Audited Financial Statements of One Network Bank, Inc.

as of December 31, 2015

ONE NETWORK
A RURAL BANK OF BDO

ONE NETWORK
A RURAL BANK OF BDO

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The Board of Directors and the Stockholders
One Network Bank, Inc. (a Rural Bank)
(A Subsidiary of BDO Unibank, Inc.)
Km. 9, Sasa, Davao City

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the year ended December 31, 2015 required by the Bureau of Internal Revenue as disclosed in Note 27 to the financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with Philippine Financial Reporting Standards. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PUNONGBAYAN & ARAULLO

By: **Romualdo V. Murcia III**
Partner

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TIN 906-174-059
PTR No. 5321731, January 4, 2016, Makati City
SEC Group A Accreditation
Partner - No. 0628-AR-2 (until Sept. 5, 2016)
Firm - No. 0002-FR-4 (until Apr. 30, 2018)
BIR AN 08-002511-22-2013 (until Nov. 7, 2016)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2018)

February 24, 2016

Audited Financial Statements

ONE NETWORK BANK, INC. (A RURAL BANK)
(A Subsidiary of BDO Unibank, Inc.)
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2015 AND 2014
(Amounts in Philippine Pesos)

RESOURCES	Notes	2015	2014
CASH AND OTHER CASH ITEMS	6	P 844,774,103	P 1,009,883,341
DUE FROM BANGKO SENTRAL NG PILIPINAS	6, 7	671,124,158	816,473,444
DUE FROM OTHER BANKS	6, 8	991,520,482	2,385,136,053
AVAILABLE-FOR-SALE FINANCIAL ASSETS	9	376,882,079	2,202,413,908
HELD-TO-MATURITY INVESTMENTS	10	349,299,755	353,180,073
LOANS AND RECEIVABLES - Net	11	20,516,700,682	20,905,811,025
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	12	1,468,177,783	1,525,784,539
INVESTMENT PROPERTIES - Net	13	28,043,963	23,129,794
DEFERRED TAX ASSETS - Net	23	203,011,540	201,010,735
PREPAYMENTS AND OTHER RESOURCES - Net	14	210,216,670	196,453,222
TOTAL RESOURCES		P 25,659,751,215	P 29,619,276,134
LIABILITIES AND EQUITY			
DEPOSIT LIABILITIES	16	P 21,461,539,914	P 18,045,995,886
BILLS PAYABLE	17	-	7,354,932,079
ACCRUED EXPENSES AND OTHER LIABILITIES	18	422,484,057	536,506,706
INCOME TAX PAYABLE		2,709,703	49,425,739
Total Liabilities		21,886,733,674	25,986,860,410
EQUITY	19	3,773,017,541	3,632,415,724
TOTAL LIABILITIES AND EQUITY		P 25,659,751,215	P 29,619,276,134

See Notes to Financial Statements

ONE NETWORK BANK, INC. (A RURAL BANK)
(A Subsidiary of BDO Unibank, Inc.)
STATEMENTS OF PROFIT OR LOSS
FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013
(Amounts in Philippine Pesos)

	Notes	2015	2014	2013
INTEREST INCOME ON				
Loans and receivables	11	**P 1,641,332,761**	P 1,582,794,440	P 1,221,598,346
Investments	9, 10	**121,552,514**	121,305,765	91,249,053
Deposits with other banks	8	**27,156,369**	34,161,353	35,062,732
Post-employment defined benefit plan - net	22	**339,807**	-	2,249,474
		1,790,381,451	1,738,261,558	1,350,159,605
INTEREST EXPENSE ON				
Deposit liabilities	16	**335,120,549**	325,260,500	347,784,315
Bills payable	17	**98,612,829**	167,187,046	98,172,211
Post-employment defined benefit plan - net	22	**-**	2,891,608	-
		433,733,378	495,339,154	445,956,526
NET INTEREST INCOME		**1,356,648,073**	1,242,922,404	904,203,079
IMPAIRMENT LOSSES	15	**270,328,438**	31,561,470	7,183,843
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		**1,086,319,635**	1,211,360,934	897,019,236
OTHER INCOME				
Service charges, fees and commissions		**980,071,592**	1,084,113,674	957,150,767
Others	21	**223,076,189**	35,918,158	53,282,210
		1,203,147,781	1,120,031,832	1,010,432,977
OTHER EXPENSES				
Compensation and employee benefits	20, 22	**574,328,651**	545,318,577	453,838,112
Taxes and licenses	27	**362,880,762**	285,584,729	218,046,015
Occupancy and equipment-related expenses	12, 20, 26	**349,712,018**	306,281,349	276,086,853
Transportation and travel		**118,828,915**	129,673,934	101,308,839
Security, messengerial and janitorial services		**92,287,054**	90,284,633	85,148,837
Service charges		**66,959,848**	55,219,626	45,570,986
Communications, telephone and telegraph		**50,902,177**	45,074,261	40,718,273
Stationery and supplies		**49,074,476**	56,689,820	52,812,284
Insurance		**25,184,978**	35,033,097	32,657,149
Fuel and lubricants		**23,284,214**	29,352,168	31,010,484
Banking fees		**8,017,220**	7,248,460	5,649,139
Charitable contributions		**6,719,523**	3,587,240	6,911,929
Supervision and examination fees		**6,177,494**	5,304,761	3,924,342
Professional fees		**5,868,404**	10,428,073	6,189,397
Advertising and publicities		**1,522,668**	23,918,084	4,522,652
Others		**21,492,708**	38,713,286	30,845,521
		1,763,241,110	1,667,712,098	1,395,240,812
PROFIT BEFORE TAX		**526,226,306**	663,680,668	512,211,401
TAX EXPENSE	23	**127,636,407**	201,851,434	186,873,591
NET PROFIT		**P 398,589,899**	P 461,829,234	P 325,337,810
Basic and Diluted Earnings Per Share	24	**P 1.61**	P 1.87	P 1.32

See Notes to Financial Statements

ONE NETWORK BANK, INC. (A RURAL BANK)
(A Subsidiary of BDO Unibank, Inc.)
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013
(Amounts in Philippine Pesos)

	Notes	**2015**	2014	2013
NET PROFIT		**P 398,589,899**	P 461,829,234	P 325,337,810
OTHER COMPREHENSIVE INCOME (LOSS)				
Item that will not be reclassified subsequently to profit or loss:				
Remeasurements on post-employment defined benefit obligation	22	**60,603,053**	33,649,767	(121,794,317)
Tax income (expense)	23	**(18,180,917)**	(10,094,930)	36,538,295
		42,422,136	23,554,837	(85,256,022)
Item that will be reclassified subsequently to profit or loss:				
Fair valuation of available-for-sale (AFS) financial assets:	9			
Fair value gains on disposed AFS financial assets reclassified to profit or loss		**(304,447,567)**	-	(54,359,315)
Fair value gains during the year		**2,624,099**	88,791,067	47,785,191
		(301,823,468)	88,791,067	(6,574,124)
Other Comprehensive Income (Loss) - net of tax		**(259,401,332)**	112,345,904	(91,830,146)
TOTAL COMPREHENSIVE INCOME		**P 139,188,567**	P 574,175,138	P 233,507,664

See Notes to Financial Statements

ONE NETWORK BANK, INC. (A RURAL BANK)
(A Subsidiary of BDO Unibank, Inc.)
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013
(Amounts in Philippine Pesos)

	Note	Capital Stock	Other Reserves	Revaluation Reserves	Surplus	Total
Balance at January 1, 2015		P 2,473,136,820	P 294,041,825	P 227,204,130	P 638,032,949	P 3,632,415,724
Issuance of shares during the year	19	807,110	606,140	-	-	1,413,250
Total comprehensive income for the year	19	-	-	(259,401,332)	398,589,899	139,188,567
Balance at December 31, 2015		**P 2,473,943,930**	**P 294,647,965**	**(P 32,197,202)**	**P 1,036,622,848**	**P 3,773,017,541**
Balance at January 1, 2014		P 2,211,503,970	P 293,115,955	P 114,858,226	P 436,607,829	P 3,056,085,980
Issuance of shares during the year	19	1,232,850	925,870	-	-	2,158,720
Stock dividends	19	260,400,000	-	-	(260,400,000)	-
Cash dividends	19	-	-	-	(4,114)	(4,114)
Total comprehensive income for the year	19	-	-	112,345,904	461,829,234	574,175,138
Balance at December 31, 2014		P 2,473,136,820	P 294,041,825	P 227,204,130	P 638,032,949	P 3,632,415,724
Balance at January 1, 2013		P 1,837,478,600	P 293,115,955	P 206,688,372	P 468,274,133	P 2,805,557,060
Issuance of shares during the year	19	17,025,370	-	-	-	17,025,370
Stock dividends	19	357,000,000	-	-	(357,000,000)	-
Cash dividends	19	-	-	-	(4,114)	(4,114)
Total comprehensive income for the year	19	-	-	(91,830,146)	325,337,810	233,507,664
Balance at December 31, 2013		P 2,211,503,970	P 293,115,955	P 114,858,226	P 436,607,829	P 3,056,085,980

See Notes to Financial Statements

ONE NETWORK BANK, INC. (A RURAL BANK)
(A Subsidiary of BDO Unibank, Inc.)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013
(Amounts in Philippine Pesos)

	Notes	2015	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		P 526,226,306	P 663,680,668	P 512,211,401
Adjustments for:				
Impairment losses	15	270,328,438	31,561,470	7,183,843
Gain on disposal of available-for-sale financial assets	21	(206,066,074)	(16,827,593)	(38,624,547)
Depreciation and amortization	12, 14	154,169,828	131,270,212	117,239,980
Income from disposal of investment properties	21	(442,816)	(7,553,770)	(264,392)
Income from disposal of bank premises, furniture, fixtures and equipment	21	(198,599)	(110,806)	(1,925,132)
Operating profit before changes in resources and liabilities		744,017,083	802,020,181	595,821,153
Decrease (increase) in loans and receivables		113,394,889	(2,970,309,964)	(3,270,420,430)
Decrease (increase) in prepayments and other resources		(30,005,988)	14,491,323	(68,968,561)
Increase in deposit liabilities		3,415,544,028	46,402,256	3,891,350,559
Increase (decrease) in accrued expenses and other liabilities		(97,807,709)	63,111,340	62,085,125
Cash generated from (used in) operations		4,145,142,303	(2,044,284,864)	1,209,867,846
Cash paid for income taxes		(144,852,484)	(172,945,514)	(234,211,295)
Net Cash From (Used in) Operating Activities		4,000,289,819	(2,217,230,378)	975,656,551
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from disposal of available-for-sale financial assets	9	1,964,777,944	420,101,307	570,107,391
Acquisitions of available-for-sale financial assets	9	(235,003,509)	(928,807,246)	(606,231,258)
Acquisitions of bank premises, furniture, fixtures and equipment	12	(79,850,948)	(339,201,319)	(291,738,433)
Proceeds from disposal of investment properties	13	915,663	12,185,933	331,800
Acquisitions of software and other intangibles	14	(469,584)	(41,942,724)	(5,560,631)
Proceeds from disposal of bank premises, furniture, fixtures and equipment	21	198,599	110,806	9,462,155
Acquisitions of held-to-maturity investments		-	(212,075,107)	(140,781,889)
Net Cash From (Used in) Investing Activities		1,650,568,165	(1,089,628,350)	(464,410,865)
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayments of bills payable		(14,812,642,079)	(8,558,344,758)	(13,266,693,342)
Proceeds from availment of bills payable		7,457,710,000	12,373,811,679	14,204,278,500
Cash dividends paid	19	-	(4,114)	(4,114)
Net Cash From (Used in) Financing Activities		(7,354,932,079)	3,815,462,807	937,581,044
NET INCREASE IN CASH AND CASH EQUIVALENTS		(1,704,074,095)	508,604,079	1,448,826,730
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR				
Cash and other cash items		1,009,883,341	1,251,437,159	904,551,125
Due from Bangko Sentral ng Pilipinas		816,473,444	516,725,972	369,107,846
Due from other banks		2,385,136,053	1,934,725,628	980,403,058
		4,211,492,838	3,702,888,759	2,254,062,029
CASH AND CASH EQUIVALENTS AT END OF YEAR	6			
Cash and other cash items		844,774,103	1,009,883,341	1,251,437,159
Due from Bangko Sentral ng Pilipinas		671,124,158	816,473,444	516,725,972
Due from other banks		991,520,482	2,385,136,053	1,934,725,628
		P 2,507,418,743	P 4,211,492,838	P 3,702,888,759

Supplemental Information on Non-Cash Investing and Financing Activities:

-1 In 2015, 2014 and 2013, the Bank acquired certain parcels of land amounting to P5.4 million, P1.8 million and P6.8 million, respectively, in settlement of loans and receivables (see Note 13).

-2 In 2015 and 2014, 80,711 shares and 123,285 shares, respectively, were issued in lieu of the subscribed and accrued employee stock option plan totalling P2.2 million (see Note 19). No similar transaction occurred in 2013.

-4 In 2014 and 2013, stock dividends declared and distributed to all common stockholders amounted to P260.4 milliona and P357.0 million, respectively (see Note 19). There are no stock dividends declared and distributed in 2015.

-3 In 2013, the Bank issued shares of stocks amounting to P17.0 million in exchange for the net assets of Rural Bank of San Enrique (Iloilo), Inc. upon execution of merger. Total net assets absorbed by the Bank amounted to P3.0 million, included as part of Cash and Other Cash Items, Due from Bangko Sentral ng Pilipinas, Due from Other Banks, Held-to-Maturity Investments, Loans and Receivables, Bank Premises, Furniture, Fixtures and Equipment, Deferred Tax Assets, Prepayments and Other Resources, Deposit Liabilities, Bills Payable, and Accrued Expenses and Other Liabilities. The difference of the consideration paid and the net assets absorbed resulted in a goodwill amounting to P14.0 million, booked by the Bank as part of Prepayments and Other Resources.

See Notes to Financial Statements

ONE NETWORK BANK, INC. (A RURAL BANK)
(A Subsidiary of BDO Unibank, Inc.)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015, 2014 AND 2013
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

1.1 Incorporation and Operations

One Network Bank, Inc. (a Rural Bank) (the Bank) was organized as a result of the consolidation of the two rural banks, namely, One Network Rural Bank, Inc. (ONRBI) and Rural Bank of New Corella (Davao del Norte), Inc. (RBNCI). The Bank was incorporated in the Philippines and was registered with the Securities and Exchange Commission (SEC) on July 14, 2011 to engage and carry on the business of a rural bank as provided in the Rural Banks Act of 1992. The Bank started its commercial operations on September 1, 2011.

On April 18, 2012, a plan of merger was made and entered into by the Bank with Rural Bank of San Enrique (Iloilo), Inc. (RBSEI) doing business under the name and style of Banco San Enrique (a Rural Bank). On April 12, 2013, the SEC approved the merger of the Bank with RBSEI, with the former as the surviving entity.

On July 20, 2015, BDO Unibank, Inc. (BDO or the Parent Bank), with the approval of the Monetary Board (MB) of the Bangko Sentral ng Pilipinas (BSP), successfully acquired 99.59% of the Bank's outstanding capital stock making the Bank the latest member of the BDO Group. As payment, the selling shareholders of the Bank received a total of 64,499,890 listed common shares of BDO.

As a banking institution, the Bank is regulated by the BSP. In this regard, it is required to comply with the rules and regulations of the BSP such as those relating to maintenance of reserve requirements on deposit liabilities and deposit substitutes and those relating to the adoption and use of safe and sound banking practices, among others, as promulgated by the BSP. The Bank is also subject to the provisions of Republic Act (RA) No. 8791, otherwise known as the General Banking Law of 2000.

The Bank's Foreign Currency Deposit Unit (FCDU) was registered with the Bureau of Internal Revenue (BIR) on December 21, 2012 and was authorized by the BSP to engage in foreign currency deposit operations on October 31, 2013. FCDU has only started commercial operations in December 2013.

The registered office of the Bank is located at Km. 9, Sasa, Davao City. As of December 31, 2015 and 2014, the Bank operates and maintains 107 branches (including 17 satellite offices) nationwide and 105 branches (including eight extension offices) nationwide, respectively.

1.2 Approval of Financial Statements

The financial statements of the Bank as at and for the year ended December 31, 2015 (including the comparative financial statements as at December 31, 2014 and for the years ended December 31, 2014 and 2013) were authorized for issue by the Board of Directors (BOD) of the Bank on February 24, 2016.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

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

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

(b) Presentation of Financial Statements

The financial statements are presented in accordance with Philippine Accounting Standards (PAS) 1, *Presentation of Financial Statements*. The Bank presents 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 Philippines 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.

2.2 Adoption of New and Amended PFRS

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

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

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

Discussed below and in the succeeding pages are the relevant information about these amendment and improvements.

(i) PAS 19 (Amendment), *Employee Benefits – Defined Benefit Plans – Employee Contributions*. The amendment clarifies that if the amount of the contributions to defined benefit plans from employees or third parties is dependent on the number of years of service, an entity shall attribute the contributions to periods of service using the same attribution method (i.e., either using the plan's contribution formula or on a straight-line basis) for the gross benefit. The amendment did not have a significant impact on the Bank's financial statements since the Bank's defined benefit plan does not require employees or third parties to contribute to the benefit plan.

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

Annual Improvements to PFRS (2010-2012 Cycle)

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

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

- PFRS 2 (Amendment), *Share-based Payment*. The amendment clarifies the definition of "vesting condition" and "market condition" and defines a "performance condition" and a "service condition".

Annual Improvements to PFRS (2011-2013 Cycle)

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

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

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

The following annual improvements to PFRS are mandatory for accounting periods beginning on or after July 1, 2014 but are not relevant to the Bank's financial statements:

PFRS (2010-2012 Cycle)		
PFRS 3 (Amendment)	:	Business Combinations – Accounting for Contingent Consideration in a Business Combination
PFRS 8 (Amendment)	:	Operating Segments – Aggregation of Operating Segments, and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets
PFRS (2011-2013 Cycle)		
PFRS 3 (Amendment)	:	Business Combinations – Scope Exceptions for Joint Ventures

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

There are new PFRS, amendments and annual improvements to existing standards effective for annual periods subsequent to 2015 which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions, and, unless otherwise stated, none of these are expected to have significant impact on the Bank's financial statements:

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

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

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

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

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

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

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

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

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

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

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

(iv) Annual Improvements to PFRS (2012-2014 Cycle) (effective from January 1, 2016). Among the improvements, the following amendments are relevant to the Bank but management does not expect these to have material impact on the Bank's financial statements:

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

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

2.3 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 equity for the issuer in accordance with the criteria of PAS 32. All other non-derivative financial instruments are treated as debt instruments.

(a) Classification and Measurement 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) financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired.

Regular purchases and sales of financial assets are recognized on their trade date. All financial assets that are not classified as at FVTPL are initially recognized at fair value plus any directly attributable transaction costs. Financial assets carried at FVTPL are initially 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 entity to be carried at fair value through profit or loss 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 fair value through profit or loss) may be reclassified out of FVTPL 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.

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 Receivables, Security Deposit (presented as part of Advance rental and security deposits under Prepayments and Other Resources in the statement of financial position) and Sales Contract Receivable (presented as part of Prepayments and Other Resources in the statement of financial position). Cash and other cash items, due from BSP and due from other banks include cash on hand, savings and demand deposits and short-term, highly liquid investments with original maturities of three months or less, readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any.

(iii) HTM Investments

This category includes non-derivative financial assets with fixed or determinable payments and a fixed date of maturity that the Bank has the positive intention and ability to hold to 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 financial assets. The Bank currently holds government and corporate bonds designated into this category.

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

(iv) AFS Financial Assets

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 financial assets include government bonds.

All financial assets within this category are subsequently measured at fair value, except for equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost, less impairment loss, if any. Gains and losses are recognized in other comprehensive income, net of any income tax effects, 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, that is, when there is a significant or prolonged decline in the fair value of the security below its cost, 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 asset has not been derecognized.

(b) Impairment of Financial Assets

The Bank assesses at the end of each reporting period 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 has 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.

The Bank recognizes impairment loss based on the category of financial assets as follows:

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

For assets carried at amortized cost, the Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the Bank includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. 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 receivable 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 losses 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 a loan or HTM investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. When practicable, 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 foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of 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 and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period 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 consistent with changes in related observable data from period to period. The methodologies 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 subject to BSP guidelines, it may be written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures, including approval from the management, the BOD and the BSP, have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are presented as part of Other Income in the statement of profit or loss.

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

When possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending 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. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loans' original effective interest rate. The difference between the recorded sale of the original loan and the present value of the restructured cash flows, discounted at the original effective interest rate, is recognized in profit or loss as part of Impairment Losses.

(ii) Carried at Fair Value – AFS Financial Assets

When a decline in the fair value of an AFS financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss – measured as the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is reclassified from Revaluation Reserves to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized.

Impairment losses recognized in profit or loss on equity instruments are not 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.

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

All income and expenses, including impairment losses, relating to financial assets that are recognized in profit or loss are presented as part of Interest Income or Interest Expense, Impairment Losses, Gain on Disposal of AFS Financial Assets, Dividend Income and Recoveries from Accounts Written-off (presented as part of Other Income) in the statement of profit or loss.

Non-compounding interest, dividend income 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 (or where applicable, a part of a financial asset or part of a group of 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.

2.4 Bank Premises, Furniture, Fixtures and Equipment

Bank premises, furniture, fixtures and equipment, except for land, are carried at acquisition cost or construction cost less subsequent depreciation and amortization and any impairment losses. Land held for administration is stated at cost less any impairment losses.

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

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

Buildings	25 years
Furniture, fixtures and equipment	3-5 years

Leasehold and land improvements are amortized over the terms of the related leases or the useful lives of the improvements of ten years, whichever is shorter.

Construction in progress represents properties under construction and is stated at cost. This includes cost of construction and other direct costs. The account is not depreciated until such time that the assets are completed and available for use.

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 2.14).

The residual values, estimated useful lives and method of depreciation of bank premises, furniture, fixtures and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period.

Fully-depreciated and fully-amortized assets are retained in the accounts until they are no longer in use and no further charge for depreciation is made in respect for those assets.

An item of bank premises, furniture, fixtures and equipment, including the related accumulated depreciation, amortization and impairment losses, 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.

2.5 Investment Properties

Investment properties include parcels of land and buildings and related improvements acquired by the Bank from defaulting borrowers not held for sale in the next 12 months. These are initially measured at acquisition cost which comprise the carrying amount of the related loan after adjustments for unamortized premium or discount less allowance for credit losses plus accrued interest and directly attributable costs. Subsequently, investment properties are stated at cost less accumulated depreciation and any impairment in value.

Direct operating expenses related to investment properties, such as repairs and maintenance, and real estate taxes are normally charged to profit or loss in the period in which these costs are incurred.

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 2.14).

Investment property is derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in profit or loss in the year of retirement or disposal.

2.6 Prepayments and Other Resources

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

2.7 Intangible Assets

Intangible assets include license and software and other intangibles 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 up to acquire an asset at the time of its acquisition or production.

License, which has an indefinite useful life, is accounted for at cost less any accumulated impairment losses.

Capitalized costs of software and other intangibles are amortized on a straight-line basis over the estimated useful lives (ranging from three to ten years) as the lives of these intangible assets are considered finite. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software.

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.

These intangible assets are reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired (see Note 2.14).

License and software and other intangible assets are presented as part of Prepayments and Other Resources account in the statement of financial position.

2.8 Financial Liabilities

Financial liabilities, which include deposit liabilities, bills payable and accrued expenses and other liabilities (excluding tax-related payables and post-employment defined benefit obligation), are recognized when the Bank becomes a party to the contractual terms of the instrument. All interest-related charges incurred on financial liabilities are recognized as an expense in profit or loss under the caption Interest Expense in the statement of profit or loss.

Deposit liabilities are recorded or stated at amounts in which they are to be paid.

Bills payable are recognized initially at fair value, which is the issue proceeds (fair value of consideration received), net of direct issue costs, if any. Bills payable are subsequently stated at amortized cost; any difference between the proceeds, net of transaction costs and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

Accrued expenses and other liabilities are recognized initially at their fair value and subsequently measured at amortized cost less settlement payments.

In 2014 and 2013, dividend distributions to shareholders are recognized as financial liabilities when the dividends are approved by the shareholders and the BSP.

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

2.9 Offsetting Financial Instruments

Financial assets and liabilities are offset and the resulting net amount, considered as a single financial asset or financial liability, is reported in the statement of financial position when the Bank currently has 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 a 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.

2.10 Provisions and Contingencies

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

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 pretax 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 can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

2.11 Revenue and Expense Recognition

Revenue comprises revenue from rendering of services measured by reference to the fair value of consideration received or receivable by the Bank for the services rendered.

Revenue is recognized to the extent that the revenue can be reliably measured; it is probable that future economic benefits will flow to the Bank; and the costs incurred or to be incurred can be measured reliably. All finance costs are reported in profit or loss on an accrual basis. In addition, the following specific recognition criteria described below and on the next page must also be met before the significant revenue is recognized.

(a) *Interest* – Interest income and expenses are recognized in profit or loss for all instruments measured at amortized cost 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 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.

(b) *Service charges, fees and commissions* – Revenue is generally recognized when the service has been provided.

(c) *Gain on disposal of AFS financial assets* – Income is recognized when the ownership of the financial assets is transferred to the buyer. It is presented as part of Other Income in the statement of profit or loss. Consequently, the result of the revaluation of such asset at the end of the reporting period is presented as part of Fair Value Gain or Loss on AFS financial assets in the statement of comprehensive income.

Cost and expenses are recognized in profit or loss upon utilization of goods or services or at the date they are incurred. All finance costs are reported in profit or loss on an accrual basis.

2.12 Leases

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

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.

2.13 Foreign Currency Transactions and Translation

The accounting records of the Bank are maintained in Philippine pesos. Foreign currency transactions during the year are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign currency gains and losses resulting from the settlement of such 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.

2.14 Impairment of Non-financial Assets

The Bank's bank premises, furniture, fixtures and equipment, investment properties, software and other intangibles and goodwill (both presented as part of Prepayments and Other Resources) are subject to impairment testing. Individual assets or cash-generating units except goodwill is tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill, on the other hand, are subject to annual test of impairment.

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.

Impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts which is the higher of its fair value less costs to sell and its value in use. 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. The data used for impairment testing procedures are directly linked to the Bank's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements. 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.

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

2.15 Employee Benefits

The Bank provides post-employment benefits to employees through a defined benefit plan, as well as bonus plans which are recognized as those stated below and in the succeeding page.

(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 post-employment defined benefit plan covers all regular full-time employees. The pension plan is tax-qualified, noncontributory and administered by a trustee.

The liability recognized in the statement of financial position for a defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated every two years by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows for expected benefit payments using a discount rate derived from the interest rates of a zero coupon government bond as published by Philippine Dealing & Exchange Corp., 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 Income or Interest Expense 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, such as the Social Security System. 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.

(c) *Bonus Plans*

The Bank recognizes a liability and an expense for bonuses, based on a formula that takes into consideration the profit attributable to the Bank's shareholders after certain adjustments. 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.

2.16 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 end of the reporting period. They are calculated using 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 the 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 related to the same entity and the same taxation authority.

2.17 Related Party Relationships and Transactions

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

Parties are considered to be related if one party has the ability to control the other party or exercise 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 post-employment defined benefit plan.

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

2.18 Equity

Capital stock represents the nominal value of shares that have been issued.

Other reserves represent the difference between the net assets received from ONRBI and RBNCI and the amount of the shares issued which basically pertains to the net earnings of ONRBI and RBNCI prior to consolidation. This is subsequently reduced by the amount of stock and cash dividends declared which were effected against Other Reserves as approved by the BSP.

Revaluation reserves comprise fair value gains on revaluation of AFS financial assets and remeasurements of post-employment defined benefit plan.

Surplus represents all current and prior period results of operations as reported in the statement of profit or loss, reduced by the amounts of dividends declared.

2.19 Earnings Per Share

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

The diluted EPS is computed by dividing net profit by the weighted average number of outstanding and dilutive potential common shares. Both basic and dilutive EPS amounts are computed after giving retroactive effect to stock dividends declared during the current period, if any.

2.20 Events After the End of the Reporting Period

Any 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 Financial Assets as HTM Investments

In classifying non-derivative financial assets with fixed or determinable payments and fixed maturity, such as bonds, as HTM investments, the Bank evaluates its intention and ability to hold such investments up to maturity. Management has confirmed its intention and determined its ability to hold the investments up to maturity. If the Bank fails to keep these investments to maturity other than for specific circumstances as allowed under the standard, it will be required to reclassify the whole class as AFS financial assets. In such a case, the investments would, therefore, be measured at fair value, not at amortized cost.

(b) Impairment of AFS Financial Assets

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 financial assets, management concluded that the assets are not impaired as at December 31, 2015 and 2014. Future changes in those information and circumstances might significantly affect the carrying amount of the assets.

(c) *Distinction between Investment Properties and Owner-managed Properties*

The Bank determines whether a property qualifies as investment property. In making its 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 the property but also to other assets used in operations.

(d) *Distinction between Operating and Finance Leases*

The Bank has entered into various lease agreements as a lessee. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or a 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.

(e) *Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provisions and contingencies are discussed in Note 2.10 and disclosures of relevant contingencies are presented in Note 26.

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 assets and liabilities within the next reporting period:

(a) *Fair Value Measurement for Financial Instruments*

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

The carrying values of the Bank's AFS financial assets and the amounts of fair value changes recognized during the years on those assets are disclosed in Note 9.

(b) *Impairment of Loans and Receivables*

Adequate amount of allowance for impairment is provided for specific and groups of accounts, where objective evidence of impairment exists. For loans receivables, the Bank evaluates these accounts based on available facts and circumstances, including, but not limited to, the length of the Bank's relationship with the borrowers, the borrowers' current credit status, average age of accounts, collection experience and historical loss experience. For other receivables, the Bank assesses the significant financial difficulty of the debtor or where applicable, the observable data indicating that there is a measurable decrease in the estimated future cash flows since the initial recognition of the financial asset, although the decrease cannot yet be identified.

The methodology and assumptions used in estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

The carrying value of loans and receivables and the analysis of allowance for impairment on such financial assets are shown in Notes 11 and 15, respectively.

(c) *Estimation of Useful Lives of Bank Premises, Furniture, Fixtures and Equipment, Investment Properties, and Software and Other Intangible Assets*

The Bank estimates the useful lives of bank premises, furniture, fixtures and equipment, investment properties, and software and other intangibles – presented as part of Prepayments and Other Resources account in the statements of financial position, 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 software and other intangibles 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 carrying amounts of bank premises, furniture, fixtures and equipment, investment properties, and software and other intangibles are analyzed in Notes 12, 13 and 14, respectively. Based on management's assessment as at December 31, 2015 and 2014, there is no change in estimated useful lives of these assets during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(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 assets to be utilized.

Management assessed that the deferred tax assets recognized as at December 31, 2015 and 2014 will be fully utilized in the coming years. The carrying value of deferred tax assets as of those dates is disclosed in Note 23.

(e) *Impairment of Non-financial Assets*

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see Note 2.14). 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.

Based on management's assessment, no impairment losses on non-financial assets were recognized in 2015 and 2014 while P4.8 million was recognized in 2013 as disclosed in Note 15.

(f) Valuation of Post-employment Defined Benefit Obligation

The determination of the Bank's obligation and cost of post-employment defined benefit is dependent on the selection of certain assumptions used by independent actuaries engaged by the Bank in calculating such amounts. Those assumptions include, among others, discount rates and salary rate increase. 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 defined benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment defined benefit obligation, as well as the significant assumptions used in estimating such obligation in the next reporting period are presented in Note 22.2.

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Bank is exposed to a variety of potential risks arising from its business activities. It enters into financial instrument contracts, which consist of AFS financial assets, HTM investments, loans and receivables, and financial liabilities such as deposits and bills payable to finance the Bank's operations. The Bank's financial assets and liabilities by category are summarized in Note 5. The main types of risks to which the Bank is exposed includes market risk, credit risk, liquidity risk, operations risk and legal and regulatory risk.

The Bank's risk management is coordinated with its Parent Bank, in close cooperation with the BOD, and focuses on actively securing the Bank's short to medium-term cash flows by minimizing the exposure to financial markets. Long-term financial investments are managed to generate lasting returns.

The Bank does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Bank is exposed to are described in the succeeding paragraphs.

4.1 Risk Oversight Structure

The BOD is primarily responsible for approving the credit policies and the overall risk capacity of the Bank. Board committees have been established by the BOD to oversee the increasingly varied risk management activities of the Bank with the active participation of senior management.

(a) Risk Oversight Committee

To manage the financial risk for holding financial assets and liabilities, the Bank's Risk Oversight Committee (ROC) was created to address the risks it faces in its banking activities, including liquidity, interest rate, credit and market risks. ROC provides oversight of credit, market, liquidity, operations, legal and other risks taken throughout the Bank. The Risk Management Department performs an independent business function within the Bank and is responsible for developing and maintaining the Bank's risk policy framework.

The Bank's ROC was created with the following core responsibilities:

(i) identify and evaluate exposures;
(ii) develop risk management strategies;
(iii) implement the risk management plan; and,
(iv) review and revise the plan as needed.

The ROC has the following specific duties and responsibilities:

(i) review the risk infrastructure and operating policies to ensure these are congruent with corporate policies on prudent risk management, and conform to regulatory, industry and technological standards, trends and best practices. On an on-going basis, identify and assess the external risk that may affect the business plans and directions of the Bank;
(ii) review the Bank's capital allocation methodology;
(iii) establish, in consultation with Management and subject to BOD's approval, corporate policies and guidelines for risk management, reporting, and management;
(iv) review the Bank's asset management activities, including oversight structure for general policies and reports;
(v) review the steps that Management has taken to monitor and control risk exposures. Review the management's performance against these policies and benchmarks;
(vi) promote the continuous development of risk programs and infrastructure; ensure that business units provide for ongoing review of the adequacy and soundness of policies, assumptions and practices;
(vii) create and promote risk culture that requires and encourages the highest standards of ethical behavior by risk managers and risk-taking personnel;
(viii) encourage the professional development and training of staff engaged in both risk management activities and risk-taking activities;
(ix) review annually the ROC charter to reassess its adequacy, implement best practices and propose necessary changes to the BOD's approval; and,
(x) submit its annual performance report to the BOD.

(b) *Audit Committee*

The Bank's Audit Committee's main function is to assist the BOD in oversight functions and adopts a more proactive role in ensuring accountability on the part of management as well as of the internal and external auditors. The committee monitors the internal control over financial reporting of the Bank and the audits of its financial statements, substantiates the performance of the Banks's internal audit, verifies the independent auditor's qualifications and independence, thus safeguarding the overall objectivity of the financial reporting and internal control processes and confirms the compliance of the Bank with legal and regulatory requirements.

4.2 Market Risk

The Bank is exposed to market risk through its use of financial instruments and specifically to foreign currency risk, interest rate risk and certain other price risk which result from its operating, investing and financing activities.

(a) Foreign Currency Risk

Most of the Bank's transactions are carried out in Philippine pesos, its functional currency. The Bank's exposures to currency exchange rates may arise from deposits with other banks denominated in currencies other than the Philippine peso. As at December 31, 2015 and 2014, the Bank has no significant foreign currency risk exposure as it has no significant foreign currency-denominated deposits with other banks and deposit liabilities to depositors.

(b) Interest Rate Risk

The Bank's policy is to minimize interest rate cash flow risk exposures on long-term financing. Long-term borrowings are therefore usually made at fixed rates. As at December 31, 2015 and 2014, the Bank is exposed to changes in market interest rates through its due from other banks, which are subject to variable interest rates, and bills payable which are subject to interest rate repricing. All other financial assets and liabilities have fixed rates.

Due from other banks are tested on a reasonably possible change of +/- 1.75% and +/- 0.96% in 2015 and 2014, respectively. Bills payable, which are all in Philippine peso and subject to interest rate repricing, are tested on a reasonably possible change of nil in 2015 and +/- 0.68% in 2014. There are no outstanding bills payable as of December 31, 2015. These percentages have been determined based on the average market volatility of interest rates, using standard deviation, in the previous 12 months estimated at 99.00% level of confidence. The sensitivity analysis is based on the Bank's financial instruments held at the end of the each reporting period, with effect estimated from the beginning of the year. All other variables are held constant.

The changes in percentages would affect profit or loss before tax by +/-P4.9 million and +/-P0.3 million in 2015 and 2014, respectively, and equity after tax by +/-P3.4 million and +/-P0.2 million in 2015 and 2014, respectively.

(c) Other Price Risk

The Bank's market price risk arises from its investments carried at fair value. The Bank manages exposure to price risk of AFS financial assets by monitoring the changes in the market price of these investments and at some extent, diversifying the investment portfolio in accordance with the limit set by management.

Based on the volatility assumptions of the benchmark index for government bonds classified as AFS financial assets, an average volatility of +/-11.31% and +/-2.70% in 2015 and 2014, respectively, were observed with all other variables held constant. These changes in percentages would impact other comprehensive income by +/- P42.6 million and +/- P59.5 million in 2015 and 2014, respectively.

4.3 Credit Risk

Credit risk is the risk that a counterparty may fail to discharge an obligation to the Bank. The Bank is exposed to this risk for various financial instruments arising from granting loans and receivables to customers, including related parties, placing deposits with other banks and investing in bonds.

The Bank continuously monitors defaults of borrowers and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. The Bank's policy is to deal only with creditworthy counterparties. In addition, for certain types of loans, collaterals are required to mitigate 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.

	Notes	**2015**	2014
Cash and cash equivalents	6	**P 2,507,418,743**	P 4,211,492,838
AFS financial assets	9	**376,882,079**	2,202,413,908
HTM investments	10	**349,299,755**	353,180,073
Loans and receivables – net	11	**20,516,700,682**	20,905,811,025
Security deposit	14	**4,270,452**	1,349,196
Sales contract receivables	14	**910,286**	2,361,781
		P 23,755,481,997	P 27,676,608,821

The Bank's financial assets are in part secured by collateral guarantees and other credit enhancements, as described below and in the succeeding pages.

(a) *Cash and Cash Equivalents*

The credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable banks with high quality external credit ratings. Included in the cash and cash equivalents are cash in banks and short-term placements which are insured by the Philippine Deposit Insurance Corporation (PDIC) up to a maximum coverage of P0.5 million for every deposit per banking institution.

(b) *AFS Financial Assets and HTM Investments*

The carrying amount of AFS financial assets and HTM investments is the maximum possible credit risk exposure of the Bank in relation to the said investments.

(c) *Loans and Receivables*

In respect of loans and receivables, the Bank is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. However, the Bank is exposed to credit risk on its concentration to salary loan products which consist of 82.47% and 82.22% of the Bank's total loan portfolio as at December 31, 2015 and 2014, respectively. Although, most of the salary loans are unsecured loans, however, such are enrolled in automatic payroll deduction system, a payment scheme wherein the institution where the borrower belongs ensures deduction from the payroll and remits the payment directly to the Bank. Based on historical information about borrower default rates, management considers the credit quality of loans and receivables that are not past due or impaired to be good.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits when appropriate. Exposure to credit risk is also managed in part by obtaining collateral and personal guarantees. With respect to foreclosed collaterals, these are normally actively disposed by the Bank.

The Bank's loans are actively monitored to avoid significant concentrations of credit risk in accordance with the BSP's prohibitions on maintaining a financial exposure to any single person or group of persons in excess of 25.00% of its net worth.

In addition, the Bank has credit risk exposure on unimpaired loans and other receivables that are past due per BSP definition as at the end of the reporting period. As at December 31, 2015 and 2014, loans and receivables that are past due but not impaired amounted to P238.7 million and P223.2 million, respectively, which are outstanding for less than one year.

The table below shows the credit quality by class of financial assets based on the Bank's rating system as at December 31, 2015.

	High Grade	Standard Grade	Substandard Grade	Past Due and Individually Impaired	Total
Cash and cash equivalents	P 2,507,418,743	P -	P -	P -	P 2,507,418,743
AFS financial assets	376,882,079	-	-	-	376,882,079
HTM investments	349,299,755	-	-	-	349,299,755
Loans and receivables – gross	20,228,247,593	74,126,018	238,652,788	669,305,033	21,210,331,432
Security deposit	4,270,452	-	-	-	4,270,452
Sales contract receivables – gross	-	-	910,286	355,869	1,266,155
	P 23,466,118,622	P 74,126,018	P 239,563,074	P 669,660,902	P 24,449,468,616

The table below shows the credit quality by class of financial assets based on the Bank's rating system as at December 31, 2014.

	High Grade	Standard Grade	Substandard Grade	Past Due and Individually Impaired	Total
Cash and cash equivalents	P 4,211,492,838	P -	P -	P -	P 4,211,492,838
AFS investments	2,202,413,908	-	-	-	2,202,413,908
HTM investments	353,180,073	-	-	-	353,180,073
Loans and receivables – gross	20,381,091,162	304,624,688	223,165,282	613,833,330	21,522,714,462
Security deposit	1,349,196	-	-	-	1,349,196
Sales contract receivables – gross	-	-	2,361,781	285,031	2,646,812
	P 27,149,527,177	P 304,624,688	P 225,527,063	P 614,118,361	P 28,293,797,289

The credit grades used by the Bank in evaluating the credit quality of its loans and receivables are the following:

(a) *High grade or low risk loans*

These loans are neither past due nor impaired which are fully secured by collateral and with good collection status. This category includes credit grades 1 to 3. High grade loans are those which possess high probability of collection, as evidenced by counterparties having ability to satisfy their obligations and that the collaterals used to secure the loans are readily enforceable.

(b) *Standard grade or medium risk loans*

Standard grade loans are neither past due nor impaired with partially secured loan status. This category includes credit grade 4 to 5. The standard grade category includes loans for which collections are probable due to the reputation and financial capacity to pay of the counterparty but have been outstanding for a considerable length of time.

(c) *Substandard grade or high risk loans*

Substandard grade loans are those where the counterparties are, most likely, not capable of honoring their financial obligations. These loans include impaired loans which have continuous loan collection default issues or past due but not impaired loans and receivable accounts.

An estimate of the fair value of collateral and other security enhancements held by the Bank against loans and receivables as at December 31, 2015 and 2014 amounted to P6,088.0 million and P4,397.1 million, respectively.

4.4 Liquidity Risk

Liquidity risk is the risk that there could be insufficient funds available to adequately meet the credit demands of the Bank's customers and repay deposits on maturity. The Bank manages liquidity risk by holding sufficient liquid assets of appropriate quality to ensure short-term funding requirements are met and by maintaining a balanced loan portfolio. In addition, the Bank seeks to maintain sufficient liquidity to take advantage of interest rate opportunities when they arise.

The analyses of the maturity groupings of financial resources, financial liabilities and off-book items as at December 31, 2015 and 2014 are presented below.

		2015			
	Notes	One year and below	Over one year to five years	Beyond five years	Total
Financial resources:					
Cash and cash equivalents	6	P 2,507,418,743	P -	P -	P 2,507,418,743
AFS financial assets	9	502,850	-	376,379,229	376,882,079
HTM investments	10	-	-	349,299,755	349,299,755
Loans and receivables – net	11	3,172,300,493	15,949,411,506	1,394,988,683	20,516,700,682
Security deposit	14	-	4,270,452	-	4,270,452
Sales contract receivables – net	14	910,286	-	-	910,286
		5,681,132,372	15,953,681,958	2,120,667,667	23,755,481,997
Financial liabilities:					
Deposit liabilities	16	19,940,460,570	1,521,079,344	-	21,461,539,914
Accrued expenses and other liabilities (except tax-related payables and post-employment defined benefit obligation)	18	401,434,653	6,189,550	-	407,624,203
		20,341,895,223	1,527,268,894	-	21,869,164,117
On-book positive (negative) gap		(14,660,762,851)	14,426,413,064	2,120,667,667	1,886,317,880
Contingent assets		-	-	-	-
Contingent liabilities		100,136,835	2,606	-	100,139,441
Off-book gap		(100,136,835)	(2,606)	-	(100,139,441)
Cumulative total positive (negative) gap		**(P14,760,899,686)**	**P14,426,410,458**	**P 2,120,667,667**	**P 1,786,178,439**

		2014			
	Notes	One year and below	Over one year to five years	Beyond five years	Total
Financial resources:					
Cash and cash equivalents	6	P 4,211,492,838	P -	P -	P 4,211,492,838
AFS financial assets	9	-	-	2,202,413,908	2,202,413,908
HTM investments	10	-	-	353,180,073	353,180,073
Loans and receivables – net	11	2,507,599,659	16,991,283,337	1,406,928,029	20,905,811,025
Security deposit	14	-	1,349,196	-	1,349,196
Sales contract receivables – net	14	2,361,781	-	-	2,361,781
		6,721,454,278	16,992,632,533	3,962,522,010	27,676,608,821
Financial liabilities:					
Deposit liabilities	16	16,521,054,716	1,524,941,170	-	18,045,995,886
Bills payable	17	7,354,932,079	-	-	7,354,932,079
Accrued expenses and other liabilities (except tax-related payables and post-employment defined benefit obligation)	18	462,587,387	10,619,501	-	473,206,888
		24,338,574,182	1,535,560,671	-	25,874,134,853
On-book positive (negative) gap		(17,617,119,904)	15,457,071,862	3,962,522,010	1,802,473,968
Contingent assets		-	-	-	-
Contingent liabilities		80,310,323	2,752	-	80,313,075
Off-book gap		(80,310,323)	(2,752)	-	(80,313,075)
Cumulative total positive (negative) gap		(P17,697,430,227)	P15,457,069,110	P 3,962,522,010	P 1,722,160,893

As at December 31, 2015, the Bank's financial liabilities have contractual maturities which are presented below.

	Current		Non-current	
	Within Six Months	**6 to 12 Months**	**One to Five Years**	**Beyond Five years**
Deposit liabilities	P 19,643,008,476	P 317,219,735	P 1,774,045,598	P -
Accrued expenses and other liabilities (except tax-related payables and post-employment defined benefit obligation)	382,355,689	19,078,965	6,189,550	-
	P20,025,364,165	**P 336,298,700**	**P1,780,235,148**	**P -**

As at December 31, 2014, the Bank's financial liabilities have contractual maturities which are presented below.

	Current		Non-current	
	Within Six Months	6 to 12 Months	One to Five Years	Beyond Five years
Deposit liabilities	P 16,257,140,770	P 287,472,989	P 1,828,273,422	P -
Bills payable	7,363,033,536	57,011,474	-	-
Accrued expenses and other liabilities (except tax-related payables and post-employment defined benefit obligation)	422,308,692	40,278,695	10,619,501	-
	P 24,042,482,998	P 384,763,158	P 1,838,892,923	P -

The contractual maturities reflect the gross cash flows, which may differ from the carrying values of the liabilities at the end of each reporting period.

4.5 Operations Risk

Operations risks are risks arising from the potential inadequate information systems, operations or transactional problems (relating to service or product delivery), breaches in internal controls and fraud or unforeseen catastrophes that may result in unexpected loss. Operations 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 Bank has established measures to mitigate the effects of risks related to operations through its senior management. At year-end, the Bank also ensures that disclosures are made in the financial statements for any significant accounts, if any, which may have been affected by such risk.

4.6 Legal and Regulatory Risks

Legal risk pertains to the Bank's exposure to losses arising from cases decided not in favor of the Bank where significant legal costs have already been incurred, or in some instances, where the Bank may be required to pay damages. The Bank is often involved in litigation in enforcing its collection rights under loan agreements in case of borrower default. The Bank may incur significant legal expenses as a result of these events, but the Bank may still end up with non-collection or non-enforcement of claims. The Bank has established measures to avoid or mitigate the effects of these adverse decisions and engages several qualified legal advisors, who were endorsed to and carefully approved by senior management. At year-end, the Bank also ensures that material adjustments or disclosures are made in the financial statements for any significant commitments or contingencies which may have arisen from legal proceedings involving the Bank.

Regulatory risk refers to the potential risk for the Bank to suffer financial loss due to changes in the laws or monetary, tax or other governmental regulations of a country. The monitoring of the Bank's compliance with these regulations, as well as the study of the potential impact of new laws and regulations, is the primary responsibility of the Bank's Compliance Officer. The Compliance Office is responsible for communicating and disseminating new rules and regulations to all units, analyzing and addressing compliance issues, performing periodic compliance testing on branches and Head Office units, and reporting compliance findings to the Audit Committee and the BOD.

5. CATEGORIES, FAIR VALUE MEASUREMENT AND DISCLOSURES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

5.1 Carrying Amounts and Fair Values by Category

The carrying amounts and fair values of the categories of financial assets and financial liabilities presented in the statements of financial position are shown below and in the succeeding page.

		2015		2014	
	Notes	**Carrying Values**	**Fair Values**	Carrying Values	Fair Values
Financial Assets					
Loans and receivables:					
Cash and other cash items	6	**P 844,774,103**	**P 844,774,103**	P 1,009,883,341	P 1,009,883,341
Due from BSP	6, 7	**671,124,158**	**671,124,158**	816,473,444	816,473,444
Due from other banks	6, 8	**991,520,482**	**991,520,482**	2,385,136,053	2,385,136,053
Loans and receivables – net	11	**20,516,700,682**	**20,516,700,682**	20,905,811,025	20,905,811,025
Security deposit	14	**4,270,452**	**4,270,452**	1,349,196	1,349,196
Sales contract receivables – net	14	**910,286**	**910,286**	2,361,781	2,361,781
		23,029,300,163	**23,029,300,163**	25,121,014,840	25,121,014,840
AFS financial assets	9	**376,882,079**	**376,882,079**	2,202,413,908	2,202,413,908
HTM investments	10	**349,299,755**	**356,064,500**	353,180,073	358,661,634
		P 23,755,481,997	**P 26,762,246,742**	P 27,676,608,821	P 27,682,090,382

	Notes	2015 Carrying Values	2015 Fair Values	2014 Carrying Values	2014 Fair Values
Financial Liabilities					
Financial liabilities at amortized cost:					
Deposit liabilities	16	**P 21,461,539,914**	**P 21,461,539,914**	P 18,045,995,886	P 18,045,995,886
Bills payable	17	**-**	**-**	7,354,932,079	7,354,932,079
Accrued expenses and other liabilities (except tax-related payables and post-employment defined benefit obligation)	18	**407,624,203**	**407,624,203**	473,206,888	473,206,888
		P 21,869,164,117	**P 21,869,164,117**	P 25,874,134,853	P 25,874,134,853

See Notes 2.3 and 2.8 for a description of the accounting policies for each category of financial instrument. A description of the Bank's risk management objectives and policies for financial instruments is provided in Note 4.

5.2 Fair Value Measurement and Disclosures

(a) Fair Value Hierarchy

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

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

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

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

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

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

(b) Financial Instruments Measured at Fair Value

The table below shows the fair value hierarchy of the Bank's classes of financial assets measured at fair value in the statements of financial position as at December 31, 2015 and 2014.

		2015			
	Note	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial Asset					
Debt Securities –					
AFS financial assets	9	**P 376,882,079**	**P -**	**P -**	**P 376,882,079**

		2014			
	Note	Level 1	Level 2	Level 3	Total
Financial Asset					
Debt Securities –					
AFS financial assets	9	P2,202,413,908	P -	P -	P 2,202,413,908

The fair value of the Bank's debt securities categorized as AFS financial assets which consist of government bonds estimated by reference to the quoted bid price in an active market at the end of the reporting period and is categorized within Level 1.

The Bank has no financial liabilities measured at fair value as at December 31, 2015 and 2014.

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

(c) Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed

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

	Notes	2015 Level 1	Level 2	Level 3	Total
Financial Assets					
Loans and receivables:					
Cash and cash equivalents	6	P 2,507,418,743	P -	P -	P 2,507,418,743
Loans and receivables – net	11	-	-	20,516,700,682	20,516,700,682
HTM investments	10	-	356,064,500	-	356,064,500
		P 2,507,418,743	**P 356,064,500**	**P 20,516,700,682**	**P 23,380,183,925**
Financial Liabilities					
Financial liabilities at amortized cost:					
Deposit liabilities	16	P -	P -	P 21,461,539,914	P 21,461,539,914
Accrued expenses and other liabilities (except tax-related payables and post-employment defined benefit obligation)	18	-	-	407,624,203	407,624,203
		P -	**P -**	**P 21,869,164,117**	**P 21,869,164,117**

	Notes	2014 Level 1	Level 2	Level 3	Total
Financial Assets					
Loans and receivables:					
Cash and cash equivalents	6	P 4,211,492,838	P -	P -	P 4,211,492,838
Loans and receivables – net	11	-	-	20,905,811,025	20,905,811,025
HTM investments	10	-	357,832,230	829,404	358,661,634
		P 4,211,492,838	P 357,832,230	P 20,906,640,429	P 25,475,965,497
Financial Liabilities					
Financial liabilities at amortized cost:					
Deposit liabilities	16	P -	P -	P 18,045,995,886	P 18,045,995,886
Bills payable	17	-	-	7,354,932,079	7,354,932,079
Accrued expenses and other liabilities (except tax-related payables and post-employment defined benefit obligation)	18	-	-	473,206,888	473,206,888
		P -	P -	P 25,874,134,853	P 25,874,134,853

For financial assets with fair values included in Level 1, management considers that the carrying amounts of financial instruments approximate their fair values.

(d) Fair Value Measurement for Non-financial Assets

There were no non-financial assets measured at fair value as at December 31, 2015 and 2014.

The fair value disclosed for the Bank's investment properties, which consist of parcels of land, is based on Level 2. The Level 2 fair value of land was derived using the market comparable approach that reflects the recent transaction prices for similar properties in nearby locations. Under this approach, when sales prices of comparable land in close proximity are used in the valuation of the subject property with no adjustment on the price, fair value is included in Level 2 (see Note 13).

5.3 Offsetting of Financial Assets and Financial Liabilities

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

	Gross amounts recognized in the statements of financial position		Net amount presented in	Related amounts not set off in the statements of financial position		
	Financial assets	Financial liabilities set off	the statements of financial position	Financial instruments	Cash collateral received	Net amount
December 31, 2015 –						
Loans and receivables – net	**P 20,671,911,898**	**(P 78,732,248)**	**P 20,593,179,650**	**(P 94,305,476)**	**P -**	**P 20,498,874,174**
December 31, 2014:						
Loans and receivables – net	P 20,974,893,425	(P 69,082,400)	P 20,905,811,025	(P 5,083,741,086)	P -	P 15,822,069,939
AFS financial assets	2,202,413,908	-	2,202,413,908	(1,841,103,900)	-	361,310,008
HTM investments	353,180,073	-	353,180,073	(68,039,562)	-	285,140,511
Total	P 23,530,487,406	(P 69,082,400)	P 23,461,405,006	(P 6,992,884,548)	P -	P 16,468,520,458

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

	Gross amounts recognized in the statements of financial position		Net amount presented in	Related amounts not set off in the statements of financial position		
	Financial liabilities	Financial assets set off	the statements of financial position	Financial instruments	Cash collateral received	Net amount
December 31, 2015 –						
Deposit liabilities	**P 21,540,272,162**	**(P 78,732,248)**	**P 21,461,539,914**	**(P 94,305,476)**	**P -**	**P 21,367,234,438**
December 31, 2014:						
Deposit liabilities	P 18,115,078,286	(P 69,082,400)	P 18,045,995,886	(P 75,683,605)	P -	P 17,970,312,281
Bills payable	7,354,932,079	-	7,354,932,079	(6,917,200,943)	-	437,731,136
Total	P 25,470,010,365	(69,082,400)	P 25,400,927,965	6,992,884,548	P	P 18,408,043,417

Financial assets and financial liabilities set-off pertain to the Bank's loans and receivables collateralized by deposit hold-out. Financial instruments subject to offsetting but not set-off in the statements of financial position pertain to AFS financial assets, HTM investments, and loans and receivables collateralized or assigned against bills payable.

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

6. CASH AND CASH EQUIVALENTS

For purposes of presenting the cash flows, cash and cash equivalents consist of the following:

	Notes	2015	2014
Cash and other cash items		**P 844,774,103**	P 1,009,883,341
Due from BSP	7	**671,124,158**	816,473,444
Due from other banks	8	**991,520,482**	2,385,136,053
		P 2,507,418,743	P 4,211,492,838

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. Other cash items include cash items (other than currency and coins on hand) such as checks drawn on other banks or other branches after the Bank's clearing cut-off time until the close of the regular banking hours.

7. DUE FROM BANGKO SENTRAL NG PILIPINAS

This account represents the Bank's demand deposit with the BSP in compliance with BSP's reserve requirements (see Note 6). The Bank has satisfactorily complied with the reserve requirements of the BSP. Deposits with BSP do not earn interest.

8. DUE FROM OTHER BANKS

This account is composed of the following as at December 31:

	Note	2015	2014
Demand and savings		**P 826,210,504**	P 1,860,794,289
Time		**165,309,978**	524,341,764
	6	**P 991,520,482**	P 2,385,136,053

Savings deposit bears interest at 0.10% to 1.25%, 0.25% to 2.50%, and 0.38% to 2.50% per annum in 2015, 2014 and 2013, respectively. All of the Bank's time deposits which can be pre-terminated anytime, will mature within one year to two years and bear interest at rates ranging from 0.38% to 7.19% , 0.38% to 7.35% and 1.00% to 7.50% per annum in 2015, 2014 and 2013, respectively. Interest income on deposits with other banks amounted to P27.2 million , P34.2 million and P35.1 million in 2015, 2014 and 2013, respectively, which is presented as Interest Income on Deposits with Other Banks in the statements of profit or loss.

9. AFS FINANCIAL ASSETS

This account consists of peso-denominated bonds issued by the Philippine government and certain private corporations with annual nominal interest rates ranging from 3.25% to 10.25% and will mature in various dates until 2032.

The reconciliation of the carrying amounts of AFS financial assets as at December 31 are presented below.

	2015	2014
Balance at beginning of year	**P 2,202,413,908**	P 1,588,089,309
Cost of AFS financial assets disposed	**(1,758,711,870)**	(403,273,714)
Fair value gains of AFS financial assets disposed	**(304,447,567)**	-
Additions	**235,003,509**	928,807,246
Unrealized fair value gains - net	**2,624,099**	88,791,067
Balance at end of year	**P 376,882,079**	P 2,202,413,908

As at December 31, 2015, there are no AFS investments pleged as collateral for any obligation of the Bank. However, AFS investments in bonds issued by Rizal Commercial Banking Corporation (RCBC) and BDO which bear fixed coupon rates per annum of 5.88% and 2.25%, repectively, and will mature on March 1, 2032 and March 3, 2016, respectively, are placed under BSP to maintain the required liquidity reserve requirements. In addition, investments amounting to P289.8 million in 2014 (nil in 2015) are pledged to secure the bills payable to BDO, Philippine National Bank (PNB), China Banking Corporation (CBC), Bank of the Philippine Islands (BPI), and portion of RCBC under the Bank's credit facilities with the said banks (see Note 17).

The fair value of government bonds have been determined under Level 1 fair value hierarchy and measured directly by reference to published prices in an active market [see Note 5.2*(b)*].

The interest income recognized on AFS financial assets amounting to P106.6 million, P106.7 million and P89.6 million in 2015, 2014 and 2013, respectively, is presented as part of Interest Income on Investments in the statements of profit or loss. Gain on disposal of AFS financial assets amounted P206.1 million in 2015, P16.8 million in 2014 and P38.6 million in 2013, and is presented as part of Others under Other Income in the statements of profit or loss (see Note 21).

10. HELD-TO-MATURITY INVESTMENTS

This account consists of investments in bonds issued by RCBC, PNB and Land Bank of the Philippines (LBP), broken down as follows:

		2015		2014
RCBC	**P**	**281,190,831**	P	284,311,107
PNB		**68,108,924**		68,039,562
LBP		**-**		829,404
	P	**349,299,755**	P	353,180,073

Bond investment in RCBC was acquired in 2013 for liquidity reserve purposes of the Bank, which bears fixed coupon rate of 8.20% per annum, and will mature on January 19, 2026.

Bond investments in PNB was acquired in 2014 for liquidity reserve purpose. Additionally, HTM securities which bear fixed coupon rates of 10.25% and 3.25%, respectively, are used as collateral for BSP overnight clearing line.

Bond investments in LBP represent investment received as payment for the land sold under the Voluntary Offer to Sell program of the Department of Agrarian Reform. These investments bear market interest rates based on the 91-day treasury bill rates and are redeemable in ten annual installments from the dates these were issued. The outstanding LBP bonds as at December 31, 2015 and 2014 will mature in 2019.

The interest income recognized during the year for HTM investments, presented as part of Interest Income on Investments in the statements of profit or loss, amounted to P15.0 million, P14.6 million and P1.7 million in 2015, 2014 and 2013, respectively.

Management assessed that no impairment loss on the Bank's HTM investments is required to be recognized in 2015, 2014 and 2013.

11. LOANS AND RECEIVABLES

As at December 31, the breakdown of this account follows:

	Note	2015	2014
Loans:			
Individual consumption		**P 11,684,982,597**	P 10,315,364,698
Agricultural		**3,325,707,406**	4,686,402,050
Housing		**3,710,725,723**	3,903,018,550
Commercial		**1,806,693,785**	1,753,065,215
Others		**34,735,709**	180,643,839
		20,562,845,220	20,838,494,352
Allowance for impairment	15	**(608,904,103)**	(544,141,145)
Unearned discounts		**(24,325,717)**	(3,070,107)
		19,929,615,400	20,291,283,100
Accrued interest receivable		**385,690,240**	437,673,315
Allowance for impairment	15	**(25,010,536)**	(36,815,084)
		360,679,704	400,858,231
Accounts receivable		**261,795,972**	246,546,795
Allowance for impairment	15	**(35,390,394)**	(32,877,101)
		226,405,578	213,669,694
		P20,516,700,682	P 20,905,811,025

Loans considered past due as at December 31, 2015 and 2014 amounted to P818.0 million and P638.6 million, respectively. Portion of the past due accounts and accounts under litigation are covered with real estate mortgages, which could be foreclosed to reduce possible losses from non-collection.

In 2014, loans amounting to P5,008.1 million were pledged to secure the bills payable to LBP, BSP and BPI under the Bank's rediscounting and credit line with the said banks (see Note 17). No more loans were pledged as of December 31, 2015 since the Bank has already paid all its previously outstanding bills payable.

Loans to directors, officers, stockholders and related interests (DOSRI) amounted to P11.7 million and P23.0 million as at December 31, 2015 and 2014, respectively, representing 0.06% and 0.11% of the total loan portfolio as at those dates, respectively. Current and unsecured DOSRI loans as of December 31, 2015 and 2014 amounted to P0.4 million and P0.7 million, respectively (see Note 20.1).

Interest income on loans and receivables recognized amounting to P1,641.3 million, P1,582.8 million and P1,221.6 million in 2015, 2014 and 2013, respectively, is presented as Interest Income on Loans and Receivables in the statements of profit or loss.

The breakdown of loans as to secured and unsecured follows:

	2015	2014
Unsecured	**P 17,052,260,856**	P 17,037,988,775
Secured:		
Real estate mortgage	**3,431,852,116**	3,724,850,909
Deposit hold-out	**78,732,248**	75,654,668
	3,510,584,364	3,800,505,577
	P 20,562,845,220	P 20,838,494,352

The breakdown of loans as to the Bank's credit accommodations by industry follows:

	2015	2014
Agricultural	**P 3,272,385,735**	P 4,940,736,538
Education	**6,963,323,832**	6,306,451,498
Real estate, rental and business activities	**4,074,436,300**	4,488,297,477
Wholesale and retail trade	**1,989,864,437**	3,174,087,398
Others	**4,262,834,916**	1,928,921,441
	P 20,562,845,220	P 20,838,494,352

The maturity profile of the Bank's loans is shown below.

	2015	2014
One year and below	**P 2,281,096,309**	P 2,090,738,880
One year to five years	**16,424,772,200**	17,297,362,834
Beyond five years	**1,856,976,711**	1,450,392,638
	P 20,562,845,220	P 20,838,494,352

The classification of loans as to interest rate follows:

	2015	2014
Over 25.00% - 30.00%	**P 3,351,180**	P 29,025,288
Over 20.00% - 25.00%	**3,772,671**	21,575,793
Over 15.00% - 20.00%	**17,251,104**	158,417,544
15.00% and below	**20,538,470,265**	20,629,475,727
	P 20,562,845,220	P 20,838,494,352

The breakdown of loans by status is presented as follows:

	2015	2014
Current	**P 19,743,092,358**	P 20,196,608,598
Past due	**817,951,508**	638,607,585
In litigation	**1,801,354**	3,278,169
	P 20,562,845,220	P 20,838,494,352

Non-performing loans (NPL) included in the total loan portfolio of the Bank as at December 31, 2015 and 2014 are presented below as net of specific allowance for impairment in compliance with BSP Circular 772, which amends regulations governing non-performing loans.

	2015	2014
NPL	**P 819,752,862**	P 696,183,968
Allowance for impairment	**(414,342,661)**	(347,782,313)
	P 405,410,201	P 348,401,655

Per BSP's Manual of Regulations for Banks (MORB), non-performing loans shall, as a general rule, refer to loan accounts whose principal and/or interest is unpaid for 30 days or more after due date or after they havebecome past due in accordance with existing rules and regulations. This shall apply to loans payable in lump sum and loans payable in quarterly, semi-annual or annual installments, in which case, the total outstanding balance thereof shall be considered non-performing. In the case of loans payable in monthly installments, the total outstanding balance thereof shall be considered nonperforming when three or more installments are in arrears. In the case of loans payable in daily, weekly or semi-monthly installments, the entire outstanding balance of the loan/receivable shall be considered as past due when the total amount of arrearages reaches 10% of the total loan/receivable balance. Restructured loans shall be considered non-performing except when as of restructuring date, it has an updated principal and interest payments and it is fully secured by real estate with loan value of up to 70.00% of the appraised value of real estate security and the insured improvements and such other first class collaterals.

12. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

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

	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold and Land Improvements	Construction in Progress	Total
December 31, 2015						
Cost	P 739,333,484	P 779,871,093	P 734,766,529	P 21,508,161	P 2,704,506	P 2,278,183,773
Accumulated depreciation and amortization	-	(220,649,401)	(563,908,202)	(7,230,819)	-	(791,788,422)
Allowance for impairment	(13,833,696)	(4,383,872)	-	-	-	(18,217,568)
Net carrying amount	**P 725,499,788**	**P 554,837,820**	**P 170,858,327**	**P 14,277,342**	**P 2,704,506**	**P 1,468,177,783**
December 31, 2014						
Cost	P 738,801,682	P 731,051,124	P 769,724,240	P 22,362,555	P 35,201,703	P 2,297,141,304
Accumulated depreciation and amortization	-	(184,729,601)	(558,573,401)	(9,836,195)	-	(753,139,197)
Allowance for impairment	(13,833,696)	(4,383,872)	-	-	-	(18,217,568)
Net carrying amount	P 724,967,986	P 541,937,651	P 211,150,839	P 12,526,360	P 35,201,703	P 1,525,784,539

	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold and Land Improvements	Construction in Progress	Total
January 1, 2014						
Cost	P 565,797,681	P 670,101,477	P 674,991,140	P 21,707,682	P 27,899,640	P 1,960,497,620
Accumulated depreciation and amortization	-	(148,786,323)	(481,943,499)	(8,220,057)	-	(638,949,879)
Allowance for impairment	(13,833,696)	(4,383,872)	-	-	-	(18,217,568)
Net carrying amount	P 551,963,985	P 516,931,282	P 193,047,641	P 13,487,625	P 27,899,640	P 1,303,330,173

A reconciliation of the carrying amounts at the beginning and end of 2015 and 2014, of bank premises, furniture, fixtures and equipment is shown below.

	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold and Land Improvements	Construction in Progress	Total
Balance at January 1, 2015, net of accumulated depreciation and amortization	P 724,967,986	P 541,937,651	P 211,150,839	P 12,526,360	P 35,201,703	P 1,525,784,539
Additions	531,802	21,001,928	52,635,338	4,148,882	1,532,998	79,850,948
Transfers	-	31,833,050	2,197,145	-	(34,030,195)	-
Cost of disposal	-	(4,015,009)	(89,790,194)	(5,003,276)	-	(98,808,479)
Accumulated depreciation of assets disposed	-	4,015,009	89,790,194	5,003,276	-	98,808,479
Depreciation and amortization charges for the year	-	(39,934,809)	(95,124,995)	(2,397,900)	-	(137,457,704)
Balance at December 31, 2015, net of accumulated depreciation and amortization	**P 725,499,788**	**P 554,837,820**	**P 170,858,327**	**P 14,277,342**	**P 2,704,506**	**P 1,468,177,783**
Balance at January 1, 2014, net of accumulated depreciation and amortization	P 551,963,985	P 516,931,282	P 193,047,641	P 13,487,625	P 27,899,640	P 1,303,330,173
Additions	173,004,001	56,047	96,779,700	654,873	68,706,698	339,201,319
Transfers	-	60,893,600	511,035	-	(61,404,635)	-
Cost of disposal	-	-	(2,557,635)	-	-	(2,557,635)
Accumulated depreciation of assets disposed	-	-	2,557,635	-	-	2,557,635
Depreciation and amortization charges for the year	-	(35,943,278)	(79,187,537)	(1,616,138)	-	(116,746,953)
Balance at December 31, 2014, net of accumulated depreciation and amortization	P 724,967,986	P 541,937,651	P 211,150,839	P 12,526,360	P 35,201,703	P 1,525,784,539

Based on management's assumption which is based on the recoverable amount of the properties, no impairment loss is required to be recognized both in 2015 and 2014. In 2013, impairment losses amounting to P4.8 million was recognized by the Bank to write-down to recoverable amount certain parcels of land and building (see Note 15). The recoverable amount of Land and Buildings was based on the present value of estimated future cash flows discounted at the current selling market rate.

Total depreciation and amortization expense amounted to P137.5 million, P116.7 million and P108.5 million for the years ended December 31, 2015, 2014 and 2013, respectively, and is presented as part of Occupancy and Equipment-related Expenses under Other Expenses in the statements of profit or loss.

Cost of fully-depreciated and fully-amortized assets still used in operations amounted to P384.1 million and P363.1 million in 2015 and 2014, respectively.

In 2015, there are no bank premises, furniture, fixtures and equipment pleged as collateral for any obligation of the Bank. In 2014, however, Land and building with total carrying P586.6 million as at December 31, 2014 are used as collaterals for the Bank's loans presented as Bills Payable in the statements of financial position (see Note 17).

Under BSP rules, investments in bank premises, furniture, fixtures and equipment should not exceed 50.00% of the Bank's unimpaired capital. As at December 31, 2015 and 2014, the Bank has satisfactorily complied with this requirement.

13. INVESTMENT PROPERTIES

This account represents parcels of land and buildings and related improvements, which are held for capital appreciation, acquired in settlement of loans. Investment properties are carried at cost less allowance for impairment and accumulated depreciation.

The gross carrying amounts and allowance for impairment of investment properties as at December 31, 2015 and 2014 are shown below.

	Note	**2015**	2014
Cost		**P 29,858,648**	
Allowance for impairment	15	**(1,814,685)**	(1,814,685)
Net carrying amount		**P 28,043,963**	P 23,129,794

A reconciliation of the carrying amount at the beginning and end of 2015 and 2014 are shown below:

	2015	2014
Balance at January 1, net of allowance for impairment and accumulated depreciation	**P 23,129,794**	P 25,934,165
Additions	**5,387,016**	1,827,792
Disposals	**(472,847)**	(4,857,163)
Accumulated depreciation of assets disposed	**-**	225,000
Balance at December 31, net of allowance for impairment and accumulated depreciation	**P 28,043,963**	P 23,129,794

The fair value of investment properties amounted to P13.4 million and P32.1 million as at December 31, 2015 and 2014, respectively [see Note 5.2*(d)*]. The fair values were determined through appraisals which were conducted by an in-house appraiser of the Bank, except for the appraisals of investment properties with carrying amount exceeding P5.0 million, which was conducted by an independent appraiser acceptable to the BSP.

The Bank recognized income from disposal of investment properties amounting to P0.4 million, P7.6 million and P0.3 million in 2015, 2014 and 2013, respectively, and is presented as Income from disposal of investment properties under Other Income in the statements of profit or loss (see Note 21). Proceeds from disposal of investment properties amounted to P0.9 million, P12.2 million and P0.3 million in 2015, 2014 and 2013, respectively.

14. PREPAYMENTS AND OTHER RESOURCES

The composition of this account as at December 31 is shown below.

	Notes		**2015**		2014
Post-employment defined benefit asset	22.2	**P**	**63,604,206**	P	-
Prepaid expenses			**43,689,201**		76,098,062
Software and other intangibles – net			**41,282,341**		53,220,902
Advance rental and security deposits			**14,315,614**		12,950,039
Goodwill			**14,013,933**		14,013,933
Unused stationery and supplies			**13,223,032**		15,065,880
Investment in equity securities			**6,448,462**		6,448,462
Sales contract receivables			**1,266,155**		2,646,812
Prepaid rent			**1,035,299**		1,074,222
Others			**12,226,296**		15,751,941
			211,104,539		197,270,253
Allowance for impairment	15	**(**	**887,869)**	(	817,031)
		P	**210,216,670**	P	196,453,222

Prepaid expenses pertain to the Bank's advance payment of administrative expenses related to advertising, personnel uniform, rent, insurance and other expenses.

Goodwill, which is assessed to have an indefinite useful life, is subject to annual impairment testing and whenever there is an indication of impairment. Management believes that there are no additional impairment losses required to be recognized on the intangible asset in 2015, 2014 and 2013.

Software and other intangibles pertain to various purchased computer software license used in financial services activity and other operations of the Bank.

The gross carrying amounts and accumulated amortization of software and other intangibles as at December 31, 2015 and 2014 are shown below.

	2015	2014
Cost	P 121,427,621	P 116,207,207
Accumulated amortization	(80,145,280)	(62,986,305)
Net carrying amount	P 41,282,341	P 53,220,902

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

	2015	2014
Balance at beginning of year	P 53,220,902	P 25,801,437
Amortization during the year	(16,712,124)	(14,523,259)
Transfers	4,303,979	-
Additions	469,584	41,942,724
Balance at end of year	P 41,282,341	P 53,220,902

The amortization of the software and other intangibles for the year ended December 31, 2015, 2014 and 2013 is presented as part of Occupancy and Equipment-related Expenses in the statements of profit or loss.

15. ALLOWANCE FOR IMPAIRMENT

The changes in the allowance for impairment are presented below and in the succeeding page.

	Note	2015	2014
Balance at beginning of year:			
Loans and receivables		P 613,833,330	P 592,281,077
Bank premises, furniture, fixtures and equipment		18,217,568	18,217,568
Investment properties		1,814,685	1,814,685
Prepayments and other resources		817,031	532,000
		634,682,614	612,845,330
Impairment losses – Loans and receivables		270,328,438	31,561,470
Write-off of loans and receivables		(212,312,707)	(7,891,574)
Adjustments and reversals		(4,952,709)	(1,853,241)
Recoveries from written-off accounts	21	2,479,519	20,629
		(214,785,897)	(9,724,186)
Balance brought forward		P 690,225,155	P 634,682,614

	Notes	2015	2014
Balance carried forward		**P 690,225,155**	P 634,682,614
Balance at end of year:			
Loans and receivables	11	**669,305,033**	613,833,330
Bank premises, furniture, fixtures and equipment	12	**18,217,568**	18,217,568
Investment properties	13	**1,814,685**	1,814,685
Prepayments and other resources	14	**887,869**	817,031
		P 690,225,155	P 634,682,614

16. DEPOSIT LIABILITIES

As at December 31, 2015 and 2014, deposit liabilities consist of the following:

	2015	2014
Demand	**P 1,703,653,171**	P 1,586,236,923
Savings	**10,152,066,750**	8,898,645,404
Time	**9,605,819,993**	7,561,113,559
	P21,461,539,914	P 18,045,995,886

Outstanding balance of deposits from DOSRI amounted to nil and P3,199.7 million as at December 31, 2015 and 2014, respectively (see Note 20.1).

Savings deposits have an annual interest rate of 0.50% for all years presented while time deposits have interest rates ranging from 0.05% to 7.00% in 2015 while 1.00% to 9.30% per annum both in 2014 and 2013.

The breakdown of time deposits as to their maturities is presented below.

	2015	2014
One year and below	**P 8,084,740,649**	P 6,036,172,388
More than one year but not more than three years	**1,521,079,344**	976,088,397
More than three years but not more than five years	**-**	548,852,774
	P 9,605,819,993	P 7,561,113,559

Interest expense on deposit liabilities recognized during the year amounted to P335.1 million, P325.3 million and P347.8 million in 2015, 2014 and 2013, respectively, and is presented as Interest Expense on Deposit Liabilities in the statements of profit or loss.

17. BILLS PAYABLE

In various dates in 2015, the Bank has fully settled and preterminated its outstanding bills payable as at December 31, 2014. The breakdown of the bills payable of the Bank as at December 31, 2014 is broken down as follows:

LBP	P 4,310,532,079
RCBC	980,000,000
BPI	820,000,000
BDO	500,000,000
PNB	400,000,000
CBC	300,000,000
BSP	44,400,000
	P 7,354,932,079

The Bank availed of rediscounting facilities from LBP, BPI and BSP with interest rates of 3.00% to 3.88%, 3.50% to 4.30%, and 3.50% to 4.50% in 2014, 2013 and 2012, respectively. These loans are collateralized by assignment of the Bank borrowers' promissory notes and real estate mortgages (see Note 11).

Loans with BDO, PNB, CBC, BPI and portion of RCBC were secured with AFS financial assets with equal amount of the loan outstanding balance (see Note 9). The said loans with annual interest rates ranging from 3.50% to 4.25% have maturities within one year, both in 2015 and 2014..

Portion of the loan with RCBC amounting to P800.0 million was secured by certain Land and building of the Bank (see Note 12). The loan has annual interest rate of 3.25% both in 2015 and 2014.

Interest expense on bills payable amounted to P98.6 million, P167.2 million and P98.2 million in 2015, 2014 and 2013, respectively, and is presented as Interest Expense on Bills Payable in the statements of profit or loss.

18. ACCRUED EXPENSES AND OTHER LIABILITIES

The breakdown of this account follows:

	Note	2015	2014
Accounts payable		**P 225,084,811**	P 305,566,703
Accrued expenses	22.1	**76,054,382**	99,411,112
Manager's check		**53,611,430**	38,377,104
Bills purchased		**40,988,717**	17,475,526
Withholding tax payable		**14,859,855**	30,156,500
Deferred credits		**3,616,984**	5,014,192
Unearned income		**2,354,844**	1,813,203
Post-employment defined benefit obligation	22.2	**-**	33,143,318
Other payables		**5,913,034**	5,549,048
		P 422,484,057	P 536,506,706

Accrued expenses include administrative expenses and accrued interest expenses related to the Bank's deposit liabilities.

19. EQUITY

19.1 Capital Stock

Capital stock consists of:

	Shares			Amount		
	2015	2014	2013	**2015**	2014	2013
Preferred stock – P10 par value						
Authorized – 30,000,000 shares						
Issued and outstanding	**20,560**	20,560	20,560	**P 205,600**	P 205,600	P 205,600
Common stock – P10 par value						
Authorized – 550,000,000 shares						
Issued and outstanding						
Balance at beginning of year	**247,293,122**	221,129,837	183,727,300	**2,472,931,220**	2,211,298,370	1,837,273,000
Issued during the year	**80,711**	123,285	1,702,537	**807,110**	1,232,850	17,025,370
Stock dividends	**-**	26,040,000	35,700,000	**-**	260,400,000	357,000,000
Balance at end of year	**247,373,833**	247,293,122	221,129,837	**2,473,738,330**	2,472,931,220	2,211,298,370
				P 2,473,943,930	P 2,473,136,820	P 2,211,503,970

The preferred shares have the following rights, preferences, conditions and limitations:

(a) Preferred stock shall be issued only against Philippine Government investment in the capital stock of the Bank. Preferred stock issued shall have preference over common stock in the assets of the Bank in the event of liquidation.

(b) Preferred stock shall be non-voting but in case of sale by the government of its preferred stock to private shareholders, such stock are converted into common with voting rights upon approval of the corresponding amendment of the Articles of Incorporation by the SEC, thereby reducing the number of outstanding common stock.

(c) Preferred stock shall share in dividend distribution at two per centum thereof without preference. The amount of any dividends payable to any of stock may be applied to the repayment of the stockholders indebtedness to the Bank.

As at December 31, 2015, 2014 and 2013, the Bank has 367, 1,796, and 1,668 stockholders, respectively. Of the total number of stockholders, 261, 1,665, and 1,540 stockholders own 100 or more shares each of the Bank's capital stock as at December 31, 2015, 2014 and 2013, respectively.

19.2 Other Reserves

In 2015 and 2014, 80,711 shares and 123,285 shares, respectively, were issued in lieu of the subscribed and accrued employee stock option plan for consideration amounting to P1.4 million and P2.2 million, respectively, that resulted to P0.6 million and P0.9 million, respectively, excess or premium which was recognized as part of Other Reserves.

19.3 Revaluation Reserves

The components and reconciliation of items of other comprehensive income presented in the statements of changes in equity at their aggregate amount under Revaluation Reserves account, are shown below.

	AFS Financial Assets	Post-employment Defined Benefit Obligation	Total
Balance at January 1, 2015	P 254,111,935	(P 26,907,805)	P 227,204,130
Fair value gains on disposed AFS financial assets reclassified to profit or loss	(304,447,567)	-	(304,447,567)
Fair value gains on AFS financial assets - net	2,624,099	-	2,624,099
Remeasurements of post-employment defined benefit obligation	-	60,603,053	60,603,053
Other comprehensive income (loss) before tax	(301,823,468)	60,603,053	(241,220,415)
Tax expense	-	(18,180,917)	(18,180,917)
Other comprehensive income (loss) after tax	(301,823,468)	42,422,136	(259,401,332)
Balance at December 31, 2015	**(P 47,711,533)**	**P 15,514,331**	**(P 32,197,202)**
Balance at January 1, 2014	P 165,320,868	(P 50,462,642)	P 114,858,226
Fair value gains on AFS financial assets – net	88,791,067	-	88,791,067
Remeasurements of post-employment defined benefit obligation	-	33,649,767	33,649,767
Other comprehensive income before tax	88,791,067	33,649,767	122,440,834
Tax expense	-	(10,094,930)	(10,094,930)
Other comprehensive income after tax	88,791,067	23,554,837	112,345,904
Balance at December 31, 2014	P 254,111,935	(P 26,907,805)	P 227,204,130
Balance at January 1, 2013	P 171,894,992	P 34,793,380	P 206,688,372
Remeasurements of post-employment defined benefit obligation	-	(121,794,317)	(121,794,317)
Fair value gains on disposed AFS financial assets reclassified to profit or loss	(54,359,315)	-	(54,359,315)
Fair value gains on AFS financial assets – net	47,785,191	-	47,785,191
Other comprehensive income before tax	(6,574,124)	(121,794,317)	(128,368,441)
Tax income	-	36,538,295	36,538,295
Other comprehensive income after tax	(6,574,124)	(85,256,022)	(91,830,146)
Balance at December 31, 2013	P 165,320,868	(P 50,462,642)	P 114,858,226

19.4 Surplus

On June 16, 2014, the BSP approved the stock and cash dividend declaration of the Bank to stockholders of record as of February 28, 2014. The stock dividends amounted to P260.4 million to all common stockholders or 11.78% per share and the cash dividend amounted to P4,114 or 2.00% to all preferred stockholders.

On May 17, 2013, the BSP approved the stock and cash dividend declaration of the Bank to stockholders of record as of February 28, 2013. The stock dividends amounted to P357.0 million to all common stockholders, in proportion to their respective stockholdings, and the cash dividend amounted to P4,114 or 2.00% to all preferred stockholders.

In compliance with MORB, a portion of the Bank's surplus corresponding to the accumulated balance of deferred income tax amounting to P203.0 million as at December 31, 2015 is not available for dividend declaration until realized by the Bank.

19.5 Capital Management Objectives, Policies and Procedures

BSP, as the Bank's lead regulator, sets and monitors capital requirements for the Bank. In implementing current capital requirements, the BSP requires the Bank to maintain a prescribed capital and ratio of qualifying capital to risk-weighted assets.

The MB, in its Resolution No. 1607 dated October 9, 2014, approved the new minimum capitalization requirements for banks. For rural banks with head office in other areas, particularly cities up to third class municipalities outside National Capital Region and with more than 50 branches, the required minimum capitalization is P80 million. Based on the foregoing, the Bank has complied with the BSP capitalization requirement.

Under current banking regulations, the combined capital accounts of each bank should not be less than an amount equal to ten percent of its risk assets. The qualifying capital of the Bank for purposes of determining the capital-to-risk assets ratio to total equity excluding:

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

Risk assets consist of total assets after exclusion of cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits, and other non-risk items as determined by the MB of the BSP.

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

Under existing BSP regulations, the determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the Bank's unimpaired capital (regulatory net worth) reported to the BSP, determined on the basis of regulatory accounting policies, which differ from PFRS in some aspects.

On January 1, 2012, BSP Circular 688, dated May 26, 2010, took effect containing the revised risk-based adequacy framework for stand-alone thrift banks, rural banks and cooperative banks which is based on Basel 1.5 wherein CAR shall not be less than 10% of the qualifying capital to risk-weighted assets.

In computing the CAR, the regulatory qualifying capital is analyzed into two tiers which are: (i) Tier 1 Capital, and (ii) Tier 2 Capital; less deductions from the Total Tier 1 and Tier 2, as provided in BSP Circular 688.

The Bank's regulatory capital position as at December 31, 2015, 2014 and 2013 is presented below (in thousands).

	2015	2014	2013
Tier 1 capital	**P 3,586,862**	P 2,896,226	P 2,736,639
Tier 2 capital	**194,561**	196,359	186,367
Total regulatory capital	**3,781,423**	3,092,585	2,923,006
Total qualifying capital	**3,781,423**	3,092,585	2,923,006
Risk-weighted assets	**24,525,519**	24,003,259	20,032,301
Capital ratios:			
Total regulatory capital expressed as a percentage of total risk-weighted assets	**15.42%**	12.88%	14.59%
Total Tier 1 capital expressed as a percentage of total risk weighted assets	**14.63%**	12.07%	13.66%

As shown in the above information, the Bank has complied with the BSP capital ratio requirements as at December 31, 2015, 2014 and 2013.

The Bank's policy is to maintain a strong capital base to maintain stockholders, creditors 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.

There have been no material changes in the Bank's management of capital during those years.

20. RELATED PARTY TRANSACTIONS

The Bank's related parties include the Parent Bank, its DOSRI and others as described below and in the succeeding pages. None of the transactions incorporates special terms and conditions and no guarantee was given or received. Outstanding balances are usually settled in cash.

Related Party Category	Notes	Amount of Transactions			Outstanding Balance	
		2015	2014	2013	**2015**	2014
Parent						
Due from other banks	8, 20.1	**P 336,145,091**	P -	P -	**P 621,840,682**	P -
Investments	20.2	**(316,691,161)**	-	-	**502,850**	-
Interest income on investments	20.2	**10,762,904**	-	-	**-**	-
Bills payable	20.3	**(500,000,000)**	-	-	**-**	-
Interest expense on bills payable	20.3	**9,976,075**	-	-	**-**	-
Related parties under common ownership						
Due from other banks	20.1	**(507,114,798)**	-	-	**35,148,215**	
Investments	20.2	**(881,038,895)**	-	-	**101,660,000**	-
Interest income on investments	20.2	**50,592,313**	-	-	**-**	
Bills payable	20.3	**(300,000,000)**	-	-	**-**	-
Interest expense on bills payable	20.3	**1,011,111**	-	-	**-**	-
Directors						
Deposits	16, 20.1	**(76,080,179)**	(48,563,302)	122,924,128	**-**	76,080,179
Officers						
Loans	11, 20.1	**-**	(70,000)	70,000	**-**	-
Deposits	16, 20.1	**(1,381,355)**	-	205,717	**-**	1,381,355
Stockholders						
Loans	11, 20.1	**(3,416,502)**	(2,645,426)	(752,480)	**-**	3,416,502
Deposits	16, 20.1	**(1,339,480,580)**	789,971,887	549,090,265	**-**	1,339,480,580
Rental	20.5	**112,970**	1,553,588	4,026,180	**-**	-
Related interests						
Loans	11, 20.1	**(7,865,009)**	7,188,674	(120,583,451)	**11,687,644**	19,552,653
Deposits	16, 20.1	**(1,782,723,839)**	(2,897,328,790)	614,462,386	**-**	1,782,723,839
DOSRI						
Interest income on loans	20.1	**939,722**	1,012,918	5,387,203	**-**	-
Interest expense on deposits	20.1	**-**	112,323,252	163,319,485	**-**	-
Key management personnel						
Compensation and benefits	20.4, 20.6	**14,808,737**	14,471,818	11,809,513	**-**	-

20.1 Loans and Deposits

In the ordinary course of business, the Bank has loan and deposit transactions with the Parent Bank, banks under common owenership, and its DOSRI. Under the Bank's policy, these loans and other transactions are made substantially on the same terms and conditions as with other individuals and businesses of comparable risks.

Under the General Banking Act and BSP regulations, the amount of direct credit accommodations to each of the Bank's directors, officers and stockholders, of which 70.00% must be secured, should not exceed the amount of their respective deposits and book value of their respective investments in the Bank.

In addition, the aggregate DOSRI loans generally should not exceed the Bank's capital funds or 15.00% of the Bank's loan portfolio, whichever is lower. As at December 31, 2015 and 2014, the Bank is in compliance with these regulations (see Note 11). Total deposits from DOSRI has outstanding balance of nil and P3,199.7 million as at December 31, 2015 and 2014, respectively (see Note 16).

The following additional information is presented relative to DOSRI loans:

		2015		2014
Total DOSRI loans	**P**	**11,687,644**	P	22,969,155
Total unsecured loans		**435,729**		682,251
% of DOSRI loans to total loan portfolio		**0.06%**		0.11%
% of past-due DOSRI loans to total DOSRI loans		**0.00%**		0.00%
% of unsecured DOSRI loans to total DOSRI loans		**3.73%**		2.97%
% of non-performing DOSRI loans to total DOSRI loans		**0.00%**		0.00%

As at December 31, 2015, 2014 and 2013, the allowance for impairment losses on DOSRI loans deemed sufficient by the management amounted to P116,876, P229,692 and P184,959, respectively.

Due from other banks include deposits with the Parent Bank and CBC, a related party under common ownership, amounting to P657.0 million as of December 31, 2015. Interest rate for these due from other banks is 0.25% in 2015.

20.2 Investments

The Bank acquires various types of local currency government securities such as Power Sector Assets and Liabilities Management (PSALM) – fixed rate retail bonds, treasury notes, corporate fixed rate bonds and retail treasury bonds from the Parent Bank and CBC, a related party under common ownership, and other banks to earn interest income, realize trading gains and to comply with several BSP liquidity reserve requirements (see Note 9). As at December 31, 2015, the outstanding investments acquired from related parties have coupon rates ranging from 5.74% to 6.00% and are presented as part of AFS Financial Assets in the 2015 statement of financial position.

In 2015 interest income earned from investments acquired from the Parent Bank and CBC amounted to P61.4 million and is presented as part of Interest Income on Investments in the statement of profit or loss.

20.3 Bills Payable

Under normal trade terms, the Bank transacts with the credit facilities of the Parent Bank and CBC, a related party under common ownership, to avail short-term renewable bills payable to fund operating activities which includes funding lending operations.

The bills payable are secured with several government securities classified as AFS financial assets with rates ranging from 3.00% to 3.25% in 2015 (see Notes 9 and 17).

There are no outstanding bills payable as of December 31, 2015 (see Note 17). Interest expense related to these borrowings amounted to P11.0 million in 2015 and is presented as part of Interest Expense on Bills Payable in the 2015 statement of profit or loss.

20.4 Key Management Personnel Compensations

The compensations of key management personnel are broken down as follows:

	2015	2014	2013
Salaries and wages	**P 12,317,784**	P 10,475,622	P 9,317,331
Benefits	**2,490,953**	3,996,196	2,492,182
	P 14,808,737	P 14,471,818	P 11,809,513

These are presented as part of Compensation and employee benefits under Other Expenses in the statements of profit or loss (see Note 22.1).

20.5 Rental

Starting 2012, the Bank is a lessee under a non-cancellable lease agreement with a stockholder pertaining to the lease of office space, with a lease term of ten years and an escalation rate of 5.00% at the start of the second year. Total amount of rent expense in 2015, 2014 and 2013 amounted to 0.11 million, P1.6 million and P4.0 million, respectively, presented as part of Occupancy and Equipment-related Expenses under Other Expenses in the statements of profit or loss. There is no outstanding liability as at December 31, 2015 and 2014.

20.6 Retirement Plan

The Bank's retirement fund for its post-employment defined benefit plan is administered and managed by a trustee bank. The fair value and the composition of the plan assets as at December 31, 2015 and 2014 are presented in Note 22.2.

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

The details of the contributions of the Bank and benefits paid out by the plan are presented in Note 22.2.

21. OTHER INCOME

This account is composed of the following:

	Notes	2015	2014	2013
Gain on disposal of AFS financial assets	9	**P 206,066,074**	P 16,827,593	P 38,624,547
Dividend income		**6,666,000**	-	-
Recoveries from accounts written off	15	**2,479,519**	20,629	84,099
Income from disposal of:				
Investment properties	13	**442,816**	7,553,770	264,392
Bank premises, furniture, fixtures and equipment		**198,599**	110,806	1,925,132
Rental income		**20,133**	63,960	412,355
Miscellaneous		**7,203,048**	11,341,400	11,971,685
		P 223,076,189	P 35,918,158	P 53,282,210

Miscellaneous income pertains to PeraDala and utility bills payment charges, sale of automated teller machine jackets and lost passbook replacement fees.

22. EMPLOYEE BENEFITS

22.1 Compensation and Employee Benefits

Expenses recognized for compensation and employee benefits are presented below.

	Note	2015	2014	2013
Short-term employee benefits		**P 528,710,546**	P 504,574,301	P 413,093,836
Post-employment defined benefit	22.2	**45,618,105**	40,744,276	40,744,276
		P 574,328,651	P 545,318,577	P 453,838,112

Outstanding short-term employee benefits amounting to P10.9 million and P2.4 million as at December 31, 2015 and 2014 are included as part of Accrued expenses under Accrued Expenses and Other Liabilities in the statements of financial position (see Note 18).

22.2 Post-employment Defined Benefit Plan

(a) Characteristics of the Defined Benefit Plan

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

The normal retirement age is 60 with a minimum of 5 years of credited service. The plan also provides for an early retirement at age 50 with a minimum of 15 years of credited service and late retirement after age 60 but not beyond age 65, both subject to the approval of the Bank's BOD. Normal retirement benefit is an amount equivalent to 150.00% of plan salary for every year of credited service. The normal and late retirement benefits shall be computed in accordance with the retirement benefit formula as of normal or late retirement date.

(b) Explanation of Amounts Presented in the Financial Statements

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

The amounts of post-employment defined benefit obligation (asset) recognized in the statements of financial position (see Notes 14 and 18) are determined as follows:

	2015	2014
Present value of the obligation	**P 446,314,235**	P 468,295,354
Fair value of plan assets	**(513,942,259)**	(435,152,036)
	(67,628,024)	33,143,318
Effect of the asset ceiling	**4,023,818**	-
	(P 63,604,206)	P 33,143,318

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

		2015		2014
Balance at beginning of year	**P**	**468,295,354**	P	417,308,340
Current service cost		**45,618,105**		40,744,276
Interest expense		**21,026,461**		18,717,114
Benefits paid		**-**		(8,474,376)
Remeasurements:				
Actuarial losses arising from:				
Experience adjustments		**(60,817,171)**		-
Changes in financial assumptions		**(27,808,514)**		-
Balance at end of year	**P**	**446,314,235**	P	468,295,354

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

		2015		2014
Balance at beginning of year	**P**	**435,152,036**	P	352,838,364
Contributions to the plan		**81,422,769**		41,312,775
Return (loss) on plan assets (excluding amounts included in net interest)		**(23,998,814)**		33,649,767
Interest income		**21,366,268**		15,825,506
Benefits paid		**-**		(8,474,376)
Balance at end of year	**P**	**513,942,259**	P	435,152,036

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

		2015		2014
Quoted equity securities:				
Holding firms	**P**	**72,086,579**	P	53,476,284
Property		**23,583,305**		21,859,450
Electrical, energy, power and utilities		**23,171,505**		29,675,509
Banks		**15,804,682**		23,258,989
Telecommunications		**13,767,668**		16,042,342
Food and beverage		**11,753,760**		20,349,639
Mining		**7,589,400**		5,888,740
Other financial institutions		**5,291,000**		-
Retail		**5,039,251**		1,851,556
Transportation services		**2,598,991**		8,580,150
Balance brought forward	**P**	**180,686,141**	P	180,982,659

		2015		2014
Balance carried forward	**P**	**180,686,141**	P	180,982,659
Construction, infrastructure and allied services		**1,656,652**		2,624,346
Chemicals		**-**		5,612,754
Oil		**-**		3,558,738
		182,342,793		192,778,497
Government securities		**185,197,626**		157,200,719
Cash and cash equivalents		**93,919,765**		43,138,766
Corporate bonds (rated AA and above)		**47,762,759**		39,446,214
Dividends and interest receivables		**3,892,354**		2,587,840
Others		**826,962**		-
	P	**513,942,259**	P	435,152,036

The fair values of the above equity and debt securities are determined based on quoted market prices in active markets (classified as Level 1 of the fair value hierarchy).

The plan assets earned a return of P2.6 million in 2015 and incurred a negative return of P49.5 million in 2014.

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

The components of amounts recognized in profit or loss and in other comprehensive income in respect of the defined benefit post-employment plan are presented below and in the succeeding page.

		2015		2014		2013
Reported in profit or loss:						
Current service cost	**P**	**45,618,105**	P	40,744,276	P	40,744,276
Net interest expense (income)	**(**	**339,807)**		2,891,608	(	2,249,474)
	P	**45,278,298**	P	43,635,884	P	38,494,802

	2015	2014	2013
Reported in other comprehensive income (loss):			
Return (loss) on plan assets*	**(P 23,998,814)**	P 33,649,767	(P 42,568,713)
Actuarial gains (losses) arising from:			
Experience adjustments	**60,817,171**	-	(61,334,073)
Changes in financial assumptions	**27,808,514**	-	(19,636,952)
Changes in the effect of the asset ceiling	**(4,023,818)**	-	1,745,421
	P 60,603,053	P 33,649,767	(P 121,794,317)

**Excluding amounts included in net interest expense (income).*

Current service cost is allocated and presented in the statements of profit or loss presented as part of Compensation and Employee Benefits under Other Expenses (see Note 22.1). Net interest cost (income) on post-employment defined benefit plan is presented under Interest Expense (Income) in the statements of profit or loss.

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

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

	2015	2014	2013
Discount rates	**4.89%**	4.49%	5.32%
Expected rate of salary increases	**8.00%**	10.00%	10.00%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 60 is 30.9 years for male and 30.0 years for female. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero coupon bond government bond with terms to maturity approximating to the terms of the post-employment obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) *Risks Associated with the Retirement Plan*

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

(i) *Investment and Interest Rate Risks*

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan.

Currently, the plan has relatively balanced investment in cash and cash equivalents, equity securities and debt securities. Due to the long-term nature of the plan obligation, a level of continuing equity and debt investments is an appropriate element of the Bank's long-term strategy to manage the plan efficiently.

(ii) *Longevity and Salary Risks*

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

(d) *Other information*

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

(i) *Sensitivity Analysis*

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

	Impact on Post-employment Benefit Obligation		
	Change in Assumption	**Increase in Assumption**	**Decrease in Assumption**
December 31, 2015			
Discount rate	**+/- 1.00%**	**P 73,663,218**	**(P 61,120,598)**
Salary growth rate	**+/- 1.00%**	**66,054,502**	**(56,560,155)**
December 31, 2014			
Discount rate	+/- 1.00%	P 74,380,686	(P 61,300,055)
Salary growth rate	+/- 1.00%	65,946,386	(56,238,159)

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

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

(ii) Asset-liability Matching Strategies

The retirement plan trustee has no specific matching strategy between the plan assets and the plan liabilities.

(iii) Funding Arrangements and Expected Contributions

The Bank is not required to pre-fund the future defined benefit payable under the retirement plan before they become due. For this reason, the amount and timing of contributions to the retirement fund are at the Bank's discretion. However, in the event a benefit claim arises and the retirement fund is insufficient to pay the claim, the shortfall will then be due and payable from the Bank to the retirement fund.

The plan is currently overfunded by P67.6 million based on the latest actuarial valuation.

The maturity profile of undiscounted expected benefit payments from the plan within ten years as at December 31, 2015 and 2014 follows:

	2015	2014
Within one year	**P 11,263,422**	P -
More than one year to five years	**19,585,983**	19,861,199
More than five years to ten years	**63,094,080**	54,405,867
	P 93,943,485	P 74,267,066

The Bank expects to make contributions of P48.3 million to the plan during the next financial year.

The weighted average duration of the defined benefit obligation at the end of the year is 18.3 years.

23. CURRENT AND DEFERRED TAXES

The components of tax expense as reported in profit or loss and other comprehensive income are as follows:

	2015	2014	2013
Reported in profit or loss:			
Current tax expense:			
Regular corporate income tax (RCIT) at 30.00%	**P 111,054,345**	P 192,651,133	P 212,532,616
Final tax at 20.00%	**36,763,784**	29,936,654	26,572,347
	147,818,129	222,587,787	239,104,963
Deferred tax income relating to reversal of temporary differences	**(20,181,722)**	(20,736,353)	(52,231,372)
	P 127,636,407	P 201,851,434	P 186,873,591
Reported in other comprehensive income (loss):			
Deferred tax income (expense) relating to origination and reversal of temporary difference	**(P 18,180,917)**	(P 10,094,930)	P 36,538,295

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

	2015	2014	2013
Tax on pretax profit at 30.00%	**P 157,867,892**	P 199,104,200	P 153,663,420
Adjustment for income subjected to lower income tax rate	**(7,848,880)**	(16,703,481)	(11,321,188)
Tax effects of:			
Non-taxable gain from disposal of AFS investments with maturity of more than five years	**(61,819,822)**	(5,048,278)	(11,587,364)
Non-deductible expenses	**26,723,603**	9,107,748	43,613,856
Non-deductible interest expense	**14,722,179**	15,391,245	12,504,867
Non-taxable dividend and other income	**(2,008,565)**	-	-
Tax expense	**P 127,636,407**	P 201,851,434	P 186,873,591

The net deferred tax assets and liability relate to the following as at December 31, 2015 and 2014:

	Statements of Financial Position		Profit or Loss			Other Comprehensive Income		
	2015	2014	**2015**	2014	2013	**2015**	2014	2013
Deferred tax assets:								
Allowance for impairment	**P 209,498,940**	P 192,094,221	**P 17,404,719**	P 7,100,968	P 1,661,358	**P -**	P -	P -
Post-employment defined benefit plan	**28,046,060**	36,353,944	**9,873,033**	7,638,589	(2,003,002)	**(18,180,917)**	(10,094,930)	36,538,295
Provision for contingencies	**870,900**	870,900	**-**	-	-	**-**	-	-
Unamortized past service cost	**-**	-	**-**	(842,953)	(4,073,826)	**-**	-	-
	238,415,900	229,319,065	**27,277,752**	13,896,604	(4,415,470)	**(18,180,917)**	(10,094,930)	36,538,295
Deferred tax liability – Accrual of effective interest income	**(35,404,360)**	(28,308,330)	**(7,096,030)**	6,839,749	56,646,842	**-**	-	-
Deferred tax assets - net	**P 203,011,540**	P 201,010,735						
Deferred tax income (expense)			**P 20,181,722**	P 20,736,353	P 52,231,372	**(P 18,180,917)**	(P 10,094,930)	P 36,538,295

The Bank is subject to the minimum corporate income tax (MCIT) which is computed at 2.00% of gross income net of allowable deductions, as defined under the tax regulations, or RCIT, whichever is higher. No MCIT was reported in 2015, 2014 and 2013, as the RCIT was higher than MCIT in both years.

In 2015, 2014 and 2013, the Bank claimed itemized deductions in computing for its income tax due.

Upon execution of the merger with RBSEI, deferred tax assets on allowance for impairment on loans receivable amounting to P3.6 million was transferred to the Bank.

24. EARNINGS PER SHARE

EPS amounts are computed as follows:

	2015	2014	2013
(a) Net profit attributable to common shares	**P 398,589,899**	P 461,829,234	P 325,337,810
(b) Net profit attributable to common shares and potential common shares	**398,589,899**	461,829,234	325,337,810
(c) Weighted average number of outstanding common shares	**247,359,433**	247,185,248	246,389,488
(d) Weighted average number of outstanding common shares and potential shares	**247,359,433**	247,185,248	246,389,488
Earnings per share			
Basic (a/c)	**P 1.61**	P 1.87	P 1.32
Diluted (b/d)	**P 1.61**	P 1.87	P 1.32

The Bank has no significant dilutive potential common shares as of December 31, 2015, 2014 and 2013.

25. QUANTITATIVE INDICATORS OF FINANCIAL PERFORMANCE

The following are the basic financial performance ratios as of and for the years ended December 31, 2015, 2014 and 2013:

	2015	2014	2013
Return on average equity	**10.76%**	13.81%	11.10%
Return on average assets	**1.44%**	1.69%	1.45%
Net interest margin	**5.64%**	5.24%	4.66%

26. COMMITMENTS AND CONTINGENCIES

26.1 Operating Lease Commitments – Bank as Lessee

The Bank is a lessee under non-cancellable operating lease agreements covering offices and certain branches. The leases have terms ranging from 1 to 25 years, with renewal options, and include annual escalation rates ranging from 3% to 10%. Rent expense amounted to P33.9 million, P28.4 million and P20.1 million in 2015, 2014 and 2013, respectively, and is presented as part of the Occupancy and Equipment-related Expenses account under Other Expenses in statements of profit or loss. The future minimum rentals payable under these non-cancellable operating leases are shown below.

	2015	2014	2013
Within one year	**P 6,235,692**	P 5,546,617	P 9,262,687
After one year but not more than five years	**22,980,829**	17,402,851	18,524,495
More than five years	**7,286,513**	6,038,101	8,247,289
	P 36,503,034	P 28,987,569	P 36,034,471

26.2 Contingencies

There are contingent liabilities such as litigations and claims that arise in the normal course of the Bank's operations which are not reflected in the Bank's financial statements. The Bank's management is of the opinion that losses, if any, as at December 31, 2015 and 2014, from these claims will not have any material effect on the Bank's financial statements.

27. SUPPLEMENTAL INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

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

27.1 Requirements Under RR 15-2010

The information on taxes, duties and license fees paid or accrued during the taxable year required under RR 15-2010 are as follows:

(a) Gross Receipts Tax

In lieu of the value-added tax, the Bank is subject to the GRT imposed on all banks and non-bank financial intermediaries pursuant to Section 121.2 of the Tax Code.

During 2015, the Bank paid GRT amounting P168,203,649. The amount is presented as part of Taxes and Licenses under Operating Expenses in the 2015 statement of profit or loss [see Note 27.1*(e)*].

(b) Taxes on Importation

The Bank does not have any landed cost, customs duties and tariff fees in 2015 since it does not have any importation during the year.

(c) Excise Tax

The Bank did not have any transactions in 2015 which are subject to excise tax.

(d) Documentary Stamp Tax (DST)

In general, the Bank's DST transactions arise from the execution of debt instruments, time deposits and issuance of new shares.

For the year ended December 31, 2015, the composition of DST is as follows:

Debt instruments	P	97,234,145
Time deposits		33,130,243
Checks		2,246,338
Others		263,503
	P	**132,874,229**

On the other hand, the DST amounting to P104,854,408 pertaining to the Bank's loan releases and time deposits openings are shouldered by its corresponding borrowers and depositors, respectively. However, the remittance is done by the Bank. Total DST remittances for the year ended December 31, 2015 amounted to P144,900,000. The difference of P12,025,771 pertains to the prepaid eDST load. The DST amounting to P60,771,722 was shouldered by the Bank.

The DST shouldered by the Bank are recorded as an expense and is included in the taxes and licenses account under Other Expense in the 2015 statement of profit of loss [see Note 27.1*(e)*].

(e) Taxes and Licenses

The details of taxes and licenses for the year ended December 31, 2015 are as follows:

	Note		
GRT	27.1*(a)*	P	168,203,649
Deficiency taxes paid	27.1*(g)*		70,038,436
DST	27.1*(d)*		60,771,722
Business permit			22,357,543
Deficiency taxes accrued			20,195,570
Real property tax			4,035,568
Miscellaneous			17,278,274
		P	**362,880,762**

The amount of taxes and licenses are included as part of Other Expenses in the 2015 statement of profit or loss.

(f) Withholding Taxes

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

Compensation and employee benefits	P	52,085,727
Final		44,245,590
Expanded		12,688,306
	P	**109,019,623**

(g) Deficiency Tax Assessments and Tax Cases

As at December 31, 2015, the Bank paid deficiency taxes on income tax, expanded and final withholding taxes, withholding tax on compensation, documentary stamp tax, other percentage tax and capital gains tax for the taxable periods of 2012 and 2013 amounting to P70,038,436, which includes interest charges amounting to P17,653,671. The amount is recorded under Taxes and Licenses [see Note 27.1*(e)*].

27.2 Requirements under RR 19-2011

RR 19-2011 requires schedules of taxable revenues and other non-operating income, cost of sales and services, itemized deductions and other significant tax information, to be disclosed in the notes to financial statements.

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

(a) Taxable Revenues

The composition of Bank's taxable revenues subject to regular tax rate for the year ended December 31, 2015 represents interest income amounting to P1,617,679,328.

(b) Deductible Cost of Services

Deductible cost of services which are under the regular tax rate for year ended December 31, 2015 comprise the following:

Salaries, wages and benefits	P	499,699,486
Interest expense		384,659,447
PDIC insurance		25,184,978
BSP supervision fee		6,177,494
	P	**915,721,405**

(c) *Taxable Non-operating and Other Income*

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

Service charges, fees and commissions	P	980,071,592
Others		10,314,900
	P	**990,386,492**

(d) *Itemized Deductions*

The amounts of itemized deductions for the year ended December 31, 2015 under the regular tax rate are as follows:

Taxes and licenses	P	273,802,088
Bad debts		212,312,707
Depreciation		135,059,804
Transportation and travel		118,828,915
Communication, light and water		93,030,794
Security services		92,287,054
Insurance		78,838,307
Service charge		66,959,848
Office supplies		49,074,476
Repairs and maintenance		40,635,735
SSS, GSIS, PHIC, HDMF and other contributions		39,518,333
Rental		33,939,529
Fuel and oil		23,284,214
Amortization – intangible assets		16,712,124
Banking fees		8,017,220
Charitable contributions		6,719,523
Professional fees		5,868,404
Representation and entertainment		3,449,828
Amortization – leasehold rights and improvements		2,397,900
Director's fees		1,860,914
Advertising and promotions		1,522,668
Miscellaneous		18,042,880
	P	**1,322,163,265**

Management Discussion & Analysis

Balance Sheet – 2015 vs. 2014

Cash & Other Cash Items, Due from BSP, Due from Other Banks and Investment Securities declined 16%, 18%, 58% and 72% to P845 million, P671 million, P992 million and P726 million, respectively. The reduction in liquid assets was used to pay down the more expensive Bills Payable, which as of 2014 stood at P7.4 billion. Total Deposits, on the other hand, exhibited strong growth as it expanded by 19% to P21.5 billion. Demand, Savings and Time deposits grew 7%, 14% and 27%, respectively, as the Bank continued to develop its deposit franchise. These twin initiatives of paying down the expensive Bills Payable and growing the deposit base optimized the Bank's funding sources, resulting in reduced funding cost and improved interest margins.

Investment Properties rose 21% to P28 million owing to properties acquired in settlement of loans. Other Assets went up 7% to P210 million from an increase in retirement plan assets. Other Liabilities fell 27% to P425 million primarily from a reduction in accounts payable and accrued expenses.

Income Statement – For the Years Ended December 31, 2015 vs. 2014

Net Income for 2015 registered at P399 million from P462 million in 2014. The 14% decline is due to an increase in provisions for loan impairment, primarily from a more conservative provisioning approach consistent with the policy of its Parent, BDO Unibank Inc. Net Interest Income grew 9% to P1.4 billion primarily from the 12% decline in interest expense owing to the Bank's liability management initiatives. Other Income also went up 7% mainly due to P206 million in trading gains resulting from the sale of a portion of the Bank's securities portfolio. Operating Expenses rose 6% to P1.8 billion as expenses related to Employee Benefits, Occupancy expenses as well as Taxes and Licenses went up 5%, 14% and 27%, respectively. Tax Expense fell 37% to P128 million from lower taxable income.

KEY PERFORMANCE INDICATORS – 2015 vs. 2014

	2015	2014	Inc/(Dec)
Earnings per Share	1.61	1.87	-0.26
Return on Average Equity	10.8%	13.8%	-3.0%
Return on Average Assets	1.4%	1.7%	-0.3%
Net Interest Margin	5.6%	5.2%	0.4%

Earnings per Share, Return on Average Equity and Return on Average Assets dropped to P1.61, 10.8% and 1.4%, respectively, owing to lower bottomline profits.

Net Interest Margin improved by 0.4% to 5.6% due to the improvement in the Bank's funding mix.

Balance Sheet – 2014 vs. 2013

Total Resources expanded 18% to P29.6 billion owing to a 16% growth in customer receivables. Net Loans and Other Receivables grew to P20.9 billion from P18.0 billion in 2013. Due from BSP, Due from Other Banks and Investment Securities, likewise, increased 58%, 23% and 48% to P816 million, P2.4 billion and P2.6 billion, respectively. Cash and Other Cash Items declined 19% to P1.0 billion as the Bank re-allocated funds to interest earning assets.

Bank Premises and Other Resources rose 17% and 7% to P1.5 billion and P196 million on enhancements in the Bank's distribution network. Investment Properties dropped 11% to P23 million resulting from ROPA disposals.

Total Deposits was steady at P18.0 billion with deposit funding mix improving with 5% and 19% increases in Demand and Savings deposits while Time deposits went down by 16%. Bills Payable doubled to P7.4 billion to support asset growth. Other Liabilities went up 15% to P586 million mainly from an increase in accounts payable.

Total Equity climbed 19% to P3.6 billion resulting from profitable operations and fair value gains on available-for-sale financial assets.

Income Statement – For the Years Ended December 31, 2014 vs. 2013

Net Income for 2014 soared 42% to P462 million as Net Interest Income and Other Income jumped 37% and 11%, respectively. The increase in Net Interest Income was brought about by the expansion in customer receivables and investment securities portfolio. The Bank set aside P32 million as impairment provisioning for loans. The improvement in Other Income resulted from a 13% increase in service charges and fees.

Operating Expenses hiked 20% to P1.7 billion due to the following:
- Employee Benefits climbed 20% from salary increases and a higher manpower count.
- Occupancy expenses went up 11% from an expanded distribution network.
- Taxes and Licenses soared 31% on higher gross receipts taxes on interest and fee-based income.
- Other Operating Expenses rose 19% owing to increased business volumes.

Tax Expense increased 8% to P202 million on higher taxable income.

KEY PERFORMANCE INDICATORS – 2014 vs. 2013

	2014	2013	Inc/(Dec)
Earnings per Share	1.87	1.32	0.55
Return on Average Equity	13.8%	11.1%	2.7%
Return on Average Assets	1.7%	1.5%	0.2%
Net Interest Margin	5.2%	4.7%	0.5%

Earnings per Share, Return on Average Equity and Return on Average Assets went up to P1.87, 13.8% and 1.7%, respectively, from higher Net Income.

Net Interest Margin improved to 5.2% owing to the expansion in loan assets.

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