COVER SHEET

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S.E.C. Registration Number

PHILIPPINE BUSINESS BANK, INC.

a savings bank

(Company's Full Name)

350 RIZAL AVENUE EXTENSION

CORNER 8TH AVENUE GRACE PARK

CALOOCAN CITY

(Business Address: No. Street City / Town / Province)

Rolando G. Alvendia

Contact Person

363-3333 local 4023

Company Telephone Number

Month Day

Fiscal Year

SEC FORM 17 - Q

FORM TYPE

Month Day

Annual Meeting

Secondary License Type, if Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

S T A M P S

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended **March 31, 2017**

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

4. Exact name of issuer as specified in its charter **Philippine Business Bank, Inc.**

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

6. (SEC Use Only)
   Industry Classification Code:

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

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

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

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

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common	**536,458,423**

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

    Yes [x] No [ ]

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

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

PHILIPPINE STOCK EXCHANGE **COMMON SHARES OF STOCK**

12. Indicate by check mark whether the registrant:

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

Yes [√] No [ ]

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

Yes [ ] No [√]

PART I – FINANCIAL INFORMATION

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

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

PART II – OTHER INFORMATION

Please refer to the following:

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

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

SIGNATURES

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

PHILIPPINE BUSINESS BANK, INC.
Issuer

By:

FRANCIS T. LEE
Chairman

ROLANDO R. AVANTE
President & CEO

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

The accompanying financial reporting package (FRP) of Philippine Business Bank ("PBB" or the "Bank") which comprise the Bank's financial position as of March 31, 2017 and December 31, 2016 and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the three-months period ending March 31, 2017 and March 31, 2016 have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

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

A. Management's Discussion and Analysis

	For the three-months ended			
	3/31/2017	3/31/2016	Variance	%
Interest Income				
Loans and other receivables	₱ 781,854,469	₱ 635,290,185	₱ 146,564,284	23.1
Investment and trading securities	47,282,613	125,168,284	(77,885,671)	(62.2)
Securities purchased under reverse repurchase agreement	19,777,596	133,333	19,644,263	14,733.2
Due from BSP and other banks	9,503,097	16,963,095	(7,459,998)	(44.0)
	858,417,775	777,554,897	80,862,878	10.4
Interest Expense	(175,689,275)	(188,106,593)	12,417,318	(6.6)
Net Interest Income	**682,728,500**	**589,448,304**	**93,280,196**	**15.8**

Interest income increased from ₱777.6 million on March 31, 2016 to ₱858.4 million as of March 31, 2017 as interest from loans and other receivables grew by 23.1% from ₱635.3 million to ₱781.9 million. The growth was due to the increase in loans generated amounting to ₱55.4 billion, higher than last year's ₱40.8 billion, up 35.8%.

Interest expense declined by 6.6% to ₱175.7 million for the first quarter of 2017 versus the same period in 2016 of ₱188.1 million. The decrease was due to the 20.6% drop in interest expense in savings deposit from ₱15.7 million in 2016 to ₱12.5 million in 2017 as interest rate for peso and FCDU savings deposit decreased from 0.25% to 0.125% effective October 17, 2016. Time deposit interest expense also declined by 5.3% from ₱172.4 million to ₱163.2 million YoY.

As a result, net interest income expanded to ₱682.7 million, up 15.8%.

	For the three-months ended			
	3/31/2017	3/31/2016	Variance	%
Core income				
Net interest income	₱ 682,728,500	₱ 589,448,304	₱ 93,280,196	15.8
Service charges, fees and commissions	24,439,451	23,854,417	585,034	2.5
Miscellaneous	22,232,285	18,837,980	3,394,305	18.0
	729,400,236	632,140,701	97,259,535	15.4
Non-interest expenses	(573,684,924)	(473,706,962)	(99,977,962)	21.1
Core income	**155,715,312**	**158,433,739**	**(2,718,427)**	**(1.7)**

Service charges, fees and commissions grew from ₱23.9 million to ₱24.4 million for the three-months ended 2016 and 2017. On the other hand, miscellaneous income also grew by 18.0% from ₱18.8 million to ₱22.2 million.

Non-interest expenses expanded by 21.1% largely due to the growth of the Bank's plantilla owing to its branch expansion program, bringing the total for the first quarter of 2017 to ₱573.7 million from ₱473.7 million in the same period last 2016.

	For the three-months ended			
	3/31/2017	3/31/2016	Variance	%
Core income	₱ 155,715,312	₱ 158,433,739	(₱ 2,718,427)	(1.7)
Trading gains (losses)	78,862,207	50,721,806	28,140,401	55.5
Pre-tax pre-provision profit	**234,577,519**	**209,155,545**	**25,421,974**	**12.2**
Loan loss provision	(50,000,000)	(5,000,000)	(45,000,000)	900.0
Profit before tax	184,577,519	204,155,545	(19,578,026)	(9.6)
Taxes	(24,873,106)	(42,122,914)	17,249,808	(41.0)
Net income	**159,704,413**	**162,032,631**	**(2,328,218)**	**(1.4)**

The Bank's trading gains as of March 31, 2017 amounted to ₱78.9 million, up by 55.5% compared to the same period last year of ₱50.7 million. Subsequently, pre-tax pre-provision profit increased by 12.2% from last year's ₱209.2 million to ₱234.6 million in 2017.

Loan provisions grew by ₱45.0 million from ₱5.0 million in 2016 to ₱50.0 million in 2017 as loans expanded to ₱55.4 billion in the first quarter of 2017.

As a result, net income for the first quarter of 2017 amounted to ₱159.7 million, down by 1.4% from ₱162.0 million for the same period last year.

Annualized Return on Equity (ROE) and Return on Assets (ROA) were at 6.6% and 0.9%, respectively.

B. Key Performance Indicators

Capital Adequacy Ratio. CAR, which is a measure of a bank's financial strength, remained at 17.0% by the end of the first quarter.

Asset Quality. The Bank's non-performing loans (NPL) ratio continues to improve from 3.4% in March 2016, 2.5% in December 2016, to 2.4% in March 2017.

Profitability. Return on equity (ROE) as of March 31, 2017 was at 6.6%, lower than year-end 2016's 7.4%. Net interest margin improved from 3.8% in December 31, 2016 to 4.0% in March 31, 2017, up 16 bps.

Liquidity. The Bank's loans-to-deposit ratio as of March 31, 2017 was at 93.1% from 87.3%, up 580 bps.

Cost efficiency. Cost-to-income ratio increased from 66.1% in March 2016 to 71.0% in March 2017.

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

<u>Vertical and Horizontal Analysis</u>

Financial Condition (March 31, 2017 vs. December 31, 2016)

- PBB's assets stood at ₱73.2 billion as of March 31, 2017, up by 4.2% versus year-end 2016 figure of ₱70.3 billion. Significant changes (more than 5%) in assets were registered in the following accounts:

    a. Due from Bangko Sentral ng Pilipinas grew by 26.7% as a result of the increase in overnight depository funds.

    b. Loans and other receivables expanded in the period of three months from ₱51.4 billion to ₱55.4 billion, up by ₱3.7 billion or 7.7% as a result of the additional ₱3.4 billion booking made on February and March.

    c. Investment properties also widened by 9.8% due to the additional foreclosed properties during the first quarter of 2017.

    d. Other resources totaled ₱1.9 billion higher than year-end 2016's figure of ₱1.8 billion, up by 5.8%.

- Total liabilities as of March 31, 2017 grew to ₱63.4 billion. This is 4.4% higher compared to ₱60.7 billion as of December 31, 2016.

    a. Low cost funds continue to grow as shown in the first quarter of 2017 from ₱24.2 billion as of year-end 2016 to ₱25.0 billion, higher by 3.0%. On the other hand, time deposit slightly declined by 0.5% to ₱34.5 billion.

    b. Accrued and other liabilities expanded to ₱3.9 billion, up 117.4% due to the booking of manager's check totaling to ₱2.1 billion.

- As of March 31, 2017, the Bank's equity totaled ₱9.9 billion versus ₱9.6 billion figure as of year-end 2016. Book value per share was at ₱17.2 from ₱16.7 in 2016.

Significant Elements of Income or Loss

Significant elements of the net income of the Bank for the period ended March 31, 2017 came from its operations. A significant portion came from the core business of interest income on loans and trading gains/losses from the sale of Peso securities.

Known trends, demands, commitments, events or uncertainties

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

Events that will trigger direct or contingent financial obligation

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

Material off-balance sheet transactions, arrangements or obligations

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

Significant Elements of Income or Loss

Significant elements of the consolidated net income for the nine months period ended March 31, 2017 and 2016 came from its continuing operations.

Seasonal Aspects

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

Attachment 1

PHILIPPINE BUSINESS BANK, INC.
As of March 31, 2017 (Unaudited) and December 31, 2016 (Audited)
And for the Three Months Ended March 31, 2017 and 2016 (Unaudited)

PHILIPPINE BUSINESS BANK, INC. A SAVINGS BANK
UNAUDITED STATEMENTS OF FINANCIAL POSITION
MARCH 31, 2017 AND DECEMBER 31, 2016
(Amounts in Philippine Pesos)

	Unaudited March 31, 2017	Audited December 31, 2016
RESOURCES		
CASH AND OTHER CASH ITEMS	P 915,633,979	P 1,098,616,524
DUE FROM BANGKO SENTRAL NG PILIPINAS	7,889,135,411	6,225,701,096
DUE FROM OTHER BANKS	1,435,253,166	1,633,340,396
TRADING AND INVESTMENT SECURITIES		
At Fair Value Through Profit or Loss	490,412,847	3,274,168,284
Available-For-Sale	4,186,192,521	3,811,726,524
LOANS AND OTHER RECEIVABLES - Net	55,398,468,564	51,437,111,465
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	523,321,858	535,995,638
INVESTMENT PROPERTIES - Net	492,167,899	448,389,581
OTHER RESOURCES - Net	1,904,898,482	1,800,547,430
TOTAL RESOURCES	P 73,235,484,727	P 70,265,596,938
LIABILITIES AND EQUITY		
DEPOSIT LIABILITIES		
Demand	P 1,062,217,257	P 1,113,474,091
Savings	23,902,665,584	23,117,049,313
Time	34,518,048,932	34,677,237,336
Total Deposit Liabilities	59,482,931,773	58,907,760,740
ACCRUED EXPENSES AND OTHER LIABILITIES	3,887,378,018	1,787,751,339
Total Liabilities	63,370,309,791	60,695,512,079
EQUITY	9,865,174,936	9,570,084,859
TOTAL LIABILITIES AND EQUITY	P 73,235,484,727	P 70,265,596,938

PHILIPPINE BUSINESS BANK, INC. A SAVINGS BANK
UNAUDITED STATEMENTS OF INCOME
FOR THREE MONTHS ENDED MARCH 31, 2017, AND MARCH 31, 2016
(Amounts in Philippine Pesos)

		2017		2016
INTEREST INCOME				
Loans and other receivables	P	781,854,469	P	635,290,185
Investment and trading securities		47,282,613		125,168,284
Securities purchased under reverse repurchase agreements		19,777,596		133,333
Due from Bangko Sentral ng Pilipinas and other banks		9,503,097		16,963,095
		858,417,775		777,554,897
INTEREST EXPENSE				
Deposit liabilities		175,689,275		188,093,807
Bills payable		-		12,786
		175,689,275		188,106,593
NET INTEREST INCOME		682,728,500		589,448,304
IMPAIRMENT LOSSES		50,000,000		5,000,000
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		632,728,500		584,448,304
OTHER INCOME				
Trading gains - net		78,862,207		50,721,806
Service charges, fees and commissions		24,439,451		23,854,417
Miscellaneous		22,232,285		18,837,980
		125,533,943		93,414,203
OTHER EXPENSES				
Salaries and other employee benefits		195,212,181		147,954,812
Taxes and licenses		98,065,497		83,780,959
Management and other professional fees		26,994,701		24,032,848
Depreciation and amortization		43,673,179		41,569,716
Insurance		34,501,330		29,783,994
Representation and entertainment		8,426,034		8,257,295
Miscellaneous		166,812,002		138,327,338
		573,684,924		473,706,962
PROFIT BEFORE TAX		184,577,519		204,155,545
TAX EXPENSE		24,873,106		42,122,914
NET PROFIT	P	159,704,413	P	162,032,631
Earnings Per Share				
Basic	P	0.30	P	0.26
Diluted	P	0.30	P	0.26

PHILIPPINE BUSINESS BANK, INC. A SAVINGS BANK
UNAUDITED STATEMENTS OF COMPREHENSIVE INCOME
FOR THREE MONTHS ENDED MARCH 31, 2016, AND MARCH 31, 2015
(Amounts in Philippine Pesos)

	2017	2015
NET PROFIT	P 159,704,413	P 162,032,631
OTHER COMPREHENSIVE INCOME		
Fair value gain on available-for-sale securities during the year - net	54,488,273	150,353,476
Fair value loss (gain) recycled to profit or loss	-	-
Realized fair valu (gains)losses of AFS securities disposed during the year - net	(973,452)	19,125,290
Amortization of fair value loss on reclassificed securities	-	(2,866,464)
	53,514,821	166,612,302
TOTAL COMPREHENSIVE INCOME	P 213,219,234	P 328,644,933

PHILIPPINE BUSINESS BANK, INC. A SAVINGS BANK
UNAUDITED STATEMENTS OF CHANGES IN EQUITY
FOR THREE MONTHS ENDED MARCH 31, 2017, AND MARCH 31, 2016
(Amounts in Philippine Pesos)

	Capital Stock		Additional Paid-in	Surplus		Unrealized Fair Value Gains (Losses) on Available-for-sale	Accumulated Actuarial	Total
	Preferred Stock	Common Stock	Capital	Appropriated	Unappropriated	Securities	Gains (Losses)	Equity
BALANCE AS OF JANUARY 1, 2017	P 620,000,000	P 5,364,584,375	P 1,998,396,816	P 5,989,552	P 1,675,890,814	(P 82,019,677)	(P 12,757,016)	P 9,570,084,864
Prior period adjustment	-	-		-	97,699,926	-	**(15,829,089)**	P 81,870,837
Total comprehensive income (loss)	-	-	-	-	159,704,414	53,514,821	-	213,219,235
BALANCE AS OF MARCH 31, 2017	**P 620,000,000**	**P 5,364,584,375**	**P 1,998,396,816**	**P 5,989,552**	**P 1,933,295,154**	**(P 28,504,856)**	**(P 28,586,105)**	**P 9,865,174,936**
BALANCE AS OF JANUARY 1, 2016	P 620,000,000	P 5,364,584,375	P 1,998,396,816	₱ 4,799,387	P 1,087,656,774	(P 577,298,405)	(P 28,586,105)	P 8,469,552,842
Prior period adjustment	-	-		(1,387,487)	36,288,817	-	**(2,600,725.00)**	P 32,300,605
Total comprehensive income (loss)	-	-	-	-	162,032,631	166,612,303	-	328,644,934
BALANCE AS OF MARCH 31, 2016	**P 620,000,000**	**P 5,364,584,375**	**P 1,998,396,816**	**P 3,411,900**	**P 1,285,978,222**	**(P 410,686,102)**	**(P 31,186,830)**	**P 8,830,498,381**

PHILIPPINE BUSINESS BANK, INC. A SAVINGS BANK
UNAUDITED STATEMENTS OF CASH FLOWS
FOR THREE MONTHS ENDED MARCH 31, 2017, AND MARCH 31, 2016
(Amounts in Philippine Pesos)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	P 184,577,519	P 204,155,545
Adjustments for:		
Depreciation and amortization	43,673,179	41,569,716
Impairment losses	50,000,000	5,000,000
	-	-
Operating profit before working capital changes	278,250,698	250,725,261
Decrease (increase) in financial assets at fair value through profit or loss	2,783,755,437	(1,158,237,820)
Increase (decrease) in hold-to-maturity	-	(123,517,516)
Increase in loans and other receivables	(4,011,357,099)	935,136,134
Decrease (increase) in other resources	(89,351,052)	(42,240,210)
Increase (decrese) in deposit liabilities	575,171,033	(3,834,199,825)
Increase (decrease) in accrued expenses and other liabilities	2,159,854,537	(215,574,159)
Increase (decrease) in capital accounts	-	-
Cash generated from (used in) operations	1,696,323,554	(4,187,908,135)
Cash paid for income taxes	(18,230,121)	(29,568,593)
Net Cash From (Used in) Operating Activities	1,678,093,433	(4,217,476,728)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of available-for-sale (AFS) securities	(353,889,387)	(2,106,373,672)
Proceeds from sale of AFS securities	32,938,211	2,432,856,561
Net acquisitions of investment and other properties	(43,778,318)	(15,389,810)
Net acquisitions of bank premises, furniture, fixtures and equipment	(30,999,399)	(59,457,408)
	-	-
Net Cash From (Used In) Investing Activities	(395,728,893)	251,635,671
CASH FLOWS FROM FINANCING ACTIVITIES		
Net borrowings (payments) of bills payable	-	(956,250)
	-	-
Net Cash From (Used in) Financing Activities	-	(956,250)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,282,364,540	(3,966,797,307)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		
Cash and other cash items	1,098,616,524	1,279,302,155
Due from Bangko Sentral ng Pilipinas	6,225,701,096	7,672,637,783
Due from other banks	1,633,340,396	2,825,982,401
Securities purchased under reverse repurchase agreements	-	-
	8,957,658,016	11,777,922,339
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		
Cash and other cash items	915,633,979	1,029,161,279
Due from Bangko Sentral ng Pilipinas	7,889,135,411	4,915,035,461
Due from other banks	1,435,253,166	1,866,928,292
Securities purchased under reverse repurchase agreements	-	-
	P 10,240,022,556	P 7,811,125,032

PHILIPPINE BUSINESS BANK, INC., A SAVINGS BANK
NOTES TO FINANCIAL STATEMENTS
March 31, 2017, AND December 31, 2016
(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 March 31, 2017 and Decmeber 31, 2016, the Bank operates within the Philippines with 139 branches 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 quarter ended March 31, 2017 (including the comparative financial statements as of December 31, 2016 were authorized for issue by the Bank's Board of Directors (BOD) on April 19, 2017.

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 resource, 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 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 2016 that are Relevant to the Bank

The Bank adopted for the first time the following amendments and annual improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2016:

PAS 1 (Amendments)	:	Presentation of Financial Statements – Disclosure Initiative
PAS 16 and PAS 38 (Amendments)	:	Property, Plant and Equipment, and Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization
PAS 16 and PAS 41 (Amendments)	:	Property, Plant and Equipment, and Agriculture – Bearer Plants
Annual Improvements		Annual Improvements to PFRS (2012-2014 Cycle)

Discussed below and in the succeeding page are the relevant information about these amended standards and improvements:

i. PAS 1 (Amendments), *Presentation of Financial Statements – Disclosure Initiative*. The amendments encourage entities to apply professional judgment in presenting and disclosing information in the financial statements. Accordingly, they clarify that materiality applies to the whole financial statements and an entity shall not reduce the understandability of the financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. Moreover, the amendments clarify that an entity's share in other comprehensive income of associates and joint ventures accounted for using equity method should be presented based on whether or not such other comprehensive income item will subsequently be reclassified to profit or loss. They further clarify 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 (Amendments), *Property, Plant and Equipment*, and PAS 38 (Amendments), *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization*. The amendments in PAS 16 clarify 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, amendments to PAS 38 introduce a rebuttable presumption that an amortization method that is based on the revenue generated by an activity that includes the use of an intangible asset is not appropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of an intangible asset are highly correlated.

The amendments also provide guidance that the expected future reductions in the selling price of an item that was produced using the asset could indicate an expectation of technological or commercial obsolescence of an asset, which may reflect a reduction of the future economic benefits embodied in the asset.

iii. PAS 16 (Amendments), *Property, Plant and Equipment*, and PAS 41 (Amendments), *Agriculture – Bearer Plants*. The amendments define a bearer plant as a living plant that is used in the production or supply of agricultural produce, is expected to bear produce for more than one period and has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales. On this basis, bearer plant is now included within the scope of PAS 16 rather than PAS 41, allowing such assets to be accounted for as property, plant and equipment and to be measured after initial recognition at cost or revaluation basis in accordance with PAS 16. The amendments further clarify that produce growing on bearer plants remains within the scope of PAS 41.

iv. Annual Improvements to PFRS (2012-2014 Cycle). Among the 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:

- PAS 19 (Amendments), *Employee Benefits – Discount Rate: Regional Market Issue*. The amendments clarify 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.

- PFRS 5 (Amendments), *Non-current Assets Held for Sale and Discontinued Operations – Changes in Methods of Disposal*. The amendments clarify 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. They also state 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 (Amendments), *Financial Instruments: Disclosures – Servicing Contracts.* The amendments provide 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.

b) *Effective in 2016 that are not Relevant to the Bank*

The following new PFRS, amendments and annual improvements to existing standards are mandatorily effective for annual periods beginning on or after January 1, 2016 but are not relevant to the Bank's financial statements:

PAS 27 (Amendments)	:	Separate Financial Statements – Equity Method in Separate Financial Statements
PFRS 10, PFRS 12 and PAS 28 (Amendments)	:	Consolidated Financial Statements Disclosure of Interests in Other Entities, and Investments in Associates and Joint Ventures – Investment Entities – Applying the Consolidation Exception
PFRS 11 (Amendments)	:	Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations
PFRS 14	:	Regulatory Deferral Accounts Annual Improvements to PFRS (2012-2014 Cycle)
PFRS 7 (Amendments)	:	Financial Instruments: Disclosures – Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements
PAS 34 (Amendments)	:	Interim Financial Reporting – Disclosure of Information "Elsewhere in the Interim Financial Report"

c) *Effective Subsequent to 2016 but not Adopted Early*

There are new PFRS and amendments to existing standards effective for annual periods subsequent to 2016, 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 7 (Amendments), *Statement of Cash Flows – Disclosure Initiative* (effective from January 1, 2017). The amendments are designed to improve the quality of information provided to users of financial statements about changes in an entity's debt and related cash flows (and non-cash changes). They require an entity to provide disclosures that enable users to evaluate changes in liabilities arising from financing activities. An entity applies its judgment when determining the exact form and content of the disclosures needed to satisfy this requirement. Moreover, they suggest a number of specific disclosures that may be necessary in order to satisfy the above requirement, including: (a) changes in liabilities arising from financing activities caused by changes in financing cash flows, foreign exchange rates or fair values, or obtaining or losing control of subsidiaries or other businesses; and, (b) a reconciliation of the opening and closing balances of liabilities arising from financing activities in the statement of financial position including those changes identified immediately above.

ii. PAS 12 (Amendments), Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses (effective from January 1, 2017). The focus of the amendments is to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost. The amendments provide guidance in the following areas where diversity in practice previously existed: (a) existence of a deductible temporary difference; (b) recovering an asset for more than its carrying amount; (c) probable future taxable profit against which deductible temporary differences are assessed for utilization; and, (d) combined versus separate assessment of deferred tax asset recognition for each deductible temporary difference.

iii. PFRS 9 (2014), Financial Instruments (effective from January 1, 2018). This new standard on financial instruments will replace PAS 39, Financial Instruments: Recognition and Measurement, 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.

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.

iv. PFRS 15, *Revenue from Contracts with Customers* (effective from January 1, 2018). This standard will replace PAS 18, *Revenue*, and PAS 11, *Construction Contracts*, the related Interpretations on revenue recognition: IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreement for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers,* and Standing Interpretations Committee 31, *Revenue – Barter Transactions Involving Advertising Services*. This new standard establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. The core principle in the said framework is for an entity to recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Management is currently assessing the impact of this standard on the Bank's financial statements.

v. PFRS 16, Leases (effective from January 1, 2019). The new standard will eventually replace PAS 17, Leases.

For lessees, it requires to account for leases "on-balance sheet" by recognizing a "right of use" asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the "right-of-use" asset is accounted for similarly to a purchased asset and depreciated or amortized. The lease liability is accounted for similarly to a financial liability using the effective interest method. However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under PAS 17 where lease payments are recognized as expenses on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee's benefit).

For lessors, lease accounting is similar to PAS 17. In particular, the distinction between finance and operating leases is retained. The definitions of each type of lease, and the supporting indicators of a finance lease, are substantially the same as PAS 17's. The basic accounting mechanics are also similar, but with some different or more explicit guidance in few areas. These include variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

Management is currently assessing the impact of this new standard in its financial statements.

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.

2.4 *Segment Reporting*

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

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, *Operating Segments,* is the same as those used in its financial statements. In addition, corporate resources which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

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

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

2.5 *Financial 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, *Financial Instruments: Presentation*. 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, 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, foreign currency notes and coins on hand and securities under reverse repurchase agreement (SPURRA) with original maturities of three months or less from placement date.

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. In 2016, in anticipation of its planned disposal, the Bank reclassified its entire HTM investments to AFS securities. In accordance with PAS 39, the whole HTM category was tainted [see Notes 3.1(a) and 13]. The entire reclassified HTM investments were subsequently disposed of within the same year.

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, particularly plain vanilla foreign exchange swaps, 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 (recognized as part of Miscellaneous under Other Resources account) and as liabilities (recognized under Accrued Expenses and Other Liabilities account) 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.

Dividend distributions to shareholders are recognized as financial liabilities upon declaration by the Group and subsequent approval of the BSP. Starting 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 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. 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 of the 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 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 financial assets at 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 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 attributable to common shares 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 March 31, 201 and December 31, 2016, the Bank has no convertible preferred shares.

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) *Classification of 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. This classification requires significant judgment. In making this judgment, the Bank evaluates its intention and ability to hold such investments up to maturity.

If the Bank fails to keep these investments at maturity other than for the allowed specific circumstances as allowed under the standards, 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.

In 2016, in anticipation of its planned disposal, the Bank reclassified its entire HTM investments to AFS securities, which were subsequently disposed of within the same year. The whole HTM investments category was accordingly tainted and the Bank is prohibited from holding investments under HTM investments category for the next two financial reporting years [see Note 2.5(a)(iii)].

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 assessed that no securities are impaired as of March 31, 2017 and December 31, 2016. Future changes in those information and circumstance might significantly affect the carrying amount of the assets.

c) *Distinction Between 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) *Classification of Acquired Properties and Determination of 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, and as Investment Properties if the Bank intends to hold the properties for capital appreciation or as financial assets (properties other than land and building) 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.

e) Distinction Between 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 March 31, 2017 and December 31, 2016, the Bank has determined that all its leases are operating leases.

f) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish the difference between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.13.

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) Estimation of Impairment of Financial Assets (AFS Securities, HTM Investments and Loans and Other Receivables)

The Bank reviews its AFS securities, HTM investments and loans and other receivable portfolios 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 Note 14. There are no impairment losses recognized on AFS securities and HTM investments in 2017 and 2016.

b) Fair Value Measurement 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.

c) Estimation of Useful Lives of Bank Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Resources (e.g. Computer Software and Branch Licenses)

The Bank estimates the useful lives of bank premises, furniture, fixtures and equipment, investment properties, except land, and other resources (e.g. computer software and branch licenses) 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.

d) Determination of 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.

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) Estimation of 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 integrate 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*

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.

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		2016		2015
Due from BSP	9	**P**	**7,889,135**	P	6,225,701
Due from other banks	10		**1,435,253**		1,633,340
Financial assets at FVTPL	11		**490,413**		3,274,168
AFS securities	12		**4,186,193**		3,810,027
HTM investments	13		**-**		-
Loans and other receivables – net	14		**55,398,469**		51,437,111
Other resources	17		**32,766**		30,190
		P	**69,432,229**	P	66,410,537

The credit risk quality of the Bank's financial assets is further described below and in the succeeding pages:

(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 with credit risk are Due from BSP, Due from Other Banks, and SPURRA under Loans and Other Receivables. Due from Other Banks are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of P500,000 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.

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 resources 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.

(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.

(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.

(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.

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 enumerated below.

- 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.

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 the Bank 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:

1. unbooked valuation reserves and other capital adjustments as may be required by the BSP;
2. total outstanding unsecured credit accommodations to directors, officers, stockholders and related interests (DOSRI);
3. deferred tax asset net of deferred tax liability;
4. goodwill;
5. sinking fund for redemption of redeemable preferred shares; and,
6. 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 risk.

The following are the risk-based capital adequacy of the Bank as of March 31, 2017 December 31, 2016 and 2015 (amounts in millions):

		2017		2016		2015
Net Tier 1 Capital	**P**	**9,522**	P	9,241	P	8,709
Tier 2 Capital		**520**		470		376
Total Qualifying Capital	**P**	**10,042**	P	9,711		
Risk Weighted Assets						
Credit Risk Weighted Assets	**P**	**51,680**	P	48,738	P	43,382
Operational Risk Weighted Assets		**3,941**		3,930		3,580
Market Risk Weighted Assets		**3,444**		4,477		4,378
Total Risk-Weighted Assets	**P**	**59,065**	P	57,145	P	51,340

	2017	2016	2015
Capital ratios:			
Total qualifying capital expressed as percentage of total risk-weighted assets	**17.0%**	17.0%	17.7%
Net Tier 1 capital expressed as percentage of total risk-weighted assets	**16.1%**	16.2%	17.0%

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:

1. Investments in equity of unconsolidated subsidiary banks and other financial allied undertakings, but excluding insurance companies;
2. Investments in debt capital instruments of unconsolidated subsidiary banks;
3. Investments in equity of subsidiary insurance companies and non-financial allied undertakings;
4. Reciprocal investments in equity of other banks/enterprises; and,
5. 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 March 31, 2017 and December 31, 2016, 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 March 31, 2017 and December 31, 2016, 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 in the National Capital Region and have more than 50 branches are required to comply with the minimum capital requirement of P2.0 billion. The Bank has complied with the minimum capital requirement at the end of each reporting period.

6. 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 2017 and 2016 are as follows (amounts in millions):

	Corporate Banking	Consumer Banking	Treasury Operations	Total
March 31, 2017				
Statement of Profit or Loss				
Net interest income	P 577	P 61	P 45	P 683
Non-interest income	47	-	79	126
Total income (after interest expense)	624	61	124	809
Operating expenses	(491)	(29)	(104)	(624)
Pre-tax profit (loss)	133	32	20	185
Tax expense	(20)	(3)	(2)	(25)
Net profit (loss)	**P 113**	**P 29**	**P 18**	**P 160**

	Corporate Banking		Consumer Banking		Treasury Operations		Total	
Statement of Financial Position								
Total Resources								
Segment assets	P	53,887	P	3,540	P	15,356	P	72,783
Intangible assets		51		-		-		51
Deferred tax assets		401		-		-		401
	P	54,339	P	3,540	P	15,356	P	73,235
Total Liabilities	P	48,666	P	3,243	P	11,461	P	63,370
Other segment information								
Depreciation and amortization	P	34	P	2	P	8	P	44
Capital expenditures	P	11	P	1	P	3	P	15

	Corporate Banking		Consumer Banking		Treasury Operations		Total	
March 31, 2016								
Statement of Profit or Loss								
Net interest income	P	452	P	46	P	91	P	589
Non-interest income		43		-		50		93
Total income (after interest expense)		495		46		141		682
Operating expenses	(	326)	(	23)	(	129)	(	478)
Pre-tax profit (loss)		169		23		12		204
Tax expense	(	35)	(	5)	(	2)	(	42)
Net profit	P	134	P	18	P	10	P	162

	Corporate Banking		Consumer Banking		Treasury Operations		Total	
Statement of Financial Position								
Total Resources								
Segment assets	P	39,734	P	3,067	P	18,688	P	61,489
Intangible assets		57		-		-		57
Deferred tax assets		328		-		-		328
	P	40,119	P	3,067	P	18,688	P	61,874
Total Liabilities	P	38,989	P	2,428	P	15,707	P	57,124
Other segment information								
Depreciation and amortization	P	28	P	2	P	11	P	41
Capital expenditures	P	12	P	1	P	5	P	18

7. CASH AND DUE FROM BSP

This account is composed of the following:

	2017	2016
Cash and other cash items	**P 915,633,979**	P 1,098,616,524
Due from BSP		
Mandatory reserves	**4,339,135,411**	4,265,701,096
Other than mandatory reserves	**3,550,000000**	1,960,000,000
	7,889,135,411	7,672,637,783
	P 8,804,769,390	P 8,951,939,938

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 (see Note 17) 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.

8. DUE FROM OTHER BANKS

The balance of this account represents deposits with the following:

	2017	2016
Local banks	**P 837,391,820**	P 991,507,588
Foreign banks	**597,861,346**	641,832,808
	P 1,435,253,166	P 1,633,340,396

The breakdown of due from other banks by currency follows:

	2017	2016
US dollars	**P 885,569,147**	P 862,128,548
Philippine peso	**549,684,019**	771,211,848
	P 1,435,253,166	P 1,633,340,396

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This account is composed of held-for-trading government securities with fair value amounting to P490.4 million and P3,274.2 million as of March 31, 2017 and December 31, 2016, respectively. Interest rates on these investments range from 4.0% to 8.0% in March 2017 3.5% to 8.0% in 2016 and 4.6% to 6.1% in 2015. The total interest income earned amounted to P23.6 million, P8.81 million and P23.57 million in March 31, 2017 and 2016, 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 in the statements of profit or loss, amounted to P3 million and a loss of P29 million in March 31, 2017 and 2016, respectively.

10. AVAILABLE-FOR-SALE SECURITIES

This account is composed of the following:

	2017	2016
Corporate bonds	**P 2,195,515,515**	P 2,341,379,320
Government debt securities	**1,990,677,006**	1,468,647,204
Equity securities		1,700,000
	P 4,186,192,521	P 3,811,726,524

As to currency, this account consists of the following:

	2017	2016
Foreign currencies	**P 2,938,686,629**	P 2,796,476,612
Philippine pesos	**1,247,505,892**	1,015,249,912
	P 4,186,192,521	P 3,811,726,524

Changes in the AFS securities are summarized below.

	2017	2016
Balance at beginning of year	**P 3,809,942,169**	P 3,094,538,311
Additions	**353,889,387**	1,844,594,612
Acquisition from Rural Bank of Kawit (RBK)		6,602,227
Disposals	**(55,365,190)**	(8,974,015,716)
Reclassification from HTM investments		6,085,652,650
Reclassification from Loans and Other Receivables		698,161,010
Fair value gains (losses)	**54,488,273**	772,317,899
Foreign currency revaluation	**(26,222,202)**	157,739,246
Amortization of discount	**49,460,083**	126,136,285
Balance at end of year	**P 4,186,192,520**	P 3,811,726,524

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 P55.0 million and P70.8 million as of March 31, 2017 and December 31, 2016, respectively, are deposited with the BSP.

11. HELD-TO-MATURITY INVESTMENTS

In 2016, in anticipation of its planned disposal, the Bank reclassified its entire HTM investments, which consist of local and foreign government securities, to AFS securities with a carrying value of P6,085.7 million. In accordance with PAS 39, the whole HTM category was tainted. The entire reclassified HTM investments were subsequently disposed of within the same year

12. LOANS AND OTHER RECEIVABLES

This account consists of the following:

	2017	2016
Receivables from customers:		
Loans and discounts	**P 51,571,037,699**	P 47,420,972,014
Bills purchased	**784,804,958**	795,456,486
Customers' liabilities on acceptances, letters of credit and trust receipts	**3,936,951,921**	3,753,026,077
	56,292,794,578	51,969,454,577
Unearned discount	**(120,683,330)**	(113,369,104)
	56,172,111,248	51,856,085,473
Other receivables:		
SPURRA	-	-
Interbank call loans receivable	**200,000,000**	-
Accrued interest receivable	**140,863,915**	190,096,143
Accounts receivable	**94,747,002**	109,184,904
Sales contracts receivable	**50,104,004**	95,987,214
Deficiency claims receivable	**51,169,833**	56,313,445
Unquoted debt securities	**16,964,519**	17,958,315
	553,849,273	814,694,281
	56,725,960,521	52,670,779,754
Allowance for impairment	**(1,327,491,957)**	(1,233,668,289)
	P 55,398,468,564	P 51,437,111,465

In 2016, the Bank reclassified to AFS securities certain corporate debt securities previously included as part of Unquoted debt securities above amounting to P698,161,010.

SPURRA are collateralized by certain treasury bills of the BSP.

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 March 31, 2017 December 31, 2016 and 2015, 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. On August 16, 2016, the Supreme Court ordered the BTr to immediately release and pay the bondholders the amount representing the 20% final withholding tax on the PEACe bonds, with legal interest of 6% per annum from October 19, 2011 until full payment. As of March 31, 2017, the Bank is making an arrangement for the ultimate release of the 20% final withholding tax, plus the legal interest of 6% per annum.

As of March 31, 2017 and December 31, 2016, non-performing loans of the Bank amount to P1,387.2 million and P1,322.3 million, respectively, while restructured loans amount to P49.6 million and P41.6 million, respectively.

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

		2017		2016
Within one year	**P**	**32,911,129**	P	32,346,925
Beyond one year		**23,381,666**		19,622,530
	P	**56,292,795**	P	51,969,455

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

		2017		2016
Wholesale and retail trade	**P**	**20,635,062**	P	19,506,311
Construction		**11,377,180**		9,782,858
Manufacturing		**7,518,359**		7,483,404
Administrative and support services		**6,155,840**		5,857,043
Transportation and storage		**5,719,391**		3,714,512
Electricity, gas, steam and air-conditioning supply		**4,276,778**		3,649,578
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use		**14,097**		1,371,540
Agriculture, fishery and forestry		**413,712**		429,132
Mining and quarrying		**182,376**		175,077
	P	**56,292,795**	P	51,969,455

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

		2017		2016
Secured:				
Real estate mortgage	**P**	**23,136,809**	P	20,230,413
Chattel mortgage		**5,427,731**		4,429,479
Deposit hold-out		**2,448,624**		3,303,931
Others		**1,672,556**		208
Unsecured		**23,607,075**		24,005,424
	P	**56,292,795**	P	51,969,455

13. OTHER RESOURCES

This account consists of the following as of March 31, 2017 and December 31, 2016:

	2017	2016
Other investments	**P 669,579,319**	P 669,579,319
Deferred tax assets – net	**400,323,468**	413,836,354
Branch licenses	**250,380,060**	249,987,660
Goodwill	**109,392,041**	109,392,041
Due from head office or branches	**93,456,266**	74,862,587
Foreign currency notes and coins on hand	**69,970,665**	59,387,782
Computer software – net	**51,436,920**	51,792,167
Prepaid expenses	**57,396,711**	35,237,702
Security deposits	**29,660,825**	29,660,825
Sundry debits	**38,119,941**	23,250,933
Deferred charges	**15,984,809**	13,383,687
Stationery and supplies	**14,159,610**	13,063,971
Retirement benefit asset	**8,550,906**	8,550,906
Miscellaneous	**111,525,365**	63,599,920
	1,919,936,906	1,815,585,854
Allowance for impairment	**(15,038,424)**	(15,038,424)
	P 1,904,898,4782	P 1,800,547,430

13.1 *Other Investments*

(a) Acquisition of Shares of Insular Savers Bank, Inc.

In July 2015, the Bank's BOD approved the acquisition of all outstanding shares of Insular Savers Bank, Inc. (ISBI) with an agreed initial purchase price of P518.2 million. Of this purchase price, the Bank directly paid P101.2 million to the shareholders of ISBI and deposited P417.0 million with the escrow agent. In 2016, the agreed purchase price was increased by P82.5 million, which remained unpaid and recognized as part of Account payable under Accrued Expenses and Other Liabilities in the 2016 statement of financial position . As of March 31, 2017 and December 31, 2016, the Bank has already released from the escrow fund the amount of P252.9 million and P105.1 million, respectively, as payment to the ISBI shares. As of March 31, 2017, the acquisition is still subject to BSP approval. Pending such approval, the total purchase price of P600.7 million is initially presented as part of Other investments under Other Resources

(b) Purchase of Assets and Assumption of Liabilities of Bataan Savings and Loan Bank, Inc.

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 in 2015. As of March 31, 2017, the transaction is still subject to BSP approval. Pending such approval, the total purchase price of P68.8 million is initially presented as part of Other investments under Other Resources.

(c) *Purchase of Assets and Assumption of Liabilities of Rural Bank of Kawit*

In September 2014, as part of its expansion strategy, the Bank's BOD approved the acquisition of all properties and assets of RBK and assumption of all its obligation with a purchase price of P15.0 million. As of March 31, 2017, the approval of the BSP has not yet been obtained; hence, the acquisition price is still booked as part of Other investments under Other Resources. Thereafter, on February 1, 2016, the BSP approved such acquisition. Accordingly, the Bank recognized the following assets and liabilities of RBK at their fair values (amounts in millions), resulting to goodwill of P59.5 million.

Cash and cash equivalents	P	29,323
Trading and investment securities		6,602
Loans and other receivables		94,332
Bank premises, furniture, fixtures and equipment		5,616
Investment properties		15,840
Other resources		3,025
Total assets *(balance carried forward)*	P	154,738
Total assets *(balance brought forward)*	P	154,738
Deposit liabilities		155,913
Other liabilities		43,339
Total liabilities		199,252
Net liability position		44,514
Cash consideration		15,000
Goodwill (see Note 17.3)	P	59,514

13.2 *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.

13.3 *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. Goodwill recognized from this transaction amounted to P49.9 million.

Following BSP's approval of the Bank's acquisition of RBK, the Bank has recognized a goodwill amounting to P59.5 million.

13.4 *Others*

Deferred charges amounting to P13.4 million as of March 31, 2017 and December 31, 2016 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

14. DEPOSIT LIABILITIES

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

	2017	2016
Within one year	**P 56,935,946,704**	P 57,569,682,714
Beyond one year	**2,546,985,069**	1,338,078,026
	P 59,482,931,773	P 58,907,760,740

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

	2017	2016
Philippine peso	**P 54,634,948,763**	P 54,102,014,779
Foreign currencies	**4,847,983,010**	4,805,745,961
	P 59,482,931,773	P 58,907,760,740

Under existing BSP regulations, non-FCDU deposit liabilities are subject to required reserves for deposits of 8.0%. 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 March 31, 2017 and December 31, 2016 amount to P4,284.8 million and P4,265.7 million, respectively.

15. BILLS PAYABLE

As of December 31, 2015, the Bank's outstanding bills payable include liabilities to other banks amounting to P1.0 million, which were fully paid in 2016. The Bank has no outstanding bills payable as of March 31, 2017.

16. ACCRUED EXPENSES AND OTHER LIABILITIES

The breakdown of this account follows:

	Notes	2017	2016
Bills purchased		**P 774,237,587**	P 784,889,441
Accounts payable	17.1(a)	**406,264,438**	384,660,807
Accrued expenses	31.1(a)	**241,519,288**	162,144,193
Manager's checks		**2,160,174,402**	138,410,956
Income tax payable		**56,636,915**	126,568,663
Dividends payable	21.2	**79,200,000**	79,200,000
Outstanding acceptances		**45,405,589**	41,652,264
Withholding taxes payable		**47,750,542**	32,984,845
Post-employment benefit obligation	23.2	**-**	-
Derivative liabilities	7.2	**-**	-
Others		**76,189,257**	37,240,170
		P 3,887,378,018	P**1,787,751,339**

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

Accounts payable includes the increase in the purchase price in relation to the acquisition of ISBI amounting to P82.5 million. Also included in this account are 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.

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

17. EQUITY

17.1 *Capital Stock*

Capital stock as of March 31, 2017 consists of:

	Number of Shares		Amount	
	2017	2016	**2017**	2016
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				
Issued, fully paid and outstanding				
Balance at beginning of year	**536,458,437**	**536,458,437**	**P 5,364,584,370**	P5,364,584,370
Stock dividends	**107,291,687**		**-**	
Balance at end of year	**643,750,124**	536,458,437	**P5,364,584,370**	P 5,364,584,370

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 17, 2016, the Bank's BOD approved the redemption of all the issued and outstanding 62,000,000 preferred shares (with P10 par value) for a total amount of P620.0 million through staggered redemption. However, no preferred shares have been redeemed by the Bank as of March 31, 2017.

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.

As of March 31, 2017 and December 31, 2016, the Bank has 65 and 65 holders, respectively, of its equity securities listed in the PSE and its share price closed at P14.70 and P14.36, respectively. The Bank has 536,458,423 million common shares traded in the PSE both as of March 31, 2017 and December 31, 2016.

17.2 *Dividends*

On December 29, 2016, the Bank's BOD approved the declaration of cash dividends on preferred shares amounting to P79.2 million. As of March 31, 2017, the cash dividends remain unpaid and presented as Dividends payable under Accrued Expenses and Other Liabilities account in the 2016 statement of financial position.

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.

17.3 *Appropriated Surplus*

In 2016, 2015 and 2014, additional appropriations of surplus amounting to P1.2 million, P1.4 million and P1.6 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 March 31, 2017 and Decmeber 31, 2016, the sinking fund for the redemption of redeemable preferred shares is yet to be established.

17.4 *Paid-in Capital from IPO*

As mentioned in Note 21.1, the Bank's common shares were listed at the PSE in February 2013. The 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.

17.5 *Revaluation Reserves*

Revaluation reserves pertain to the accumulated actuarial losses of post-employment defined benefit plan and unrealized fair value losses on AFS securities

18. EVENT AFTER THE END OF REPORTING PERIOD

On March 15, 2017, the Board of Directors approved the declaration of 20% stock dividends amounting to P1,072.9 million to all issued and outstanding common stockholders.

19. COMMITMENTS AND CONTINGENT LIABILITIES

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

	2017	2016
Investment management accounts	**P 1,916,540,750**	P 1,938,042,428
Outstanding letters of credit	**413,137,500**	807,107,561
Trust and other fiduciary accounts	**891,900,975**	796,018,046
Outward bills for collection	**39,534,380**	53,479,103
Unit investment trust fund	**34,360,309**	34,259,888
Late payment/deposits received	**14,538,458**	7,615,931
Items held for safekeeping	**62,450**	66,919
Items held as collateral	**8,654**	8,720
Other contingent accounts	**332,251,770**	543,038,687

As of March 31, 2017 and December 31, 2016, 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.

20. EARNINGS PER SHARE

Basic and diluted earnings per share are computed as follows:

	2017	2016	2015
Net profit	**P 159,704,413**	P668,624,205	P 502,142,004
Dividends on preferred shares		(79,200,000)	
Net profit attributable to common shareholders	**159,704,413**	589,424,205	502,142,004
Divided by the weighted average number of outstanding common shares	**643,750,124**	536,458,437	536,458,437
Basic earnings per share	**P 0.25**	P 1.10	P 0.94

The 2014 earnings per share of the Bank was 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 at the beginning of the earliest period presented for earnings per share computation.

As of March 31, 2017 and December 31, 2016, the Bank has no outstanding potentially dilutive securities; hence, basic earnings per share is equal to diluted earnings per share.

SCHEDULE OF AGING OF LOANS RECEIVABLES
(PSE Requirement per Circular No. 2164-99)
As of March 31, 2017

Current Accounts (by maturity)	
Up to 12 months	35,783,652,292
Over 1 year to 3 years	4,921,352,789
Over 3 years to 5 years	4,691,314,165
Over 5 years	10,001,969,113
Past due and items in litigations	1,448,355,491
Loans Receivables (gross)	56,846,643,851
Less:	
Unearned and other deferred income	120,683,330
Allowance for credit losses	1,327,491,957
Loans Receivables (Net)	55,398,468,564

FINANCIAL SOUNDNESS INDICATORS
(As Required by SRC Rule)

	March 31, 2017	December 31, 2016
Current Ratio (1)	59.75%	66.21%
Solvency Ratio (2)	1.16%	1.16%
Debt-to-equity (3)	6.42%	6.34%
Asset-to-equity (4)	7.42%	7.34%
Interest rate coverage ratio (5)	205.06%	219.02%
Return on Equity (6)	6.57%	7.41%
Return on Assets (7)	0.89%	0.98%
Net Interest Margin (8) (9)	3.96%	3.80%
Cost-to-Income Ratio (10)	70.98%	66.11%

Notes:

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