 and include, among others, discount rates, expected rate of salary increases and employee turnover. 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.

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of DBO, as well as the significant assumptions used in estimating such obligation, are presented in Note 23.

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

PBB, as a financial institution, is in the business of risk taking. Its activities expose the Bank to credit, market and liquidity and operational risks. Credit risk emanates from exposures to borrowing customers, counterparty risk in trading activities, and contingent credit risks arising from trade finance exposures. Market risk covers price, liquidity and interest rate risks in the Bank's investment portfolio. Liquidity risk may arise from shortage in funding and/or lack of market for sale of its assets. Operational risk covers potential losses other than market and credit risk arising from failures of people, process, systems and information technology and external events.

The ability to manage risks effectively is vital for the Bank to sustain its growth and continue to create value for its shareholders.

4.1 Risk Management

The Bank continually advances on its risk management techniques and marry this into the overall strategic business objectives to support the growth objectives of the Bank.

The Bank has automated the front-office, back office, and middle office operations as far as market risk is concerned. This includes the integration of pre-deal limit checking,
on-demand position monitoring, automated limit reporting and breach approval, and automated value-at-risk (VaR) calculations. In addition to the automation, the Bank continues to review its limits system to ensure that it only enters into transactions allowed under its existing policies and that adequate capital is available to cover market risk exposures.

On the credit side, the Bank has instituted improvements on its credit policies, which includes large exposure and credit concentration. Credit process streamlining has also been initiated to ensure that commensurate controls are in place while the Bank continues to device ways to improve on its credit process.

As for operational risk, the Bank has completed the bankwide operational risk and control self-assessment in support of the enterprise risk management framework of the Bank. With this, there is also an enterprise-wide training on risk awareness to ensure appreciation and measurement of key risks of each unique business and support units and how these relate to the over-all objective and strategies of the Bank. In addition, information security policies were further strengthened, hardened, implemented, and disseminated across all units of the Bank.

4.2 Enterprise Risk Management Framework

The Bank adopts an Enterprise Risk Management framework as its integrated approach to the identification, measurement, control and disclosure of risks, subject to prudent limits and stringent controls as established in its risk management framework and governance structure. The Bank has an integrated process of planning, organizing, leading, and controlling its activities in order to minimize the effects of risk on its capital and earnings. The Bank's BOD formulates the corporate risk policy, sets risk tolerances and appetite and provide risk oversight function through the Risk Oversight Committee (ROC), which in turn supervises the Chief Risk Officer and Head of the Enterprise Risk Management Group (ERMG) in the development and implementation of risk policies, processes and guidelines. The framework covers operational, market and liquidity, credit and counterparty and other downside risks within the context of the supervision by risk guidelines of the BSP and aligned best practices on risk management.

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4.3 Credit Risk

Credit risk pertains to the risk to income or capital due to failure by borrowers or counterparties to pay 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 BOD. Account officers and credit officers directly handle credit risk as guided by BOD-approved policies and limits. ERMG, as guided by the ROC, performs an independent portfolio oversight of credit risks and reports regularly to the BOD and the ROC.

On the transactional level, exposure to credit risk is managed through a credit review process wherein a regular analysis of the ability of the obligors and potential obligors to meet interest and capital repayment obligations is performed. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees. Moreover, in accordance with best practices, the Bank also adopts an internal credit risk rating system (ICRRS) for the purpose of measuring credit risk for every exposure in a consistent manner as accurately as possible and uses this information as a tool for business and financial decision-making.

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.

Exposure to Credit Risk

The maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown in the statements of financial position or in the detailed analysis provided in the notes to the financial statements as summarized below (amounts in thousands).

	Notes		2015		2014
Cash and other cash items	9	P	**1,279,302**	P	1,174,011
Due from BSP	9		**7,672,638**		4,554,442
Due from other banks	10		**2,825,982**		2,031,581
Financial assets at FVPL	11		**75,943**		171,892
AFS securities	12		**3,092,838**		1,714,037
HTM investments	13		**5,948,727**		5,962,970
Loans and other receivables – net	14		**41,737,830**		40,110,256
Other resources – net	17		**92,152**		82,354
		P	**62,725,412**	P	55,801,543

The credit risk quality of the Bank's financial assets is further described as follows:

(i) Cash and Cash Equivalents

The credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable banks with high quality external credit ratings. Included in the cash and cash equivalents are Cash and Other Cash Items, Due from BSP and Due from Other Banks. Due from Other Banks are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of P0.5 million for every depositor per banking institution.

(ii) Financial Assets at FVTPL, AFS Securities and HTM investments

The Bank continuously monitors defaults of counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. Moreover, these investments are mainly composed of government bonds whose credit risk is secured by the Philippine Government and certain corporate debt securities issued by publicly-known local companies with no observed history of credit default. Accordingly, all debt instruments held by the Bank are considered as either high grade or standard grade that is neither past due nor specifically impaired.

(iii) Loans and Other Receivables

The Bank regularly reviews and monitors defaults of borrowers identified either individually or by group, and incorporates this information into its credit risk evaluation. Where available at a reasonable cost, external credit ratings and/or reports on customers are obtained and used. In addition, for a significant proportion of loans, post-dated checks are received to mitigate credit risk.

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The following table shows the Bank's maximum exposure to credit risk on loans and other receivables as of December 31, 2015 and 2014 (amounts in thousands):

		2015		2014
Individually impaired				
Wholesale and retail trade	P	**523,163**	P	323,949
Real estate, renting and construction		**413,800**		147,456
Manufacturing		**131,050**		64,979
Consumption		**87,060**		158,087
Others		**926,120**		620,098
Gross amount		**2,081,193**		1,314,569
Allowance for impairment		**(700,825)**		(495,420)
Carrying amount		**1,380,368**		819,149
Collectively impaired				
Wholesale and retail trade	P	**11,163,616**		15,356,456
Real estate, renting and construction		**3,516,952**		3,215,895
Manufacturing		**2,597,782**		5,736,638
Consumption		-		6,597,008
Others		**6,676,846**		7,628,669
Gross amount		**23,955,196**		38,534,666
Allowance for impairment		**(375,800)**		(410,800)
Carrying amount		**23,579,396**		38,123,866
Past due but not impaired				
Carrying amount		**68,943**		-
Neither past due nor impaired				
Carrying amount		**16,709,123**		1,167,241
Total carrying amount	P	**41,737,830**	P	40,110,256

In addition to default and concentration risk arising from lending activities, the Bank has an incremental issuer credit risk exposure emanating from Trading and Investment Securities and Due from Other Banks amounting to P9,117.5 and P2,826.0 million, respectively, as of December, 31, 2015 and P7,848.9 million and P2,031.6 million, respectively, as of December 31, 2014. These are considered as neither past due nor impaired.

The carrying amount of the above loans and other receivables are partially secured with collateral mainly consisting of real estate and chattel mortgage.

The Due from BSP account represents the aggregate balance of noninterest-bearing deposit accounts in local currency maintained by the Bank with the BSP primarily to meet reserve requirements and to serve as a clearing account for interbank claims. Hence, no significant credit risk is anticipated for this account.

4.4 Market Risk

The Bank's market risk exposure arises from adverse movements in interest rates and prices of assets that are either carried in the banking book or held as positions in the trading book (financial instruments), mismatches in the contractual maturity of its assets and liabilities, embedded optionality in the loans and deposits due to pre-terminations, and potential cash run offs arising from changes in overall liquidity and funding conditions in the market. Market risk related to the Bank's financial instruments includes foreign currency, interest rate and price risks.

(a) Foreign Currency Risk

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 breakdown of the financial assets and financial liabilities as to foreign currency (translated into Philippine pesos) and Philippine peso-denominated balances as of December 31, 2015 and 2014 follow (amounts in thousands):

		2015				
		Foreign Currency		**Philippine Peso**		Total
Financial Assets:						
Cash and other cash items	P	-	P	1,279,302	P	1,279,302
Due from BSP		-		7,672,638		7,672,638
Due from other banks		2,372,753		453,229		2,825,982
Financial assets at FVTPL		-		75,943		75,943
AFS securities		2,990,980		103,558		3,094,538
HTM investments		461,114		5,487,613		5,948,727
Loans and other receivables - net		569,439		41,168,391		41,737,830
Other resources		91,833		319		2,152
	P	**6,486,119**	**P**	**56,240,993**	**P**	**62,727,112**
Financial Liabilities:						
Deposit liabilities	P	6,458,745	P	48,557,475	P	55,016,220
Bills payable		-		956		956
Accrued expenses and other liabilities		1,886		1,936,797		1,938,683
	P	**6,460,631**	**P**	**50,495,228**	**P**	**56,955,859**

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	2014 Foreign Currency	2014 Philippine Peso	2014 Total
Financial Assets:			
Cash and other cash items	P -	P 1,174,011	P 1,174,011
Due from BSP	-	4,554,442	4,554,442
Due from other banks	463,362	1,568,219	2,031,581
Financial assets at FVTPL	-	171,892	171,892
AFS securities	1,577,834	137,903	1,715,737
HTM investments	438,030	5,524,940	5,962,970
Loans and other eceivables - net	595,845	39,514,411	40,110,256
Other resources	82,080	274	82,354
	P 3,157,151	P 52,646,092	P 55,803,243
Financial Liabilities:			
Deposit liabilities	P 4,217,618	P 42,401,790	P 46,619,408
Bills payable	-	309,522	309,522
Accrued expenses and other liabilities	890	2,697,859	2,698,749
	P 4,218,508	P 45,409,171	P 49,627,679

(b) Interest Rate Risk

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. To quantify interest rate exposure, the statement of financial position is first classified into interest rate sensitive and non-interest rate sensitive asset and liability accounts and then divided into pre-defined interest rate sensitivity gap tenor buckets with corresponding amounts slotted therein based on the term to next re-pricing date (the re-pricing maturity for floating rate accounts) and remaining term to maturity (the equivalent re-pricing maturity for fixed rate accounts).

The rate sensitivity gaps are calculated for each time band and on a cumulative basis. The gap amount for each bucket is multiplied by an assumed change in interest rate to determine EAR. 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 resources 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.

The analyses of the groupings of resources, liabilities, capital funds and off-statement of financial position items as of December 31, 2015 and 2014 based on the expected interest realization or recognition are presented below (amounts in thousands).

	Less than One Month	One to Three Months	Three Months to One Year	More than One Year	Non-rate Sensitive	Total
2015						
Resources:						
Cash and other cash items	P 1,279,302	P -	P -	P -	P -	P1,279,302
Due from BSP	7,672,638	-	-	-	-	7,672,638
Due from other banks	2,825,982	-	-	-	-	2,825,982
Trading and investment securities	58,873	20,086	6,521	9,033,728	-	9,119,208
Loans and other receivables - net	29,654,273	3,273,654	3,501,767	5,308,136	-	41,737,830
Other resources	-	-	-	-	2,947,201	2,947,201
Total Resources	41,491,068	3,293,740	3,508,288	14,341,864	2,947,201	65,582,161
Liabilities and Equity:						
Deposit liabilities	17,087,810	8,513,33	7,369,904	22,045,168	-	55,016,220
Bills payable	-	-	956	-	-	956
Accrued expenses and other liabilities	-	-	-	-	2,095,433	2,095,433
Total Liabilities	17,087,810	8,513,338	7,370,860	22,045,168	2,095,433	57,112,609
Equity	-	-	-	-	8,469,553	8,469,553
Total Liabilities and Equity	17,087,810	8,513,338	7,370,860	22,045,168	10,564,986	65,582,162
On-book Gap	24,403,258	(5,219,598)	(3,862,572)	(7,703,304)	(7,617,784)	-
Cumulative On-book Gap	24,403,258	19,183,660	15,321,088	7,617,784	-	-
Contingent Resources	-	-	-	-	-	-
Contingent Liabilities	-	-	-	-	1,341,367	1,341,367
Off-book Gap	-	-	-	-	(1,341,367)	(1,341,367)
Net Periodic Gap	24,403,258	(5,219,598)	(3,862,572)	(7,703,304)	(8,959,151)	(1,341,367)
Cumulative Total Gap	P 24,403,258	P 19,183,660	P 15,321,088	P 7,617,784	(P1,341,367)	P -

	Less than One Month	One to Three Months	Three Months to One Year	More than One Year	Non-rate Sensitive	Total
2014						
Resources:						
Cash and other cash items	P -	P -	P -	P -	P 1,174,011	P 1,174,011
Due from BSP	-	-	-	-	4,554,442	4,554,442
Due from other banks	-	-	-	-	2,031,581	2,031,581
Trading and investment securities	-	-	171,892	7,678,707	-	7,850,599
Loans and other receivables - net	30,576,275	3,446,655	2,863,466	1,331,675	1,892,185	40,110,256
Other resources	-	-	-	-	2,133,626	2,133,626
Total Resources	30,576,275	3,446,655	3,035,358	9,010,382	11,785,845	57,854,515
Liabilities and Equity:						
Deposit liabilities	16,359,916	8,020,236	3,918,852	641,266	17,679,138	46,619,408
Bills payable	-	309,522	-	-	-	309,522
Accrued expenses and other liabilities	-	-	-	-	2,903,219	2,903,219
Total Liabilities	16,359,916	8,329,758	3,918,852	641,266	20,582,357	49,832,149
Equity	-	-	-	-	8,022,366	8,022,366
Total Liabilities and Equity	16,359,916	8,329,758	3,918,852	641,26	28,604,723	57,854,515
On-book Gap	14,216,359	(4,883,103)	(883,494)	8,369,116	(16,818,878)	-
Cumulative On-book Gap	14,216,359	9,333,256	8,449,762	16,818,878	-	-
Contingent Resources	-	-	-	-	-	-
Contingent Liabilities	-	-	-	-	615,085	615,085
Off-book Gap	-	-	-	-	(615,085)	(615,085)
Net Periodic Gap	14,216,359	(4,883,103)	(883,494)	8,369,116	(17,433,961)	(615,085)
Cumulative Total Gap	P 14,216,359	P 9,333,256	P 8,449,762	P 16,818,878	(P 615,085)	P -

(c) Price Risk

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).

In calculating the severity of the market risk exposure for fixed income securities, the Bank takes into account the cash flow weighted term or modified duration of the securities comprising the portfolio, the yield to maturity, and mark-to-market value of the component securities position in the trading book. 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 PDEx 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 ten 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: (i) VaR limit on a per instrument and portfolio; (ii) loss limit on per investment portfolio, (iii) off-market rate limits on per instrument type; and, (iv) 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.

The table below shows the VaR position and ranges of the Bank's financial assets at FVTPL and AFS securities portfolios as at December 31.

	2015	2014
VaR Position:		
Financial assets at FVTPL	**P 1,440**	P 6,214
AFS securities	**1,451**	186,915
VaR Ranges:		
Minimum	**P 6,214**	P 5,091
Maximum	**11,200**	152,602
Average	**1,787**	23,681

Stress test on the December 31, 2015 and 2014 portfolio shows the potential impact on profit and capital funds of parallel increase in interest rates of financial assets at FVTPL and AFS securities as follows:

2015				
	Current	Sensitivities		
Currency	Market Value	+100 bps	+300 bps	+500 bps
Philippine peso	P 178,702,857	(P 13,233,739)	(P 39,701,216)	(P 66,168,694)
US dollar	2,990,980,345	(333,852,546)	(1,001,557,637)	(1,669,262,728)
Total	**P 3,169,683,202**	**(P347,086,285)**	**P1,041,258,85**	**(P1,735,431,422)**

2014				
	Current	Sensitivities		
Currency	Market Value	+100 bps	+300 bps	+500 bps
Philippine peso	P 309,794,253	(P 24,635,885)	(P 73,907,654)	(P 123,179,423)
US dollar	1,577,834,272	(166,590,526)	(499,771,577)	(832,952,629)
Total	P 1,887,628,525	(P 191,226,411)	(P 573,679,231)	(P 956,132,052)

(d) Liquidity Risk

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. A maturity ladder relates the inflows to outflows of funds at selected maturity dates and is constructed to measure liquidity exposure. The ladder shows the Bank's statement of financial position distributed into tenor buckets across the term structure on the basis of the term to final maturity or cash flow dates. The amount of net inflows which equals the difference between the amounts of contractually maturing assets (inflows) and liabilities (outflows) is computed per tenor bucket and on a cumulative basis incorporating certain behavioral and hypothetical assumptions regarding the flows from assets and liabilities including contingent commitments over time. The calculated periodic and cumulative gaps constitute the Bank's run off schedule, which indicate the Bank's net funding requirements in local and foreign currency.

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 ROC prior to the confirmation by the BOD.

The analysis of the cash flow gap analysis of resources, liabilities, capital funds and off-statement financial position items as of December 31, 2015 and 2014 is presented below (amounts in thousands).

	Less than One Month	One to Three Months	Three Months to One Year	More than One Year	Total
2015					
Resources:					
Cash and other cash items	P 1,279,302	P -	P -	P -	P 1,279,302
Due from BSP	7,672,638	-	-	-	7,672,638
Due from other banks	2,825,982	-	-	-	2,825,982
Trading and investment securities	135,372	20,113	4,821	8,958,902	9,119,208
Loans and other receivables	8,007,087	10,555,930	10,790,464	12,384,349	41,737,830
Other resources	452,757	-	133,815	2,360,630	2,947,202
Total Resources *(balance carried forward)*	P 20,373,138	P 10,576,043	P 10,929,100	P 23,703,881	P 65,582,162

	Less than One Month	One to Three Months	Three Months to One Year	More than One Year	Total
2015					
Total Resources *(balance brought forward)*	P 20,373,138	P 10,576,043	P 10,929,100	P 23,703,881	P 65,582,162
Liabilities and Equity:					
Deposit liabilities	8,727,282	13,153,235	11,609,010	21,526,693	55,016,220
Bills payable	-	-	956	-	956
Accrued expenses and other liabilities	2,285,952	22,737	51,570	(264,826)	2,095,433
Total Liabilities	11,013,234	13,175,972	11,661,536	21,261,867	57,112,609
Capital Funds	-	-	-	8,469,553	8,469,553
Total Liabilities and Capital Funds	11,020,467	13,175,972	11,661,536	29,724,187	65,582,162
On-book Gap	9,352,671	(2,599,929)	(732,436)	(6,020,306)	-
Cumulative On-book Gap	9,352,671	6,752,742	6,020,306	-	-
Contingent Resources	-	-	-	-	-
Contingent Liabilities	29,665	587,008	682,635	37,501	1,336,809
Off-book Gap	(29,665)	(587,008)	(682,635)	(37,501)	(1,336,809)
Net Periodic Gap	9,323,006	(3,186,937)	(1,415,071)	(6,057,807)	(1,336,809)
Cumulative Total Gap	**P 9,323,006**	**P 6,136,069**	**P 4,720,998**	**(P 1,336,809)**	**P -**

	Less than One Month	One to Three Months	Three Months to One Year	More than One Year	Total
2014					
Resources:					
Cash and other cash items	P 1,174,011	P -	P -	P -	P 1,174,011
Due from BSP	4,554,442	-	-	-	4,554,442
Due from other banks	2,031,581	-	-	-	2,031,581
Trading and investment securities	-	-	171,892	7,678,707	7,850,599
Loans and other receivables	-	18,259,698	11,241,422	10,609,136	40,110,256
Other resources	-	598,870	172,520	1,362,236	2,133,626
Total Resources	P 7,760,034	P 18,858,568	P 11,585,834	P 19,650,079	P 57,854,515
Liabilities and Equity:					
Deposit liabilities	2,265,575	20,325,396	3,454,604	20,573,833	46,619,408
Bills payable	-	299,604	4,327	5,591	309,522
Accrued expenses and other liabilities	110,287	2,324,280	436,649	29,706	2,903,219
Total Liabilities	2,375,862	22,949,280	3,897,877	20,609,130	49,832,149
Capital Funds	-	-	-	8,022,366	8,022,366
Total Liabilities and Capital Funds *(balance carried forward)*	2,375,862	22,949,280	3,897,877	28,631,496	57,854,515
Total Liabilities and Capital Funds *(balance brought forward)*	P 2,375,862	P 22,949,280	P 3,897,877	P 28,631,496	P 57,854,515
On-book Gap	5,384,172	(4,090,712)	7,687,957	(8,981,417)	-
Cumulative On-book Gap	5,384,172	1,293,460	8,981,417	-	-
Contingent Resources	-	-	-	-	-
Contingent Liabilities	76,467	396,998	171,886	47,064	692,415
Off-book Gap	(76,467)	(396,998)	(171,886)	47,064	692,415
Net Periodic Gap	5,307,705	(4,487,710)	7,516,071	(9,028,481)	(692,415)
Cumulative Total Gap	P 5,307,705	P 819,995	P 8,336,066	(P 692,415)	P -

4.5 Operational Risk

Operational risks are risks arising from the potential inadequate information systems and systems, operations or transactional problems (relating to service or product delivery), breaches in internal controls, fraud, or unforeseen catastrophes that may result in unexpected loss. Operational risks include the risk of loss arising from various types of human or technical error, settlement or payments failures, business interruption, administrative and legal risks, and the risk arising from systems not performing adequately.

The ROC of the Bank assists management in meeting its responsibility to understand and manage operational risk exposures.

The ROC applies a number of techniques to efficiently manage operational risks. Among these are:

- Each major business line has an embedded operational risk management officer who acts as a point person for the implementation of various operational risk tools. The operational risk officers attend annual risk briefings conducted by the ROC to keep them up-to-date with different operational risk issues, challenges and initiatives.
- With ROC's bottom up self-assessment process, which is conducted at least annually, areas with high risk potential are highlighted and reported, and control measures are identified. The results of said self-assessment exercise also serve as one of the inputs in identifying specific key risk indicators (KRIs).
- KRIs are used to monitor the operational risk profile of the Bank and of each business unit, and alert the management of impending problems in a timely fashion.
- Internal loss information is collected, reported and utilized to model operational risk.
- The ROC reviews product and operating manuals, policies, procedures and circulars, thus allowing the embedding of desired operational risk management practices in all business units.

(a) Reputational Risk

Reputation risk is the risk to earnings or capital arising from negative public opinion. This affects the Bank's ability to establish new relationships or services, or to continue servicing existing relationships. This risk can expose the Bank to litigation, financial loss, or damage to its reputation. Reputation risk arises whenever technology-based banking products, services, delivery channels or processes may generate adverse public opinion such that it seriously affects the Bank's earnings or impairs its capital. This risk is present in activities such as asset management and regulatory compliance.

The Bank adopted a reputation risk monitoring and reporting framework to manage public perception.

(b) Legal Risk and Regulatory Risk Management

Changes in laws and regulations and fiscal policies could adversely affect the Bank's operations and financial reporting. In addition, the Bank faces legal risks in enforcing its rights under its loan agreements, such as foreclosing of collateral. Legal risk is higher in new areas of business where the law remains untested by the courts. The Bank uses a legal review process as the primary control mechanism for legal risk. Such a legal review aims to verify and validate the existence, genuineness and due execution of legal documents, and verify the capacity and authority of counterparties and customers to enter into transactions. In addition, the Bank seeks to minimize its legal risk by using stringent legal documentation, imposing certain requirements designed to ensure that transactions are properly authorized, and consulting internal and external legal advisors.

NOTES TO FINANCIAL STATEMENTS

Regulatory risk refers to the potential for the Bank to suffer financial loss due to changes in the laws or monetary, tax or other governmental regulations of the country. The Bank's Compliance Program, the design and implementation of which is overseen and coordinated by the Compliance Officer, is the primary control process for regulatory risk issues. The Compliance Office is committed to safeguard the integrity of the Bank by maintaining a high level of regulatory compliance. It is responsible for communicating and disseminating new rules and regulations to all units, assessing and addressing identified compliance issues, performing periodic compliance testing on branches and head office units, and reporting compliance findings to the Audit Committee and the BOD.

4.6 Anti-Money Laundering Controls

The Anti-Money Laundering Act (AMLA) or RA No. 9160 was passed in September 2001 and was amended by RA No. 9194, RA No. 10167, and RA No. 10365 in March 2003, June 2012 and February 2013, respectively. Under the AMLA, as amended, the Bank is required to submit "Covered Transaction Reports" to the Anti-Money Laundering Council (AMLC) involving single transactions in cash or other equivalent monetary instruments in excess of P0.5 million within one banking day. The Bank is also required to submit "Suspicious Transaction Reports" to the AMLC in the event that circumstances exist and there are reasonable grounds to believe that the transaction is suspicious. Furthermore, terrorist financing was criminalized in RA No. 10168.

In addition, the AMLA requires that the Bank safe keeps, as long as the account exists, all the Know Your Customer (KYC) documents involving its clients, including documents that establish and record the true and full identity of its clients. Likewise, transactional documents must be maintained and stored for five years from the date of the transaction. In cases involving closed accounts, the KYC documents must be kept for five years after their closure. Meanwhile, all records of accounts with court cases must be safe kept until there is a final resolution.

On January 27, 2011, BSP Circular No. 706 was implemented superseding all policies on AMLA. The Circular requires the Bank to adopt a comprehensive and risk-based Money Laundering and Terrorist Financing Prevention Program (MLPP) designed according to the covered institution's corporate structure and risk profile.

In an effort to further prevent money laundering activities, the Bank revised its KYC policies and guidelines in order to comply with the aforementioned Circular. Under the guidelines, each business unit is required to validate the true identity of a customer based on official or other reliable identifying documents or records before an account may be opened. Likewise, the Bank is required to risk profile its clients to Low, Normal or High with its corresponding due diligence of Reduced, Average or Enhanced, in compliance with the risk-based approach mandated by the Circular. Decisions to enter into a business relationship with a high risk customer requires senior management approval, and in some cases such as a politically exposed person or a private individual holding a prominent position, Group Head approval is necessary.

The Bank's procedures for compliance with the AMLA are set out in its MLPP. The Bank's Compliance Officer, through the Anti-Money Laundering Department (AMLD), monitors AMLA compliance and conducts regular compliance testing of business units.

The AMLD requires all banking units to submit to the Compliance Office certificates of compliance with the Anti-Money Laundering Rules and Regulations on a quarterly basis.

The Compliance Officer regularly reports to the Audit Committee and to the BOD results of their monitoring of AMLA compliance.

5. CAPITAL MANAGEMENT AND REGULATORY CAPITAL

The Bank's lead regulator, the BSP, sets and monitors capital requirements for the Bank. In implementing current capital requirements, the BSP requires the Bank to maintain a prescribed ratio of qualifying capital to risk-weighted assets. PBB, being a stand-alone thrift bank, is required under BSP regulations to comply with Basel 1.5. Under this regulation, the qualifying capital account of PBB should not be less than an amount equal to 10% of its risk weighted assets.

The qualifying capital of the Bank for purposes of determining the capital-to-risk assets ratio consists of Tier 1 capital plus Tier 2 capital elements net of the required deductions from capital such as:

(a) unbooked valuation reserves and other capital adjustments as may be required by the BSP;
(b) total outstanding unsecured credit accommodations to directors, officers, stockholders and related interests (DOSRI);
(c) deferred tax asset net of deferred tax liability;
(d) goodwill;
(e) sinking fund for redemption of redeemable preferred shares; and,
(f) other regulatory deductions.

Risk weighted assets is the sum of the Bank's credit risk weighted assets, operational risk weighted assets, and market risk weighted assets. The latter was due to the Bank's authority to engage in derivatives as end-user under a Type 3 Limited End-User Authority. Risk weighted assets are computed using the standardized approach for credit and market risks while basic indicator approach with modification was used for operational risks.

The following are the risk-based capital adequacy of the Bank as of December 31, 2015 and 2014 (amounts in millions):

	2015		2014		2013	
Tier 1 Capital	P	8,709	P	8,275	P	8,099
Tier 2 Capital		376		407		284
Total Regulatory Capital		9,085		8,682		8,383
Deductions		-		-	(	258)
Total Qualifying Capital	P	9,085	P	8,682	P	8,125
Tier 1 Capital	P	8,709	P	8,275	P	8,099
Tier 1 Capital Deductions		-		-	(	258)
Net Tier 1 Capital	P	8,709	P	8,275	P	7,841
Risk Weighted Assets						
Credit Risk Weighted Assets	P	43,382	P	38,348	P	31,252
Operational Risk Weighted Assets		3,580		3,233		2,155
Market Risk Weighted Assets		4,378		139		829
Total Risk-Weighted Assets	P	51,340	P	41,720	P	34,236

	2015	2014	2013
Capital ratios:			
Total qualifying capital expressed as percentage of total risk-weighted assets	17.7%	20.8%	26.0%
Net Tier 1 capital expressed as percentage of total risk-weighted assets	17.0%	19.8%	22.9%

The amount of surplus funds available for dividend declaration is determined also on the basis of regulatory net worth after considering certain adjustments.

The Bank's policy is to maintain a strong capital base in order to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholder's return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

A Bank's regulatory capital is analyzed into two tiers, which are Tier 1 Capital plus Tier 2 Capital less deductions from the total of Tier 1 and Tier 2 capital equivalent to 50% of the following:

(a) Investments in equity of unconsolidated subsidiary banks and other financial allied undertakings, but excluding insurance companies;

(b) Investments in debt capital instruments of unconsolidated subsidiary banks;

(c) Investments in equity of subsidiary insurance companies and non-financial allied undertakings;

(d) Reciprocal investments in equity of other banks/enterprises; and,

(e) Reciprocal investments in unsecured subordinated term debt instruments of other banks/quasi-banks qualifying as Hybrid Tier 1, Upper Tier 2 and Lower Tier 2, in excess of the lower of (i) an aggregate ceiling of 5% of total Tier 1 capital of the bank excluding Hybrid Tier 1; or (ii) 10% of the total outstanding unsecured subordinated term debt issuance of the other bank/quasi-banks.

Provided, that any asset deducted from the qualifying capital in computing the numerator of the risk-based capital ratio shall not be included in the risk-weighted assets in computing the denominator of the ratio.

As of December 31, 2015 and 2014, the Bank has no exposure in item (a) to item (e) above. There were no material changes in the Bank's management of capital during the current year.

As of December 31, 2015 and 2014, the Bank has satisfactorily complied with the capital-to-risk assets ratio.

Under existing BSP regulations, the determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the Bank's "unimpaired capital" (regular net worth) reported to the BSP, determined on the basis of regulatory accounting policies, which differ from PFRS in some aspects (mainly in the recognition of deferred tax assets). Thrift banks with head office within Metro Manila are required to comply with the minimum capital requirement of P1.0 billion. The Bank has complied with the minimum capital requirement at the end of each reporting period.

6. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

6.1 Carrying Amounts and Fair Values by Category

The following table summarizes the carrying values and fair values of those financial assets and financial liabilities in the statements of financial position:

	Notes	Carrying Values	Fair Value
December 31, 2015:			
Financial Assets			
Loans and Receivables:			
Cash and other cash items	9	P 1,279,302,155	P 1,279,302,155
Due from BSP	9	7,672,637,783	7,672,637,783
Due from other banks	10	2,825,982,401	2,825,982,401
Loans and other receivables	14	41,737,830,222	41,737,830,222
Other resources	17	92,151,704	92,151,704
Financial assets at FVTPL	11	75,942,639	75,942,639
AFS securities	12	3,094,538,311	3,094,538,311
HTM investments	13	5,948,727,495	5,918,817,190
Financial Liabilities			
At amortized cost:			
Deposit liabilities	18	P 55,016,219,510	P 55,016,219,510
Bills payable	19	956,250	956,250
Accrued expenses and other liabilities	20	1,936,797,170	1,936,797,170
At fair value –			
Derivative liabilities	20	1,886,043	1,886,043
December 31, 2014:			
Financial Assets			
Loans and Receivables:			
Cash and other cash items	9	P 1,174,011,464	P 1,174,011,464
Due from BSP	9	4,554,441,827	4,554,441,827
Due from other banks	10	2,031,581,088	2,031,581,088
Loans and other receivables	14	40,110,256,377	40,110,256,377
Other resources	17	82,353,952	82,353,952
Financial assets at FVTPL	11	171,891,804	171,891,804
AFS securities	12	1,715,736,721	1,715,736,721
HTM investments	13	5,962,970,252	6,119,200,174
Financial Liabilities			
At amortized cost:			
Deposit liabilities	18	P 46,619,407,626	P 46,619,407,626
Bills payable	19	309,521,852	309,521,852
Accrued expenses and other liabilities	20	2,698,519,743	2,698,519,743
At fair value –			
Derivative liabilities	20	228,814	228,814

NOTES TO FINANCIAL STATEMENTS

6.2 Offsetting of Financial Assets and Financial Liabilities

The following financial assets of the Bank with net amounts presented in the statements of financial position as of December 31, 2015 and 2014 are subject to offsetting, enforceable master netting arrangements and similar agreements (amounts in millions):

	Financial assets	Financial liabilities available for set-off	Collateral given	Net Amount
December 31, 2015				
Loans and receivables				
Receivables from customers	2,693	1	2,691	1
	P 2,693	P 1	P 2,691	P 1
December 31, 2014				
HTM investments	P 411	P 300	P -	P 111
Loans and receivables				
Receivables from customers	2,311	9	2,301	1
	P 2,722	P 309	P 2,301	P 112

The following financial liabilities with net amounts presented in the statements of financial position of the Bank are subject to offsetting, enforceable master netting arrangements and similar agreements (amounts in millions):

	Financial liabilities	Financial assets available for set-off	Collateral received	Net Amount
December 31, 2015				
Deposit liabilities	P 2,691	P 2,691	P -	P -
Bills payable	1	-	1	-
	P 2,692	P 2,691	P 1	P -
December 31, 2014				
Deposit liabilities	P 2,301	P 2,301	P -	P -
Bills payable	309	-	309	-
	P 2,610	P 2,301	P 309	P -

For financial assets and financial liabilities subject to enforceable master netting agreements or similar arrangements above, each agreement between the Bank and counterparties allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and financial liabilities will be settled on a gross basis; however, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

7. FAIR VALUE MEASUREMENT AND DISCLOSURES

7.1 Fair Value Hierarchy

In accordance with PFRS 13, the fair value of financial assets and financial liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

For investments which do not have quoted market price, the fair value is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Bank uses valuation technique, it maximizes the use of observable market data where it is available and relies as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

NOTES TO FINANCIAL STATEMENTS

7.2 Financial Instruments Measured at Fair Value

The table below shows the fair value hierarchy of the Bank's classes of financial assets and financial liabilities measured at fair value in the statements of financial position on a recurring basis as of December 31, 2015 and 2014 (amounts in millions).

	Level 1	Level 2	Level 3	Total
December 31, 2015				
Financial assets at FVTPL				
Government bonds	P -	P 76	P -	P 76
AFS securities				
Government debt securities	1,853	78	-	1,931
Other debt securities	1,162	-	-	1,162
	3,015	78	-	3,093
	P 3,015	P 154	P -	P 3,169
December 31, 2014				
Financial assets at FVTPL				
Government bonds	P -	P 172	P -	P 172
AFS securities				
Government debt securities	880	93	-	973
Other debt securities	741	-	-	741
	1,621	93	-	1,715
	P 1,624	P 265	P -	P 1,886

The Bank has golf club shares amounting to P1.7 million as of December 31, 2015 and 2014 and are presented as part of AFS Securities in the statements of financial position. This is stated at cost as the carrying amounts of these financial instruments approximate their fair values.

As of December 31, 2015 and 2014, the Bank has derivative liabilities classified under Accrued Expenses and Other Liabilities in the statements of financial position amounting to P1.9 million and P0.2 million, respectively (see Note 20). Derivative liabilities are categorized within Level 3, and are determined through valuation techniques using the net present value computation.

The fair value of the debt securities of the Bank determined as follows:

(a) For peso-denominated government debt securities issued by the Philippine government, fair value is determined to be the reference price per PDEx which is computed based on the weighted average of done or executed deals (Level 1), or the simple average of all firm bids per benchmark tenor or interpolated yields (Level 2). This is consistent with BSP Circular No. 813, issued by the BSP pursuant to Monetary Board Resolution No. 1504 dated September 13, 2013.

(b) For other quoted debt securities under Level 1, fair value is determined to be the current mid-price, which is computed as the average of ask and bid prices as appearing on Bloomberg.

There were neither transfers between Levels 1 and 2 nor changes in Level 3 instruments in both years.

7.3 Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed

The table below summarizes the fair value hierarchy of the Bank's financial assets and financial liabilities which are not measured at fair value in the statements of financial position but for which fair value is disclosed (amount in millions).

	Level 1	Level 2	Level 3	Total
December 31, 2015				
Financial Assets:				
Cash and other cash items	P 1,279	P -	P -	P 1,279
Due from BSP	7,673	-	-	7,673
Due from other banks	2,826	-	-	2,826
HTM investments	529	5,390	-	5,919
Loans and other receivable	-	-	41,738	41,738
Other resources	-	-	92	92
	P 12,307	P 5,390	P 41,830	P 59,527
Financial Liabilities:				
Deposit liabilities	P -	P -	P 55,016	P 55,016
Bills payable	-	-	1	1
Accrued expenses and other liabilities	-	-	1,937	1,937
	P -	P -	P 56,954	P 56,954
December 31, 2014				
Financial Assets:				
Cash and other cash items	P 1,174	P -	P -	P 1,174
Due from BSP	4,554	-	-	4,554
Due from other banks	2,032	-	-	2,032
HTM investments	2,448	3,671	-	6,119
Loans and other receivable	-	-	40,110	40,110
Other resources	-	-	82	82
	P 10,208	P 3,671	P 40,192	P 54,071

	Level 1	Level 2	Level 3	Total
Financial Liabilities:				
Deposit liabilities	P -	P -	P 46,619	P 46,619
Bills payable	-	-	310	310
Accrued expenses and other liabilities	-	-	2,699	2,699
	P -	P -	P 49,628	P 49,628

For financial assets and financial liabilities, other than HTM investments, with fair values included in Level 1, management considers that the carrying amounts of those short-term financial instruments approximate their fair values. HTM investments consist of government securities issued by the Philippine government with fair value determined based on prices quoted in PDEx consistent with BSP Circular No. 813 (see Note 7.2).

The fair values of financial assets and financial liabilities not presented at fair value in the statements of financial position are determined as follows:

(a) Due from BSP and Other Banks

Due from BSP pertains to deposits made by the Bank to BSP for clearing and reserve requirements. Due from other banks includes interbank deposits and items in the course of collection. The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity, which for short-term deposits approximates the nominal value.

(b) Loans and Other Receivables

Loans and other receivables are net of impairment losses. The estimated fair value of loans and other receivables represents the discounted amount of estimated future cash flows expected to be received. Long term interest-bearing loans are periodically repriced at interest rates equivalent to the current market rates, to determine fair value.

(c) Other Resources

Other resources are composed of foreign currency notes and coins, security deposits and petty cash fund. Due to their short duration, the carrying amounts of these items in the statements of financial position are considered to be reasonable approximation of their fair values.

(d) Deposits and Bills Payable

The estimated fair value of demand deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of long-term fixed interest-bearing deposits and bills payable without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity. The carrying amounts of deposits and bills payable already approximate their fair values.

(e) Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities, except for post-employment benefit obligation and tax liabilities, are recognized initially at their fair value and subsequently measured at amounts to which they are to be paid. Fair value of these short-term liabilities approximates their carrying values.

7.4 Fair Value Measurement Investment Properties Carried at Cost

The total estimated fair values of the Bank's investment properties, categorized under Level 3 of the fair value hierarchy, amounted to and P803.3 million and P798.9 million as of December 31, 2015 and 2014, respectively.

The fair value of the investment properties of the Bank was determined on the basis of a valuation carried out on the respective dates by either an independent or internal appraiser having appropriate qualifications and recent experience in the valuation of properties in the relevant locations. To some extent, the valuation process was conducted by the appraisers in discussion with the management of the Bank with respect to determination of the inputs such as size, age, and condition of the land and buildings and the comparable prices in the corresponding property location. In estimating the fair value of the properties, management takes into account the market participant's ability to generate economic benefits by using the assets in highest and best use. Based on management's assessment, the best use of the investment properties indicated above is their current use.

The fair value of these investment properties were determined based on the following approaches:

(a) Fair Value Measurement for Land

The Level 3 fair value of land was derived using observable recent prices of the reference properties adjusted for differences in key attributes such as property size, zoning, and accessibility. The most significant input into this valuation approach is the price per square foot; hence, the higher the price per square foot, the higher the fair value. On the other hand, if fair value of the land was derived using the market comparable approach that reflects the recent transaction prices for similar properties in nearby locations, fair value is included in Level 2. Under this approach, when sales prices of comparable land in close proximity are used in the valuation of the subject property with no adjustment on the price.

(b) Fair Value Measure for Building and Improvements

The Level 3 fair value of the buildings and improvements under Investment Properties account was determined using the replacement cost approach that reflects the cost to a market participant to construct an asset of comparable usage, constructions standards, design and lay-out, adjusted for obsolescence. The more significant inputs used in the valuation include direct and indirect costs of construction such as but not limited to, labor and contractor's profit, materials and equipment, surveying and permit costs, electricity and utility costs, architectural and engineering fees, insurance and legal fees. These inputs were derived from various suppliers and contractor's quotes, price catalogues, and construction price indices. Under this approach, higher estimated costs used in the valuation will result in higher fair value of the properties.

There has been no change to the valuation techniques used by the Bank during the year for its non-financial assets. Also, there were no transfers into or out of Level 3 fair value hierarchy in 2015 and 2014.

8. 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) Corporate 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 trading and investment 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 years 2015, 2014 and 2013 follow (amounts in millions):

	Corporate Banking	Consumer Banking	Treasury Operations	Total
December 31, 2015				
Statement of Profit or Loss				
Net interest income	P 1,921	P 173	P 288	P 2,382
Non-interest income	205	-	70	275
Total income (after interest expense)	2,126	173	358	2,657
Operating expenses	(1,387)	(76)	(489)	(1,952)
Pre-tax profit (loss)	739	97	(131)	705
Net profit (loss)	**P 526**	**P 68**	**(P 92)**	**P 502**
Statement of Financial Position				
Total Resources				
Segment assets	P 40,634	P 3,027	P 21,522	P 65,183
Intangible assets	56	-	-	56
Deferred tax assets	343	-	-	343
	P 41,033	**P 3,027**	**P 21,522**	**P 65,582**
Total Liabilities	**P 38,978**	**P 2,428**	**P 15,707**	**P 57,113**
Other segment information				
Depreciation and amortization	**P 93**	**P 6**	**P 38**	**P 137**
Capital expenditures	**P 32**	**P 2**	**P 13**	**P 47**
December 31, 2014				
Statement of Profit or Loss				
Net interest income	P 1,573	P 144	P 518	P 2,235
Non-interest income	271	-	35	306
Total income (after interest expense)	1,844	144	553	2,541
Operating expenses	(1,304)	(61)	(398)	(1,763)
Pre-tax profit	540	83	155	778
Net profit	P 378	P 55	P 103	P 536
Statement of Financial Position				
Total Resources				
Segment assets	P 39,321	P 2,229	P 15,968	P 57,518
Intangible assets	51	-	-	51
Deferred tax assets	286	-	-	286
	P 39,658	P 2,229	P 15,968	P 57,855
Total Liabilities	P 35,310	P 1,918	P 12,604	P 49,832
Other segment information				
Depreciation and amortization	P 86	P 5	P 32	P 123
Capital expenditures	P 27	P 2	P 10	P 39

December 31, 2013	Corporate Banking	Consumer Banking	Treasury Operations	Total
Statement of Profit or Loss				
Net interest income	P 1,343	P 126	P 263	P 1,732
Non-interest income	112	-	817	929
Total income (after interest expense)	1,455	126	1,080	2,661
Operating expenses	(1,069)	(46)	(418)	(1,533)
Pre-tax profit	386	80	662	1,128
Net profit	P 344	P 71	P 589	P 1,004
Statement of Financial Position				
Total Resources				
Segment assets	P 30,861	P 1,765	P 14,231	P 46,857
Intangible assets	51	-	-	51
Deferred tax assets	250	-	-	250
	P 31,162	P 1,765	P 14,231	P 47,158
Total Liabilities	P 26,382	P 1,371	P 12,378	P 40,131
Other segment information				
Depreciation and amortization	P 69	P 4	P 33	P 106
Capital expenditures	P 52	P 3	P 24	P 79

9. CASH AND DUE FROM BSP

This account is composed of the following:

	2015	2014
Cash and other cash items	P **1,279,302,155**	P 1,174,011,464
Due from BSP		
Mandatory reserves	**3,802,637,783**	3,414,441,827
Other than mandatory reserves	**3,870,000,000**	1,140,000,000
	7,672,637,783	4,554,441,827
	P **8,951,939,938**	P 5,728,453,291

Cash consists primarily of funds in the form of Philippine currency notes and coins in the Bank's vault and those in the possession of tellers, including automated teller machines. Other cash items include cash items (other than currency and coins on hand) such as checks drawn on the other banks or other branches that were received after the Bank's clearing cut-off time until the close of the regular banking hours.

Mandatory reserves represent the balance of the deposit account maintained with the BSP to meet reserve requirements and to serve as clearing account for interbank claims.

Due from BSP bears annual effective interest rates ranging from 0.0% to 2.5% in 2015 and 2014, and 0.0% to 2.0% in 2013 and except for the amounts within the required reserve as determined by the BSP. The total interest income earned amounted to P¬¬58.6 million,
P31.2 million and P43.8 million in 2015, 2014 and 2013, respectively, and are included as part of Interest Income on Due from BSP and Other Banks in the statements of profit or loss.

10. DUE FROM OTHER BANKS

The balance of this account represents deposits with the following:

	2015	2014
Local banks	P **2,036,612,414**	P 1,493,241,853
Foreign banks	**789,369,987**	538,339,235
	P **2,825,982,401**	P 2,031,581,088

Interest rates on these deposits range from 0.25% to 1.75% per annum in 2015 and 2014, and 0.25% to 1.90% per annum in 2013. The total interest income earned amounted to
P11.1 million, P6.0 million and P1.7 million in 2015, 2014 and 2013, respectively, and are included as part of Interest Income on Due from BSP and Other Banks in the statements of profit or loss.

The breakdown of due from other banks by currency follows:

	2015	2014
US dollars	P **2,372,753,175**	P 463,361,884
Philippine peso	**453,229,226**	1,568,219,204
	P **2,825,982,401**	P 2,031,581,088

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This account is composed of held-for-trading government securities with fair value amounting to P75.9 million and P171.9 million as of December 31, 2015 and 2014, respectively. Interest rates on these investments range from 4.6% to 6.1% in 2015, 5.9% in 2014, and 5.9% to 6.3% interest rates range in 2013. The total interest income earned amounted to P36.7 million, P44.3 million and P26.6 million in 2015, 2014 and 2013, respectively, and are included as part of Interest Income on Trading and Investment Securities in the statements of profit or loss.

The related net unrealized fair value gains or losses, presented as part of Trading Gains - net in the statements of profit or loss, amounted to P0.2 million loss, P17.1 million gain and
P19.4 million loss in 2015, 2014 and 2013, respectively. Realized trading gains, net of losses, amounting to P15.9 million, P2.7 million and P94.2 million in 2015, 2014 and 2013, respectively, for held-for-trading government securities; and P0.3 million and P3.6 million in 2015 and 2014, respectively, and P0.1 million realized loss, net of gain, in 2013 for spot transactions are presented as part of Trading Gains - net in the statements of profit or loss.

NOTES TO FINANCIAL STATEMENTS

12. AVAILABLE-FOR-SALE SECURITIES

This account is composed of the following:

	2015	2014
Corporate bonds	P **1,931,193,769**	P 972,817,054
Government securities	**1,161,644,542**	741,219,667
Equity securities	**1,700,000**	1,700,000
	P **3,094,538,311**	P 1,715,736,721

As to currency, this account consists of the following:

	2015	2014
Foreign currencies	P **2,990,980,345**	P 1,577,834,272
Philippine pesos	**103,557,966**	137,902,449
	P **3,094,538,311**	P 1,715,736,721

Changes in the AFS securities are summarized below.

	Note	2015	2014
Balance at beginning of year		P **1,715,736,721**	P 7,908,049,843
Additions		**2,274,907,422**	443,590,778
Amortization of discount		**223,929,554**	24,789,027
Disposals		(**913,710,806**)	(1,172,147,778)
Foreign currency revaluation		(**152,837,025**)	10,487,626
Fair value gains (losses)		(**53,487,555**)	124,563,684
Reclassification	13	**-**	(5,623,596,459)
Balance at end of year		P **3,094,538,311**	P 1,715,736,721

The reconciliation of unrealized fair value losses on AFS securities reported under equity is shown below.

	2015	2014	2013
Balance at beginning of year	**(P 519,742,021)**	(P1,043,281,000)	P 322,575,800
Changes on unrealized fair value gains (losses) during the year:			
Fair value gains (losses) during the year	**(53,101,385)**	124,563,684	(1,042,090,203)
Realized fair value losses (gains) on AFS securities disposed during the year - net	**6,615,377**	393,988,832	(323,587,908)
Fair value loss on AFS securities reclassified to HTM investments in 2014	**-**	511,641,246	-
Amortization of fair value gains on reclassified AFS securities in 2012	-	-	(178,689)
Balance carried forward	**(46,486,008)**	1,030,193,762	(1,365,856,800)

	2015	2014	2013
Balance brought forward	(P 46,486,008)	P1,030,193,762	(P1,365,856,800)
Changes on unrealized fair value losses on reclassified securities during the year:			
Amortization of fair value losses on reclassified securities in 2014	(11,070,376)	4,986,463	-
Fair value losses on AFS securities reclassified to HTM investments in 2014	-	(511,641,246)	-
	(11,070,376)	(506,654,783)	-
Balance at end of year	(P 577,298,405)	(P 519,742,021)	(P1,043,281,000)

AFS securities earn annual interest ranging from 3.5% to 9.1%, 3.5% to 9.2% and 4.3% to 9.1% in 2015, 2014 and 2013, respectively. The total interest income earned amounted to P96.5 million, P215.0 million and P341.7 million in 2015, 2014 and 2013, respectively, and are included as part of Interest Income on Trading and Investment Securities in the statements of profit or loss. Net fair value gains or losses recycled to profit or loss from equity resulting from the sale of AFS securities amounted to P6.6 million loss, P394.0 million loss and P323.8 million gain in 2015, 2014 and 2013, respectively. These are included as part of Trading Gains – net in the statements of profit or loss. Realized trading gains, net of losses, presented as part of Trading Gains – net in the 2015, 2014 and 2013 statements of profit or loss, amounted to P58.2 million, P16.4 million and P741.9 million, respectively.

The fair values of AFS securities have been determined directly by reference to published prices in an active market.

In compliance with current banking regulations relative to the Bank's trust functions, certain AFS securities of the Bank, with a face value of P70.75 million and P78.75 million as of December 31, 2015 and 2014, respectively, are deposited with the BSP (see Note 28).

13. HELD-TO-MATURITY INVESTMENTS

As of December 31, 2015 and 2014, this account is composed of local and foreign government debt securities which have remaining maturities of beyond one year.

As to currency, this account consists of the following:

	2015	2014
Philippine peso	P 5,487,613,698	P 438,029,959
Foreign currencies	461,113,797	5,524,940,293
	P 5,948,727,495	P 5,962,970,252

Changes in the HTM investments are summarized below.

	2015	2014
Balance at beginning of year	P 5,962,970,252	P 8,656,409
Amortization of discount (premium)	(14,516,797)	330,612,497
Foreign currency revaluation	274,040	104,887
Reclassification	-	5,623,596,459
Balance at end of year	P 5,948,727,495	P 5,962,970,252

NOTES TO FINANCIAL STATEMENTS

Effective interest rates on these investments ranges from 5.3% to 8.1% per annum in 2015 and 2014 and 7.0% per annum in 2013. The total interest income earned from these investments amounted to P291.6 million, P172.5 million and P0.3 million in 2015, 2014 and 2013, respectively, and is shown as part of Interest Income on Trading and Investment Securities in the statements of profit or loss.

On May 29, 2014, the Bank reclassified certain government debt securities from AFS securities to HTM investments with a market value of P5,623.6 million at the date of reclassification and with annual effective interest rates of the reclassified securities ranging from 5.3% to 8.1%. The unrealized fair value loss on the reclassified securities amounting to P511.6 million is retained in other comprehensive income and will be amortized over the remaining life of the HTM investments or recognized to profit or loss upon sale, whichever comes earlier. No similar reclassification of AFS to HTM occurred in 2015. The amortization of fair value loss amounted to P11.1 million and P5.0 million in 2015 and 2014, respectively, and is presented as part of Trading Gains – net in the statements of profit or loss. The book value and unamortized fair value losses related to these debt securities as of December 31, 2015 amount to P5,581.6 million and P498.9 million, respectively, and P5,954.6 million and P506.7 million, respectively, as of December 31, 2014 (see Note 12).

HTM securities amounting P300.0 million as of December 31, 2014 (nil as of December 31, 2015) are pledged as collaterals to secure borrowings under repurchase agreement (see Note 19).

14. LOANS AND OTHER RECEIVABLES

	2015	2014
Receivables from customers:		
Loans and discounts	P 36,954,001,403	P 33,824,150,253
Bills purchased	1,259,177,626	1,703,226,381
Customers' liabilities on acceptances, letters of credit and trust receipts	3,066,453,404	3,945,258,885
	41,279,632,433	39,472,635,519
Unearned discount	(96,231,198)	(104,429,610)
	41,183,401,235	39,368,205,909
Other receivables:		
Unquoted debt securities	1,216,105,404	1,242,808,397
Accrued interest receivable	178,793,670	153,712,571
Sales contracts receivable	91,856,163	118,337,176
Accounts receivable	87,727,360	76,537,289
Deficiency claims receivable	56,571,522	56,874,809
	1,631,054,119	1,648,270,242
	42,814,455,354	41,016,476,151
Allowance for impairment	(1,076,625,132)	(906,219,774)
	P 41,737,830,222	P 40,110,256,377

On various dates in 2002, the Bank purchased P259.0 million face value of the 10-year Poverty Eradication and Alleviation Certificates (PEACe) bonds, in the belief that these were tax-exempt. Said bonds were issued by the Bureau of Treasury (BTr) in 2001 which matured on October 18, 2011. As of December 31, 2015 and 2014, the Accounts receivable includes P36.7 million set up by the Bank for the final tax withheld by the BTr upon maturity of the bonds subject to the resolution of a case filed with the Supreme Court on the matter. On January 13, 2015, the Supreme Court nullified the 2011 Bureau of Internal Revenue (BIR) Rulings classifying all bonds as deposit substitutes and ordered the Bureau of Treasury to return to the petitioning banks the 20% final withholding taxes it withheld on the PEACe Bonds on October 18, 2011; hence, management believes that recoverability of the final tax on PEACe bonds continues to be probable.

As of December 31, 2015 and 2014, non-performing loans of the Bank amount to P1,191.6 million and P601.5 million, respectively, while restructured loans amount to P80.96 million and P120.6 million, respectively.

A summary of the Bank's maximum exposure to credit risk on loans and other receivables is disclosed in Note 4.3.

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

	2015	2014
Within one year	P 29,422,912	P 29,174,034
Beyond one year	11,856,720	10,298,602
	P 41,279,632	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 17,390,757	P 14,426,930
Construction	8,744,390	7,206,797
Manufacturing	5,011,775	6,108,277
Administrative and support services	4,984,934	7,712,045
Transportation and storage	3,218,626	1,067,807
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use	681,598	2,051,399
Electricity, gas, steam and air-conditioning supply	675,625	463,065
Agriculture, fishery and forestry	461,296	336,316
Mining and quarrying	110,631	100,000
	P 41,279,632	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 14,247,890**	P 12,329,560
Deposit hold-out	**2,693,318**	2,300,522
Chattel mortgage	**2,335,847**	1,933,400
Others	**1,259,177**	622,833
Unsecured	**20,743,400**	22,286,321
	P 41,279,632	P 39,472,636

The changes in the allowance for impairment losses on loans and other receivables are summarized below.

	2015	2014
Balance at beginning of year	**P 906,219,774**	P 716,332,647
Impairment losses for the year	**170,405,358**	189,887,127
Balance at end of year	**P 1,076,625,132**	P 906,219,774

Of the total loans and discounts of the Bank as of December 31, 2015 and 2014, 99.8% and 98.4%, respectively, are subject to periodic interest repricing.

Annual effective interest rates of loans and discounts range from 1.65% to 26.0% in 2015, 1.3% to 22.0% in 2014 and 2.0% to 22.0% in 2013, while the annual effective interest rates of interest-bearing other receivables range from 4.0% to 16% in 2015, and 4.0% to 2014 and 2013. The total interest income earned from loans and discounts amounted to P2,457.3 million, P2,165.4 million and P1,625.0 million in 2015, 2014 and 2013, respectively, while total interest income earned from interest-bearing other receivables amounted to P186.9 million, P200.9 million and P189.9 million in 2015, 2014 and 2013, respectively. These are presented as Interest Income on Loans and Other Receivables in the statements of profit or loss.

Loans receivables amounting to P1.0 million and P20.0 million as of December 31, 2015 and 2014, respectively, are pledged as collaterals to secure borrowings under rediscounting privileges (see Note 19).

15. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of bank premises, furniture, fixtures and equipment at the beginning and end of 2015 and 2014 are shown below.

	Land	Building	Furniture, Fixtures and Equipment	Leasehold Transportation Equipment	Improve- ments	Total
December 31, 2015						
Cost	P 84,327,556	P 109,343,864	P 370,921,928	P 130,418,587	P 486,983,266	P 1,181,995,201
Accumulated depreciation and amortization	-	(36,053,768)	(218,191,093)	(71,265,077)	(293,850,541)	(619,360,479)
Net carrying amount	**P 84,327,556**	**P 73,290,096**	**P 152,730,835**	**P 59,153,510**	**P 193,132,725**	**P 562,634,722**
December 31, 2014						
Cost	P 84,327,556	P 110,257,855	P 299,261,604	P 120,355,469	P 409,639,438	P 1,023,841,922
Accumulated depreciation and amortization	-	(32,760,656)	(179,720,221)	(59,527,339)	(236,067,230)	(508,075,446)
Net carrying amount	P 84,327,556	P 77,497,199	P 119,541,383	P 60,828,130	P 173,572,208	P 515,766,476
January 1, 2014						
Cost	P 77,747,556	P 100,487,964	P 257,715,168	P 108,189,288	P 259,172,230	P 803,312,206
Accumulated depreciation and amortization	-	(29,654,000)	(146,850,837)	(48,865,508)	(101,104,229)	(326,474,574)
Net carrying amount	P 77,747,556	P 70,833,964	P 110,864,331	P 59,323,780	P 158,068,001	P 476,837,632

A reconciliation of the carrying amounts at the beginning and end of 2015 and 2014 is shown below.

	Land	Building	Furniture, Fixtures and Equipment	Transportation Equipment	Leasehold Improve- ments	Total
Balance at January 1, 2015, net of accumulated depreciation and amortization	P 84,327,556	P 77,497,199	P 119,541,383	P 60,828,130	P 173,572,208	P 515,766,476
Additions	-	492,456	78,517,090	22,797,614	76,248,211	1 78,055,371
Disposals	-	(1,118,916)	(3,499,043)	(1,619,003)	-	(6,236,962)
Reclassification	-	(195,000)	-	-	195,000	-
Depreciation and amortization charges for the year	-	(3,385,643)	(41,828,595)	(22,853,231)	(56,882,694)	(124,950,163)
Balance at December 31, 2015, net of accumulated depreciation and amortization	**P 84,327,556**	**P 73,290,096**	**P 152,730,835**	**P 59,153,510**	**P 193,132,725**	**P 562,634,722**
Balance at January 1, 2014, net of accumulated depreciation and amortization	P 77,747,556	P 70,833,964	P 110,864,331	P 59,323,780	P 158,068,001	P 476,837,632
Additions	6,580,000	9,759,600	44,072,714	23,807,897	65,152,889	149,373,100
Disposals	-	-	-	(268,663)	-	(268,663)
Depreciation and amortization charges for the year	-	(3,096,365)	(35,395,662)	(22,034,884)	(49,648,682)	(110,175,593)
Balance at December 31, 2014, net of accumulated depreciation and amortization	P 84,327,556	P 77,497,199	P 119,541,383	P 60,828,130	P 173,572,208	P 515,766,476

The BSP requires that investment in bank premises, furniture, fixtures and equipment do not exceed 50% of the Bank's unimpaired capital. As of December 31, 2015 and 2014, the Bank has satisfactorily complied with this requirement.

As of December 31, 2015 and 2014, the Bank's fully depreciated bank premises, furniture, fixtures and equipment still in use in operations amounted to P130.9 million and P183.6 million, respectively.

16. INVESTMENT PROPERTIES

Investment properties consist of various parcels of land and buildings and improvements acquired through foreclosure or dacion as payment of outstanding loans by the borrowers.

The gross carrying amounts and accumulated depreciation and allowance for impairment of investment properties at the beginning and end of 2015 and 2014 are shown below.

	Land	Buildings and Improvements	Total
December 31, 2015			
Cost	P 620,444,728	P 138,104,033	P 758,548,761
Accumulated depreciation	-	(54,033,282)	(54,033,282)
Allowance for impairment	(26,551,861)	(2,192,994)	(28,744,855)
Net carrying amount	P 593,892,867	P 81,877,757	P 675,770,624
December 31, 2014			
Cost	P 651,957,954	P 127,493,252	P 779,451,206
Accumulated depreciation	-	(44,970,629)	(44,970,629)
Allowance for impairment	(26,551,861)	(2,192,994)	(28,744,855)
Net carrying amount	P 625,406,093	P 80,329,629	P 705,735,722
January 1, 2014			
Cost	P 376,208,090	P 145,300,691	P 521,508,781
Accumulated depreciation	-	(47,103,372)	(47,103,372)
Allowance for impairment	(26,551,861)	(2,192,994)	(28,744,855)
Net carrying amount	P 349,656,229	P 96,004,325	P 445,660,554

A reconciliation of the carrying amounts of investment properties at the beginning and end of 2015 and 2014 is shown below.

	Land	Buildings and Improvements	Total
Balance at January 1, 2015, net of accumulated depreciation and impairment	P 625,406,093	P 80,329,629	P 705,735,722
Additions	7,737,410	18,825,563	26,562,973
Disposals	(38,930,343)	(5,052,602)	(43,982,945)
Reclassification	(320,293)	320,293	-
Depreciation for the year	-	(12,545,126)	(12,545,126)
Balance at December 31, 2015, net of accumulated depreciation and impairment	P 593,892,867	P 81,877,757	P 675,770,624

	Land	Buildings and Improvements	Total
Balance at January 1, 2014, net of accumulated depreciation and impairment	P 349,656,229	P 96,004,325	P 445,660,554
Additions	356,685,050	15,176,503	371,861,553
Disposals	(80,935,186)	(10,100,171)	(91,035,357)
Reclassification		(8,304,606)	(8,304,606)
Depreciation for the year	-	(12,446,422)	(12,446,422)
Balance at December 31, 2014, net of accumulated depreciation and impairment	P 625,406,093	P 80,329,629	P 705,735,722

Additions to investment properties include loss on foreclosure amounting to P2.5 million in 2015 and gain on foreclosure amounting to P87.7 million and P6.2 million for the years ended December 31, 2014 and 2013, respectively. These are presented as part of Gain on foreclosure – net under Miscellaneous Income in the statements of profit or loss (see Note 22.1).

In 2015, 2014 and 2013, gains on sale of investment properties amounted to P15.0 million, P27.8 million and P17.2 million, respectively, and are presented as part of Gain on sale of properties under Miscellaneous Income in the statements of profit or loss (see Note 22.1).

In 2013, impairment losses amounting to P10.0 million (presented as part of Impairment losses in the 2013 statement of profit and loss) was recognized by the Bank to write-down its certain parcels of land and buildings to recoverable amount. The recoverable amount of these assets as of December 31, 2013 was based on value-in-use computed using discounted cash flows method at an effective rate of 2.9%. No impairment losses were recognized by the Bank in its investment properties in 2015 and 2014.

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17. OTHER RESOURCES

This account consists of the following as of December 31:

	Notes	2015	2014
Other investments/deposits	17.2	**P 602,077,114**	P 15,000,000
Deferred tax assets - net	25	**343,049,563**	286,392,760
Branch licenses	17.1	**248,575,050**	248,680,000
Due from head office or branches		**95,550,242**	23,223,993
Sundry debits		**91,598,123**	84,878,908
Foreign currency notes and coins on hand		**63,871,020**	58,364,936
Computer software - net		**56,151,749**	50,989,684
Prepaid expenses		**53,540,346**	12,932,236
Goodwill	17.3	**49,878,393**	49,878,393
Security deposits		**28,018,409**	23,715,216
Deferred charges	17.4	**13,383,687**	13,383,687
Stationery and supplies		**12,837,539**	13,609,965
Miscellaneous	17.4	**65,302,793**	44,467,130
		1,723,834,028	925,516,908
Allowance for impairment		**(15,038,424)**	(13,393,424)
		P 1,708,795,604	P 912,123,484

The movement in the allowance for impairment for other resources is shown below.

	2015	2014
Balance at beginning of year	P 13,393,424	P 13,393,424
Impairment loss for the year	1,645,000	-
Balance at end of year	P 15,038,424	P 13,393,424

17.1 Branch Licenses

On February 27, 2014, the Bank received an approval from the BSP regarding its application for new licenses. This is in line with the Bank's branch expansion program for which it has allocated P200.0 million of its IPO proceeds to cover the cost of new licenses in the following areas plus processing fees which amounted to a total of P2.2 million: CAMANAVA, Vis-Min Area, Central Luzon and Southern Luzon.

In November 2011, the Monetary Board of BSP approved the request of the Bank to establish 15 branches in selected restricted cities in Metro Manila for a total consideration of P226.5 million which was paid by the Bank to the BSP in January 2012.

In December 2011, the Bank acquired four licenses from Prime Savings Bank, Inc. for a total consideration of P20.0 million.

In 2015, the Bank provided allowance for impairment to certain branch licenses amounting to P1.7 million (nil in 2014).

17.2 Other Investments/Deposits

In July 2015, the Bank's BOD approved the acquisition of all outstanding shares of Insular Savers Bank, Inc. (ISBI) with an agreed purchase price of P518.2 million. The Bank directly paid P101.2 million to the shareholders of ISBI, while the remaining P417.0 million was deposited with the escrow agent. As of December 31, 2015, a total of P105.1 million has been released from the escrow fund as payment to the ISBI shares. Moreover, in July 2015, the Bank entered into a Sale and Purchase Agreement with Bataan Savings and Loan Bank, Inc. (BLSB), whereby the Bank shall acquire all properties, assets and goodwill of BLSB and assume the payment of all its obligation. The agreed purchase price amounted to P68.8 million and has been fully paid by the Bank as of December 31, 2015. The acquisition of the shares of ISBI and the Sale and Purchase Agreements with BLSB are subject to the approval by the BSP. Pending such approval, the total payments made by the Bank totaling P587.0 million as of December 31, 2015 for these transactions are initially presented as part of Other investments/deposits under Other Resources.

In September 2014, the Bank's BOD approved the acquisition of all properties, assets and goodwill of Rural Bank of Kawit, Inc. (RBK) and assumption of all its obligation with an initial purchase price of P15.0 million. As of December 31, 2015, the approval of the BSP has not yet been obtained (see Note 26); hence, the purchase price is temporarily booked as part of Other investments/deposits under Other Resources.

17.3 Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the net assets of Kabalikat Rural Bank, Inc. (KRBI) at the date of merger in 2010, wherein net liabilities assumed amounted to P33.9 million, while total consideration amounted to P49.9 million.

17.4 Others

Deferred charges amounting to P13.4 million as of December 31, 2014 and 2013 pertain to prepaid final taxes from prior years that are fully provided with allowance since the Bank has assessed that these prepaid taxes are no longer recoverable.

Other properties held for sale (included under Miscellaneous) with a cost of P7.1 million and P7.6 million as of December 31, 2015 and 2014, respectively, are presented net of accumulated depreciation of P2.3 million and P2.7 million as of December 31, 2015 and 2014, respectively. Additions to other properties held for sale in 2015 and 2014, as a result of foreclosure, amounted to P0.5 million and P1.0 million, respectively (nil in 2013). In 2015 and 2014, certain properties were sold with book value of P0.5 million and P1.5 million, respectively (nil in 2013). Gain or loss on sale from the disposal is presented as part of Gain on sale of properties – net under Miscellaneous Income account in the statements of profit or loss (see Note 22.1).

18. DEPOSIT LIABILITIES

The maturity profile of the Bank's deposit liabilities follows:

	2015	2014
Within one year	P 54,225,906,880	P 45,948,551,504
Beyond one year	790,312,630	670,856,122
	P 55,016,219,510	P 46,619,407,626

The classification of the Bank's deposit liabilities as to currency follows:

	2015	2014
Philippine peso	P 48,557,474,402	P 42,401,789,144
Foreign currencies	6,458,745,108	4,217,618,482
	P 55,016,219,510	P 46,619,407,626

Annual interest rates on deposit liabilities range from 0.25% to 2.81% in 2015, 0.25% to 2.60% in 2014 and 0.25% to 2.50% in 2013.

As mentioned in Note 24, the Bank has deposit liabilities from DOSRI as of December 31, 2015 and 2014.

Under existing BSP regulations, non-FCDU deposit liabilities are subject to required reserves for deposits of 8.00%. The Bank is in compliance with these regulations.

On April 6, 2012, the BSP issued an amendment to the existing provisions as to the eligibility of cash and deposit accounts with BSP as forms of reserve requirements. As indicated in the recent amendment, cash and other cash items are no longer considered as eligible reserves. Available reserves as of December 31, 2015 and 2014 amount to P3,802.6 million and P3,414.4 million, respectively (see Note 9).

19. BILLS PAYABLE

This account consists of the following (including the related accrued interest):

	2015	2014
Repurchase agreement	P -	P 300,384,028
Other banks	956,250	9,137,824
	P 956,250	P 309,521,852

The maturity profile of bills payable follows:

	2015	2014
Within one year	P 956,250	P 304,740,602
Beyond one year	-	4,781,250
	P 956,250	P 309,521,852

Bills payable are denominated in Philippine pesos with annual interest rates ranging from 4.0% to 5.35%, 2.25% to 5.35% and 3.50% to 5.35% in 2015, 2014 and 2013, respectively. The total interest expense incurred amounted to P3.3 million, P2.2 million and P8.6 million in 2015, 2014 and 2013, respectively, and these are presented as Interest Expense on Bills Payable in the statements of profit or loss. Bills payable are collateralized by certain loans from customers and HTM securities (see Notes 13 and 14).

20. ACCRUED EXPENSES AND OTHER LIABILITIES

The breakdown of this account follows:

	Notes	2015	2014
Bills purchased		P 1,248,610,581	P 1,692,670,131
Accounts payable		334,167,460	289,042,507
Accrued expenses	31.1(a)	142,337,555	115,201,233
Manager's checks		113,701,850	137,371,321
Income tax payable		66,868,068	92,902,903
Outstanding acceptances		41,982,694	468,961,122
Withholding taxes payable		32,617,776	31,136,457
Post-employment benefit obligation	23.2	23,388,433	39,810,239
Derivative liabilities	7.2	1,886,043	228,814
Others		89,872,899	35,894,518
		P 2,095,433,359	P 2,903,219,245

Bills purchased pertain to availments of the bills purchase line which are settled on the third day from the transaction date.

Outstanding acceptances pertain to the liabilities recognized by the Bank in its undertaking arising from letters of credit extended to its borrowers.

Accounts payable include amounts which the Bank owes to its suppliers and advance payments received from its customers.

Accrued expenses include accruals on employee benefits, utilities, janitorial and security services fees and others.

21. EQUITY

21.1 Capital Stock

Capital stock as of December 31 consists of:

	Number of Shares		Amount	
	2015	2014	**2015**	2014
Preferred shares – P10 par value				
Authorized – 130,000,000 shares				
Issued, fully paid and outstanding	**62,000,000**	62,000,000	**P 620,000,000**	P 620,000,000
Common shares – P10 par value				
Authorized – 870,000,000 shares in 2013				
Issued, fully paid and outstanding				
Balance at beginning of year	**429,166,750**	343,333,400	**P 4,291,667,500**	P 3,433,334,000
Stock dividends	**107,291,687**	85,833,350	**1,072,916,870**	858,333,500
	536,458,437	429,166,750	**P 5,364,584,370**	P4,291,667,500

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 8.0% 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).

As of December 31, 2015, the Bank has 64 holders of its equity securities listed in the PSE and its share price closed at P16.98. The Bank has 536,458,438 million common shares traded in the PSE as of December 31, 2015.

21.2 Dividends

On August 19, 2015, the BOD approved the declaration stock dividends totaling 107.3 million common shares amounting to P1.1 billion for all issued and outstanding common shares to stockholders on record for the year ended December 31, 2014. 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 29, 2015 and August 4, 2015, respectively.

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.

21.3 Appropriated Surplus

In 2015, 2014 and 2013, additional appropriations of surplus amounting to P1.4 million, P1.6 million and P0.9 million, respectively, pertain to the portion of the Bank's income from trust operations set-up in compliance with BSP regulations (see Note 28).

On August 16, 2003, the BOD approved the establishment of a sinking fund for the exclusive purpose of the redemption of redeemable preferred shares should the Bank opt to redeem the shares. As of December 31, 2015 and 2014, the sinking fund for the redemption of redeemable preferred shares is yet to be established (see Note 26).

21.4 Paid-in Capital from IPO

As mentioned in Note 21.1, the Bank's common shares were listed at the PSE in February 2013. Total proceeds received from the IPO amounted to P3,011.7 million, P1,998.4 million of which is treated as part of Additional Paid-in Capital being the amount paid in excess of the common stocks' par value. The total share issuance costs deducted from APIC amounted to P180.2 million. Offer expenses from the IPO amounting to P4.9 million were presented as part of Other Operating Expenses in the 2013 statement of profit or loss.

21.5 Revaluation Reserves

Revaluation reserves pertain only to the accumulated actuarial losses of post-employment defined benefit plan (see Note 23.2) and unrealized fair value losses on AFS securities (see Note 12).

22. MISCELLANEOUS INCOME AND EXPENSES

22.1 Miscellaneous Income

This account is composed of the following:

	Notes	**2015**	2014	2013
Gain on sale of properties – net	16, 17	**P 15,028,632**	P 27,801,013	P 17,233,626
Trust fees	28	**13,874,866**	16,476,979	8,907,035
Gain (loss) on foreclosure - net	16	**(2,480,845)**	87,676,870	6,239,465
Others		**47,008,310**	12,198,935	5,848,253
		P 73,430,963	P 144,153,797	P 38,228,379

Others include, among others, commitment, processing and handling fees in relation to services rendered by the Bank

NOTES TO FINANCIAL STATEMENTS

22.2 Miscellaneous Expense

This account is composed of the following:

		2015		2014		2013
Transportation and travel	P	**90,613,557**	P	83,152,129	P	74,778,937
Litigation on asset acquired		**35,032,847**		24,195,212		9,323,605
Communication		**28,225,214**		24,038,942		16,025,157
Banking fees		**26,472,435**		18,625,488		13,852,700
Amortization of software licences		**18,184,042**		13,847,731		11,391,881
Office supplies		**13,647,334**		14,021,252		16,315,156
Advertising and publicity		**9,824,351**		9,727,883		6,858,379
Information technology		**9,373,418**		2,052,533		2,563,313
Membership dues		**2,273,029**		1,719,026		1,249,200
Donations and contributions		**161,806**		6,307,236		2,280,172
Others		**32,708,469**		27,125,600		18,147,919
	P	**266,516,502**	P	224,813,03	P	172,786,419

Others include, among others, brokerage fees, commissions, appraisal and processing fees incurred by the Bank.

23. EMPLOYEE BENEFITS

23.1 Salaries and Employee Benefits Expense

Expenses recognized for salaries and other employee benefits are broken down below.

	Note		2015		2014		2013
Salaries and wages		P	**324,688,012**	P	278,087,924	P	227,880,927
Bonuses			**98,262,420**		96,991,056		71,319,899
Post-employment defined benefit plan	23.2		**23,344,826**		22,450,730		14,583,891
Social security costs			**18,922,253**		17,816,211		12,969,290
Short-term medical benefits			**223,416**		60,670		142,363
Other short-term benefits			**78,005,801**		64,145,746		65,443,287
		P	**543,446,728**	P	479,552,337	P	392,749,657

23.2 Post-employment Benefit

(a) Characteristics of the Defined Benefit Plan

The Bank maintains a funded, tax-qualified, noncontributory post-employment benefit plan that is being administered by the Bank's trust department that is legally separated from the Bank. The Bank's Retirement Plan Committee, in coordination with the Bank's trust department, who acts in the best interest of the plan assets and is responsible for setting the investment policies. The post-employment plan covers all regular full-time employees.

The normal retirement age is 60. Normal retirement benefit is an amount equivalent to 100% of the final monthly covered compensation (average monthly basic salary during the last 12 months of credited service) for every year of credited service.

(b) Explanation of Amounts Presented in the Financial Statements

Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. All amounts presented below are based on the actuarial valuation report obtained from an independent actuary in 2015 and 2014.

The amounts of post-employment defined benefit obligation (see Note 20) recognized in the statements of financial position are determined as follows:

		2015		2014
Present value of the DBO	P	**172,423,348**	P	144,748,892
Fair value of plan assets	(	**149,034,915)**	(	104,938,653)
	P	**23,388,433**	P	39,810,239

The movements in the present value of the post-employment defined benefit obligation are as follows:

		2015		2014
Balance at beginning of year	P	**144,748,892**	P	118,207,371
Current service cost		**23,344,826**		22,450,730
Interest expense		**6,499,225**		5,910,369
Remeasurements:				
Actuarial losses (gains) arising from:				
Changes in financial assumptions		**5,201,633**		4,814,608
Experience adjustments	(	**1,639,231)**	(	4,547,415)
Benefits paid	(	**5,731,997)**	(	2,086,771)
Balance at end of year	P	**172,423,348**	P	144,748,892

The movements in the fair value of plan assets are presented below.

		2015		2014
Balance at beginning of year	P	**104,938,653**	P	73,619,374
Contributions to the plan		**37,133,819**		30,924,849
Return (loss) on plan assets (excluding amounts included in net interest)		**7,277,724**	(	1,920,720)
Interest income		**5,416,716**		4,401,921
Benefits paid	(	**5,731,997)**	(	2,086,771)
Balance at end of year	P	**149,034,915**	P	104,938,653

The composition of the fair value of plan assets at the end of the reporting period by category and risk characteristics is shown below.

	2015	2014
Cash and cash equivalents	P 120,241,369	P 51,536,801
Government bonds	26,751,767	52,051,242
Accrued interests	2,041,779	1,557,081
	149,034,915	105,145,124
Accountabilities	-	(206,471)
	P 149,034,915	P 104,938,653

The fair values of the above government bonds are determined based on quoted market prices in active markets.

The plan assets earned actual return of P12.7 million and P2.5 million in 2015 and 2014, respectively.

Plan assets do not comprise any of the Bank's own financial instruments or any of its assets occupied and/or used in its operations.

The components of amounts recognized in profit or loss and in other comprehensive income in respect of the defined benefit post-employment plan are as follows:

	2015	2014	2013
Reported in profit or loss:			
Current service cost	P 23,344,826	P 22,450,730	P 14,583,891
Net interest expense	1,082,509	1,508,448	1,738,852
	P 24,427,335	P 23,959,178	P 16,322,743
Reported in other comprehensive income:			
Actuarial gains (losses) arising from changes in:			
Financial assumptions	(P 5,201,633)	(P 4,814,608)	P 1,810,936
Experience adjustments	1,639,231	4,547,415	(13,611,233)
Return (loss) on plan assets (excluding amounts included in net interest expense)	7,277,724	(1,920,720)	(1,178,297)
	P 3,715,322	(P 2,187,913)	(P 12,978,354)

Current service cost is presented as part Salaries and Other Employee Benefits under the caption Other Expenses while net interest expense is presented as Interest Expense – Others in the statements of profit or loss.

Amounts recognized in other comprehensive income were included within items that will not be reclassified subsequently to profit or loss.

In determining the amounts of the defined benefit post-employment obligation, the following significant actuarial assumptions were used:

	2015	2014	2013
Discount rates	**4.9%**	4.5%	5.0%
Expected rate of salary increases	**6.0%**	5.0%	5.0%
Employee turnover	**0.0% - 7.5%**	0.0% - 7.5%	-

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 60 is 28years for both males and females. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero coupon bond government bonds with terms to maturity approximating to the terms of the post-employment obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) Risks Associated with the Retirement Plan

The plan exposes the Bank to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

*(i) Investment and Interest Risk*s

The present value of the DBO is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan. Currently, the plan has relatively balanced investment in cash and cash equivalents and debt securities. Due to the long-term nature of the plan obligation, a level of continuing debt investments is an appropriate element of the Bank's long-term strategy to manage the plan efficiently.

(ii) Longevity and Salary Risks

The present value of the DBO is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment, and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

(d) Other Information

The information on the sensitivity analysis for certain significant actuarial assumptions, the Bank's asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described in the succeeding page.

NOTES TO FINANCIAL STATEMENTS

(i) Sensitivity Analysis

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit obligation as of December 31, 2015 and 2014:

	Impact on Post-employment Benefit Obligation				
	Change in Assumption		Increase in Assumption		Decrease in Assumption
December 31, 2015					
Discount rate	**+7.0%/-6.3%**	**P**	**12,132,902**	**P**	**10,778,044**
Salary rate	**+6.0%/-5.5%**		**10,371,902**		**9,442,839**
Turnover rate	**+16.3%**		**28,089,425**		**-**
December 31, 2014					
Discount rate	+7.1%/-6.3%	P	10,309,904	P	9,184,011
Salary rate	+6.1%/-5.6%		8,864,310		8,093,255
Turnover rate	+15.4%		22,246,021		-

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the DBO as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the DBO has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the DBO recognized in the statements of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous year.

(ii) Asset-liability Matching Strategies

To efficiently manage the retirement plan, the Bank through its Retirement Plan Committee, ensures that the investment positions are managed in accordance with its asset-liability matching strategy to achieve that long-term investments are in line with the obligations under the retirement scheme. This strategy aims to match the plan assets to the retirement obligations by investing in long-term fixed interest securities (i.e., government bonds) with maturities that match the benefit payments as they fall due and in the appropriate currency. The Bank actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the retirement obligations.

In view of this, investments are made in reasonably diversified portfolio, such that the failure of any single investment would not have a material impact on the overall level of assets.

A large portion of the plan assets as of December 31, 2015 and 2014 consists of debt securities, although the Bank also invests in cash and cash equivalents. The Bank believes that debt securities offer the best returns over the long term with an acceptable level of risk.

There has been no change in the Bank's strategies to manage its risks from previous periods.

(iii) Funding Arrangements and Expected Contributions

The plan is currently underfunded by P23.4 million based on the latest actuarial valuation. While there are no minimum funding requirement in the country, the size of the underfunding may pose a cash flow risk in about 28 years' time when a significant number of employees is expected to retire.

The maturity profile of undiscounted expected benefit payments from the plan for the next ten years follows:

		2015	2014
Within one year	**P**	**20,948,575**	P16,285,200
More than one year to five years		**36,919,502**	41,518,462
More than five years to ten years		**60,175,169**	45,758,486
	P	**118,043,246**	P 103,562,148

The weighted average duration of the defined benefit obligation at the end of the reporting period is 8.8 years.

24. RELATED PARTY TRANSACTIONS

The Bank's related parties include entities under common ownership, key management and others as described below.

The following are the Bank's transactions with related parties:

	2015	2014
Total outstanding DOSRI loans	P 1,257,883,137	P 1,227,156,442
Unsecured DOSRI loans	11,312,547	8,354,223
Past due DOSRI loans	3,819,459	3,157,034
% to total loan portfolio	3.0%	3.1%
% of unsecured DOSRI loans to total DOSRI loans	0.9%	0.7%
% of past due DOSRI loans to total DOSRI loans	0.3%	0.3%

The details of total outstanding DOSRI Loans for the year ended December 31, 2015 and 2014 are shown below.

	2015	2014
Commercial loans	P 1,223,815,659	P 1,192,734,491
Key management personnel	34,067,478	34,421,951
	P 1,257,883,137	P 1,227,156,442

As of December 31, 2015 and 2014, the Bank has an approved line of credit to certain related parties totaling P23.0 million and P23.5 million and all was used to guarantee the obligation of the respective related parties to other creditors up to the extent of the unused line of credit.

NOTES TO FINANCIAL STATEMENTS

24.1 DOSRI Deposits

The total balance of DOSRI deposits are inclusive of the corresponding related accrued interest included in the financial statements as of December 31, 2015 and 2014.

Deposit liabilities transactions with related parties have similar terms with other counterparties (see Note 18).

24.2 DOSRI Loans

The Bank has loan transactions with its officers and employees. Under existing policies of the Bank, these loans are made substantially on the same terms as loans to other individuals and businesses of comparable risks.

The General Banking Act of the BSP provides that in aggregate, loans to DOSRI generally should not exceed the Bank's total equity or 15% of the Bank's total loan portfolio, whichever is lower. In addition, the amount of individual loans to DOSRI, of which 70% must be secured, should not exceed the amount of their deposits and the book value of their investments in the Bank. In aggregate, loans to DOSRI generally should not exceed the total equity or 15% of the total loan portfolio of the Bank, whichever is lower. As of December 31, 2015 and 2014, the Bank has satisfactorily complied with the BSP requirement on DOSRI limits.

Relative to the DOSRI loans, the following additional information is also presented:

	2015	2014
Total outstanding DOSRI loans	**P 1,257,883,137**	P 1,227,156,442
Unsecured DOSRI loans	**11,312,547**	8,354,223
Past due DOSRI loans	**3,819,459**	3,157,034
% to total loan portfolio	**3.0%**	3.1%
% of unsecured DOSRI loans to total DOSRI loans	**0.9%**	0.7%
% of past due DOSRI loans to total DOSRI loans	**0.3%**	0.3%

The details of total outstanding DOSRI Loans for the year ended December 31, 2015 and 2014 are shown below.

	2015	2014
Commercial loans	P 1,223,815,659	P 1,192,734,491
Key management personnel	34,067,478	34,421,951
	P 1,257,883,137	P 1,227,156,442

24.3 Transactions with Retirement Fund

The Bank's retirement fund has no transactions direct and indirect with the Bank or its employees as of December 31, 2015 and 2014, except for the contributions and benefits paid out of the plan to the Bank's employees as disclosed in Note 23. The retirement plan asset also comprise of short-term placements to the Bank amounting to P2.0 million and P5.7 million as of December 31, 2015 and 2014, respectively.

The retirement fund neither provides any guarantee or surety for any obligation of the Bank nor its investments by any restrictions or liens.

24.4 Key Management Personnel Compensation

Salaries and short-term benefits received by key management personnel are summarized below.

	2015	2014	2013
Salaries and wages	**P 58,902,581**	P 55,286,737	P 56,277,678
Bonuses	**14,890,912**	13,771,434	14,044,419
Post-employment defined benefit	**7,004,439**	8,701,539	4,666,559
Other short-term benefits	**1,052,380**	683,000	1,256,000
Social security costs	**1,178,696**	1,168,208	1,339,335
	P 83,029,008	P 79,610,918	P 77,583,991

25. TAXES

The components of tax expense (income) for the years ended December 31 follow:

	2015	2014	2013
Reported in profit or loss			
Current tax expense:			
Regular corporate income tax (RCIT) at 30%			
Regular Banking Unit (RBU)	**P 165,170,994**	P 176,802,660	P 68,890,924
FCDU	**2,323,577**	410,982	660,432
Final tax on income at 20%, 10% and 7.5%	**93,574,103**	100,999,011	101,023,942
	261,068,674	278,212,653	170,575,298
Deferred tax income relating to origination and reversal of temporary differences	**(57,771,400)**	(35,773,420)	(46,848,274)
	P 203,297,274	P 242,439,233	P 123,727,024
Reported in other comprehensive income			
Deferred tax expense (income) relating to origination and reversal of temporary differences	**P 1,114,597**	(P 656,374)	(P 3,893,506)

NOTES TO FINANCIAL STATEMENTS

A reconciliation of tax on pretax profit computed at the applicable statutory rates to tax expense reported in the statements of profit or loss follows:

	2015	2014	2013
Tax on pretax profit at 30%	P **211,631,783**	P 233,593,301	P 338,332,091
Adjustment for income subjected to lower tax rates	**(93,128,766)**	(78,188,870)	(31,492,317)
Tax effects of:			
Non-deductible expenses	**89,587,230**	90,655,288	116,503,975
Non-taxable income	**(4,792,973)**	(3,620,486)	(299,616,725)
Tax expense	**P 203,297,274**	P 242,439,233	P 123,727,024

The Bank is subject to minimum corporate income tax (MCIT) computed at 2% of gross income, as defined under the tax regulations or RCIT, whichever is higher. In 2013, the Bank utilized its entire outstanding MCIT incurred in 2010 to 2012 totaling P32.9 million

The net deferred tax assets as of December 31, 2015 and 2014 (included as part of Other Resources account – see Note 17) relate to the following:

	Statements of Financial Position		Profit or Loss		Other Comprehensive Income	
	2015	2014	2015	2014	2015	2014
Deferred tax assets:						
Allowance for impairment	P 324,923,516	P 273,308,409	**(P 51,615,107)**	(P 52,940,136)	P -	P -
Accumulated depreciation of investment properties and other properties held for sale	17,842,060	15,292,014	**(2,550,046)**	(211,840)	-	
Post-employment benefit obligation	7,016,530	11,943,072	**3,811,945**	2,089,701	1,114,597	(656,374)
Unamortized past service cost	9,990,473	7,342,146	**(2,648,327)**	(1,467,535)	-	-
Accrued bonus and leave conversion	9,697,390	10,933,991	**1,236,601**	(721,539)	-	-
Deferred tax liabilities:						
Loss (gain) on initial exchange of investment properties	(26,420,406)	(32,426,872)	(6,006,466)	(17,477,929)	-	-
Net Deferred Tax Assets	P 343,049,563	P 286,392,760				
Deferred Tax Expense (Income)			(P57,771,400)	(P 35,773,420)	P 1,114,597	(P 656,374)

As of December 31, 2015 and 2014, the Bank has unrecognized deferred tax assets amounting to P10.5 million which pertain to certain allowance for impairment absorbed from KRBI upon merger amounting to P0.7 million.

For the years ended December 31, 2015 and 2014, the Bank opted to claim itemized deductions.

26. EVENTS AFTER THE END OF REPORTING PERIOD

26.1 Redemption of Preferred Shares

On February 17, 2016, the Bank's BOD approved the redemption of all of its preferred shares totaling P620.0 million (62,000,000 shares with P10 par value) through staggered redemption. The staggered redemption is expected to be completed by the end of December 2016, subject to the approval by the BSP.

26.2 Others

On February 1, 2016, the Bank received the final BSP approval in relation to the acquisition of assets and assumption of liabilities of RBK. The Bank recorded the assets and assume the liabilities of RBK as of January 30, 2016 (see Note 17.2).

27. COMMITMENTS AND CONTINGENT LIABILITIES

The following are the significant commitments and contingencies involving the Bank:

(a) The Bank leases the premises occupied by its branch offices for periods ranging from 5 to 20 years, renewable upon mutual agreement between the Bank and the lessors. Rent expense amounted to P115.1 million, P95.5 million and P78.8 million in 2015, 2014 and 2013, respectively, and are included as part of Occupancy under Other Expenses in the statements of profit or loss.

As of December 31, 2015, 2014 and 2013, future minimum rental payments required by the lease contracts are as follows:

	2015	2014	2013
Within one year	P **107,784,137**	P 83,544,132	P 69,432,324
After one year but not more than five years	**244,536,398**	219,653,731	179,362,736
More than five years	**10,418,892**	22,230,832	21,402,649
	P 362,739,427	P 325,428,695	P 270,197,709

(b) In the normal course of the Bank's operations, the Bank has various outstanding commitments and contingent liabilities such as guarantees, commitments to extend credit, etc., which are not reflected in the financial statements.

(c) The Bank recognizes in its books any losses and liabilities incurred in the course of its operations as soon as these become determinable and quantifiable.

NOTES TO FINANCIAL STATEMENTS

The following is a summary of the Bank's commitments and contingent accounts as of December 31:

	2015	2014
Investment management accounts	**P 4,059,027,956**	P 3,428,334,610
Outstanding letters of credit	**1,193,799,732**	512,119,342
Trust and other fiduciary accounts	**506,103,798**	281,508,984
Unit investment trust fund	**31,812,677**	103,019,962
Late payment/deposits received	**9,736,574**	13,121,910
Outward bills for collection	**8,423,324**	43,102,544
Items held for safekeeping	**68,979**	42,584
Items held as collateral	**9,416**	7,925
Other contingent accounts	**529,127,518**	123,879,021
	P 6,338,109,974	P 4,505,136,882

As of December 31, 2015 and 2014, the Bank's management believes that losses, if any, from the above commitments and contingencies will not have a material effect on the Bank's financial statements.

28. TRUST OPERATIONS

The following securities and other properties held by the Bank in fiduciary or agency capacity (for a fee) for its customers are not included in the statements of financial position since these are not resources of the Bank:

	2015	2014
Loans and other receivables	**P 2,390,413,668**	P 2,235,096,360
Due from banks	**982,964,468**	404,797,825
Investment securities	**981,566,295**	1,067,235,611
Due from BSP	**242,000,000**	97,000,000
	P 4,596,944,431	P 3,804,130,796

In compliance with the requirements of the General Banking Act relative to the Bank's trust functions:

(a) Government bonds owned by the Bank with face value of P70.75 million and P78.75 million as of December 31, 2015 and 2014, respectively, are deposited with the BSP (see Note 12); and,

(b) 10% of the trust income is transferred to appropriated surplus. This transfer is required until the surplus reserve for trust function is equivalent to 20% of the Bank's authorized capital stock. Additional reserve for trust functions amounted to P1.4 million, P1.6 million and P0.9 million in 2015, 2014 and 2013, respectively and are presented as Appropriated Surplus in the Bank's statements of changes in equity.

Income from trust operations, shown as part of Miscellaneous Income, amounted to P13.9 million, P16.5 million and P8.9 million for the years ended December 31, 2015, 2014 and 2013, respectively, in the statements of profit or loss (see Note 22.1).

29. SELECTED FINANCIAL PERFORMANCE INDICATORS

a. The following are some of the financial performance indicators of the Bank:

	2015	2014	2013
Return on average capital			
Net profit / Average total capital accounts	**6.1%**	7.1%	17.6%
Return on average resources			
Net profit / Average total resources	**0.8%**	1.0%	2.5%
Net interest margin			
Net interest income / Average interest earning resources	**4.1%**	4.5%	4.6%
Capital to risk assets ratio			
Total capital / Risk resources	**19.1%**	20.8%	26.0%
Liquidity ratio			
Current assets / Current liabilities	**1.0**	1.3	1.2
Debt-to-equity ratio			
Liabilities / Equity	**6.7**	6.2	5.7
Asset-to-equity ratio			
Asset / Equity	**7.7**	7.2	6.7
Interest rate coverage ratio			
Earnings before interests and taxes / Interest expense	**1.9**	2.3	3.3

b. Secured Liabilities and Resources Pledged as Security

As of December 31, 2015 and 2014, bills payable are the only secured liabilities (see Note 19).

NOTES TO FINANCIAL STATEMENTS

30. EARNINGS PER SHARE

Basic and diluted earnings per share are computed as follows:

	2015	2014 (As Restated)	2013 (AsRestated)
Net profit	P 502,124,004	P 536,205,104	P 1,004,046,612
Dividends on preferred shares	-	(62,325,000)	-
Net profit attributable to common shareholders	502,142,004	473,880,104	1,004,046,612
Divided by the weighted average number of outstanding common shares	536,458,438	536,458,438	536,458,438
Basic earnings per share	P 0.94	P 0.88	P 1.87

The 2014 and 2013 earnings per share of the Bank were restated to account for the stock dividends declared in 2015 which is considered as a bonus issue under PAS 33, *Earnings per Share*, which requires stock dividends issued to be recognized as if it occurred at the beginning of 2013, the earliest period presented for earnings per share computation.

As of December 31, 2015, 2014 and 2013, the Bank has no outstanding potentially dilutive securities; hence, basic earnings per share are equal to diluted earnings per share.

31. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

Presented below is the supplementary information which is required by the BIR under its existing revenue regulations (RR) to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

31.1 Requirements Under RR No. 15-2010

The information on taxes, duties and license fees paid or accrued during the taxable year under RR No. 15-2010 follows:

(a) Gross Receipts Tax

In lieu of the value-added tax, the Bank is subject to the Gross Receipts Tax (GRT), pursuant to Sections 121 and 122 of the Tax Code which is imposed on banks, non-banks financial intermediaries and finance companies.

In 2015, the Bank reported total GRT amounting to P158,199,699 shown under Taxes and Licenses account [see Note 31.1(c)]. GRT paid during the year amounted to P140,485,487, exclusive of December 2014 GRT paid during 2015. The total GRT payable as of December 31, 2015 amounted to P17,714,212, included as part of Accrued expenses under Accrued Expenses and Other Liabilities account in the 2015 statement of financial position (see Note 20).

GRT is levied on the Bank's lending income, which includes interest, commission and discounts arising from instruments with maturity of five years or less and other income. The tax is computed at the prescribed rates of either 7%, 5% or 1% of the related income.

(b) Documentary Stamp Tax (DST)

The Bank is enrolled under the Electronic Documentary Stamp Tax (e-DST) System starting July 2010. In 2015, DST remittance thru e-DST amounted to P304,769,369, while DST on deposits for remittance amounts to P95,019,629. In general, the Bank's DST transactions arise from the execution of debt instruments, lease contracts and deposit liabilities.

DST on loan documents and letters of credit in 2015 amounting to P209,749,740 were charged to borrowers and these were properly remitted by the Bank.

(c) Taxes and Licenses

The details of Taxes and Licenses account for the year ended December 31, 2015 follow:

	Note		
Gross receipts tax	31.1(a)	P	158,199,699
DST	31.1(b)		145,170,305
Deficiency tax	31.1(e)		6,844,297
Business tax			15,672,430
Real property tax			991,731
Miscellaneous			1,439,095
		P	328,317,557

Taxes and licenses allocated to tax exempt income and FCDU totaling P26,812,196 were excluded from the itemized deductions for purposes of income tax computation (see Note 25).

(d) Withholding Taxes

The details of total withholding taxes for the year ended December 31, 2015 are shown below.

Final	P	133,161,629
Compensation and benefits		62,214,006
Expanded		21,770,843
	P	217,146,478

NOTES TO FINANCIAL STATEMENTS

(e) Deficiency Tax Assessments and Tax Cases

In 2015, the Bank paid final deficiency taxes on DST, withholding taxes and gross receipts tax for taxable year 2012 totalling P490,307.

(f) Other Required Tax Information

The Bank did not have any transactions in 2015, which is subject to excise tax, customs duties and tariff fees.

31.2 Requirements Under RR No. 19-2011

RR No. 19-2011 requires schedules of taxable revenues and other non-operating income, costs of sales and services, itemized deductions and other significant tax information, to be disclosed in the notes to financial statements.

The Bank's RBU is taxed separately from the FCDU. The amounts of taxable revenues and income, and deductible costs and expenses of RBU of the Bank are presented below. The amounts of taxable revenues and income, and deductible costs and expenses of the FCDU are presented in the notes to the separate financial statements of the FCDU for which corresponding income tax return is separately filed with the BIR.

The amounts of taxable revenues and income, and deductible costs and expenses presented below are based on relevant tax regulations issued by the BIR; hence, may not be the same as the amounts reflected in the 2015 statement of profit or loss, which are based on PFRS.

(a) Taxable Revenues

The Bank's taxable revenues for the year ended December 31, 2015 at the regular tax rate pertain to interest income amounting to P2,512,948,346.

(b) Deductible Costs of Services

Deductible costs of services for the year ended December 31, 2015 at the regular tax rate comprise the following:

Salaries and wages	P	511,687,283
Interest expense		508,452,322
Insurance		91,661,419
Supervision/examination fees		22,523,181
	P	1,134,324,205

(c) Taxable Non-operating and Other Income

The details of taxable non-operating and other income in 2015 which are subject to regular tax rate are shown below.

Bank commissions and service charges	P	129,825,262
Gain on sale of properties		32,569,337
Others		46,271,013
	P	208,665,612

(d) Itemized Deductions

The amounts of itemized deductions for the year ended December 31, 2015 subject to regular tax rate follow:

Taxes and licenses	P	301,149,825
Depreciation		124,950,163
Rental		113,509,367
Janitorial and messengerial		93,774,973
Management and other professional fees		81,459,335
Communication, light and water		54,844,422
Transportation and travel		52,599,568
Fuel and oil		38,013,989
Litigation		32,168,773
Representation		27,168,006
Insurance		26,194,302
Amortization of computer software		16,697,424
Office supplies		12,531,610
Repairs and maintenance		9,167,887
Advertising and promotion		9,021,172
Information technology		8,607,104
Realized trading losses		4,813,345
Charitable contribution		148,577
Others		29,899,932
	P	1,036,719,774

OUR CORPORATE GOVERNANCE

The Board of Directors, Management and Staff, and Shareholders of Philippine Business Bank, Inc. (PBB) believe that corporate governance is an indispensable component of what constitutes sound strategic business management and will therefore undertake every effort necessary to create and sustain awareness within the organization. Hence, the Board of Directors, Management, and Staff of the Bank commit to the principles and best practices set forth in the Board approved Corporate Governance Manual, and acknowledge that the same shall guide the Bank in the attainment of its corporate goals.

A copy of the Manual was provided to the Bangko Sentral Ng Pilipinas (BSP) and the Securities and Exchange Commission (SEC).

As a banking institution publicly listed in the Philippines, PBB is regulated and supervised by the BSP and the SEC. The Bank's activities are subject to the provisions of the General Banking Law of 2000 (Republic Act No. 8791), Corporation Code of the Philippines, and other laws such as the Anti-Money Laundering Act of 2001 (Republic Act No. 9160), as amended.

Board Structure

PBB has been approved by the SEC to have ten (10) elected directors, two (2) of which are Independent Directors, per its Amended Articles of Incorporation dated February 27, 2013.

The position of a bank director is a position of trust and confidence. A director assumes certain responsibilities to different constituencies or stakeholders (e.g. the bank itself, its stockholders, its depositors and other creditors, its management and employees, and the public at large).

The Board of Directors has adopted the following corporate governance policies with regard to shareholders' rights and protection, disclosure duties and board responsibilities:

i)

The Board of Directors is committed to respect and uphold the rights and powers of all shareholders, regardless of the number of their shareholdings, such as: (a) voting right, (b) power to inspect corporate books and records, (c) right to information, (d) right to dividends, and (e) right to appraisal.

Specifically, under the voting right of a stockholder, a director may not be removed without just cause if it will deny minority shareholders representation in the Board. Likewise, under the right to information, a minority shareholder is granted the right to propose the holding of a meeting, and the right to propose items in the agenda; provided the items are for legitimate business purposes.

ii)

The Board of Directors provides periodic reports to the shareholders on personal and professional information about the directors and officers and on other matters, such as their dealings with, and shareholdings in, the Bank, relationship among directors and key officers and the aggregate compensation of directors and officers.

iii)

The Board of Directors has general responsibilities of: (1) approving and overseeing the implementation of the Bank's strategic objectives, risk strategy, corporate governance and corporate values; (2) monitoring and overseeing the performance of senior management as the latter manages the day-to-day affairs of the institution.

To aid the Bank in complying with the principles of good governance, the Board constitutes the following Committees:

1. **Corporate Governance / Nomination Committee**

   The Corporate Governance Committee is responsible for the development, implementation and review of the Bank's Corporate Governance Compliance Program, which shall include a set of effective corporate governance policies and procedures applicable to its business.

   It assists the Board of Directors in fulfilling its corporate governance responsibilities by reviewing and evaluating the qualifications of all persons nominated to the Board as well as those nominated to other positions requiring appointment by the Board of Directors.

   It also enhances the corporate governance standards of the Bank by identifying, addressing and working towards its ASEAN Corporate Governance scorecard (ACGS).

2. **Manpower, Compensation and Remuneration Committee**

   This Committee is responsible for the establishment of a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration packages of corporate officers and directors. They also provide oversight over remuneration of senior management and other key personnel ensuring that compensation is consistent with the bank's culture, strategy and control environment.

3. **Executive Committee**

   This Committee has been delegated by the Board of Directors with some of its powers and responsibilities as provided for in the by-laws, including but not limited to the supervision of other board committees and subject to the limitations and restrictions as may be imposed by the Board of Directors.

4. **Risk Oversight Committee**

   The Risk Oversight Committee is responsible for the development and oversight of the risk management program of the Bank and its trust unit. The Committee is composed of at least three (3) members of the BOD including at least one (1) independent director, and a chairperson who is non-executive member. The members of the Risk Oversight Committee shall possess a range of expertise as well as adequate knowledge of the institution's risk exposures to be able to develop appropriate strategies for preventing losses and minimizing the impact of losses when they occur. It oversees the system of limits to discretionary authority that the board delegates to management, ensure that the system remains effective, that the limits are observed and that immediate corrective actions are taken whenever limits are breached.

5. **Audit Committee**

   The audit committee provides oversight over the institution's financial reporting policies, practices and control and internal and external audit functions. It is responsible for the setting-up of the internal audit department and the appointment of the internal auditor as well as the independent external auditor who shall both report directly to the audit committee. It monitors and evaluates the adequacy and effectiveness of the internal control system of the Bank.

6. **Trust Committee**

   The Committee is a policy-making body responsible in overseeing the Trust and Investment Center of the Bank. It formulates and endorses policies for approval of the Board, including guidelines on administration, processes, and investments held in its capacity as trustee related to its fiduciary accounts.

Monitoring Compliance to Corporate Governance Principles and Standards

To ensure that there is consistent application of the principles of good corporate governance as detailed in the Manual of Corporate Governance approved by the Board of Directors, PBB adopted a self-evaluation methodology to evaluate and measure the performance of its Board of Directors as a body, its board committees, the individual directors and senior management. The self-evaluation is conducted every year, the result of which is submitted to the Compliance Office for consolidation and reporting to the Corporate Governance Committee, at least thirty (30) days prior to the yearly Stockholders' Meeting.

PBB has adopted a "COMPLIANCE MONITORING AND ASSESSMENT" policy to ensure full institutional compliance with the adopted leading practices on good corporate governance. This includes, among others, the regular reporting of the Board Committees to the Board of Directors; evaluation system established by the Compliance Office to measure compliance with the Manual of Corporate Governance and implement sanctions in case of breach; annual review of the Manual; inclusion of monitoring compliance with applicable laws, rules and regulations and corporate policies, procedures and standards of conduct to prevent possible deviations that might result in compliance concerns; and the regular compliance testing on all units performed by the Compliance Office and its Compliance Coordinators.

Related Party Transactions

The general policy of the Bank with regard to its dealings with its Directors, Officers, Stockholders and Related Interest (DOSRI) is that the transactions should be in the regular course of business and upon terms not less favorable to the Bank than those offered to others. The dealings of the Bank with RPTs are always conducted at arms-length and are covered as well by its RPT policies and procedures.

Off-market rates applies to DOSRI provided these are supported by valid justifications or reasons (such as high volatility in the market, meaning quoted rates might have changed greatly within the day) and senior management is made fully aware of such reasons/justifications and subject to the off-market rate tolerance level. Off-market rates are foreign currency rates, fixed income yields or prices, and money market rates that are higher than the highest prevailing market rates and lower than the lowest prevailing market rates.

Real estate and chattel transactions (such as but not limited to rentals or leases, purchases and sales of foreclosed assets) of the Bank with its DOSRI and employees require prior written approval of the majority members of the BOD, excluding the concerned director in cases where a director or his related interest is involved in the transaction, and submission of sworn statement to the BSP in compliance with Subsection X148.1 of the MORB.

Loans and other credit accommodations and guarantees to DOSRI also require prior written approval by the majority members of the BOD, excluding the director concerned. Board approval is manifested in a resolution passed by the BOD, a copy of which is submitted to the BSP within the prescribed period. Loans and other credit accommodations granted to DOSRI are likewise reported to the BSP every 15th banking day from end of reference quarter.

Directors and Personnel Compensation

The Manpower, Remuneration and Compensation Committee (MRCC) sets the compensation package of the Executive Directors and other officers of the Bank.

A Non-Executive Director (NED) receives per diem allowance of P20,000.00 for his attendance to each meeting of the Board and P5,000.00 allowance for attendance in a committee meeting. An NED is also entitled to a P5,000.00 monthly gasoline allowance. The Executive Board Members as well as the employees of the Bank, receive fixed salaries and performance bonus, if and wh¬en income warrants.

PBB HAS WITHSTOOD THE CHALLENGE OF TIMES FOR THE PAST EIGHTEEN YEARS. WE BELIEVE OUR PHILOSOPHY IN BALANCING GROWTH WITH STABILITY WILL CONTINUE TO GUIDE US IN NAVIGATING THE UNCERTAIN TERRAIN AHEAD.

- Alfredo M. Yao

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