China Bank Savings, Inc.

(A Majority Owned Subsidiary of China Banking Corporation)

Financial Statements
December 31, 2014 and 2013

and

Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
China Bank Savings, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of China Bank Savings, Inc., a majority owned subsidiary of China Banking Corporation, which comprise the balance sheets as at December 31, 2014 and 2013, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, 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 China Bank Savings, Inc. as at December 31, 2014 and 2013, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

Report on the Supplementary Information Required Under Revenue Regulations 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 32 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of China Bank Savings, Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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PTR No. 4751290, January 5, 2015, Makati City

March 19, 2015

CHINA BANK SAVINGS, INC.
(A Majority Owned Subsidiary of China Banking Corporation)

BALANCE SHEETS

	December 31	
	2014	2013
ASSETS		
Cash and Cash Equivalents (Notes 6 and 30)	**₱2,756,335,601**	₱3,737,584,843
Available-for-Sale Financial Assets (Note 7)	**1,111,569,481**	1,015,480,833
Held-to-Maturity Financial Assets (Notes 7 and 30)	**27,979,865**	–
Loans and Receivables (Notes 8 and 30)	**15,018,507,042**	9,612,811,755
Non-current Assets Held for Sale (Note 9)	**75,788,175**	12,256,002
Property and Equipment (Notes 10 and 30)	**410,895,645**	370,483,091
Investment Properties (Notes 11 and 30)	**535,278,280**	244,812,905
Branch Licenses (Notes 12 and 30)	**347,400,000**	–
Software Costs (Note 12)	**13,091,265**	12,314,995
Other Assets (Notes 13 and 30)	**372,956,092**	334,364,428
	₱20,669,801,446	₱15,340,108,852
LIABILITIES AND EQUITY		
Liabilities		
Deposit Liabilities (Notes 15 and 30)		
Demand	**₱1,613,145,756**	₱1,119,486,789
Savings	**2,798,469,883**	2,084,415,682
Time	**13,155,235,539**	10,776,590,234
	17,566,851,178	13,980,492,705
Manager's Checks	**199,917,414**	155,403,989
Accrued Interest and Other Expenses (Notes 16 and 30)	**97,794,155**	49,770,945
Deferred Tax Liabilities (Notes 24 and 30)	**129,332,566**	1,637,442
Advances from Parent Company (Note 1)	**312,600,000**	–
Other Liabilities (Notes 17 and 30)	**212,608,960**	135,440,471
	18,519,104,273	14,322,745,552
Equity		
Capital stock (Notes 19 and 30)	**2,057,703,100**	881,323,400
Additional paid-in capital (Note 19)	**360,008,693**	227,811,601
Surplus reserves (Notes 20 and 25)	**8,062,667**	7,850,911
Deficit (Notes 20 and 25)	**(241,427,684)**	(84,435,289)
Remeasurement gains (losses) on retirement liability (Note 22)	**(24,013,450)**	12,892,042
Net unrealized losses on available-for-sale financial assets (Note 7)	**(9,636,153)**	(28,079,365)
	2,150,697,173	1,017,363,300
	₱20,669,801,446	₱15,340,108,852

See accompanying Notes to Financial Statements.

CHINA BANK SAVINGS, INC.
(A Majority Owned Subsidiary of China Banking Corporation)

STATEMENTS OF INCOME

	Years Ended December 31	
	2014	2013
INTEREST INCOME		
Loans and receivables (Note 8)	**₱1,196,786,921**	₱625,871,750
Due from BSP and other banks (Notes 6 and 26)	**45,406,971**	56,130,230
Investment securities (Note 7)	**43,095,500**	62,104,630
	1,285,289,392	744,106,610
INTEREST EXPENSE		
Deposit liabilities (Note 15)	**330,252,076**	295,373,141
NET INTEREST INCOME	**955,037,316**	448,733,469
Service charges, fees and commissions	**69,655,300**	67,603,897
Gain on foreclosure - net (Notes 9 and 11)	**60,229,717**	423,800
Income from property rentals (Notes 11 and 23)	**26,934,523**	25,847,117
Gain on sale of investment properties (Note 11)	**2,573,387**	5,444,050
Trust fee income (Note 25)	**2,117,557**	4,434,721
Investment gain (Notes 7 and 26)	**1,715,451**	290,077,200
Foreign exchange gain	**1,569,681**	6,477,256
Miscellaneous (Note 9)	**4,245,058**	5,965,342
TOTAL OPERATING INCOME	**1,124,077,990**	855,006,852
Compensation and fringe benefits (Note 22)	**335,402,336**	236,359,868
Provision for impairment and credit losses (Note 14)	**283,574,445**	129,352,655
Depreciation and amortization (Note 10)	**116,076,164**	100,424,322
Occupancy costs (Note 23)	**118,885,661**	77,042,228
Security, messengerial and janitorial	**71,444,998**	39,934,688
Taxes and licenses (Note 24)	**67,797,990**	70,757,034
Insurance	**50,461,333**	21,742,260
Utilities	**42,447,041**	37,119,969
Documentary stamp taxes	**35,578,465**	34,850,566
Entertainment, amusement and recreation (Note 24)	**25,198,834**	25,996,842
Transportation and travel	**18,074,093**	14,780,914
Management and other professional fees	**16,154,815**	7,248,453
Stationery, supplies and postage	**9,828,342**	8,412,587
Miscellaneous (Notes 11 and 21)	**56,173,133**	36,745,152
TOTAL OPERATING EXPENSES	**1,247,097,650**	840,767,538
INCOME (LOSS) BEFORE INCOME TAX	**(123,019,660)**	14,239,314
PROVISION FOR INCOME TAX (Note 24)	**33,760,979**	11,810,438
NET INCOME (LOSS)	**(₱156,780,639)**	₱2,428,876

See accompanying Notes to Financial Statements.

CHINA BANK SAVINGS, INC.
(A Majority Owned Subsidiary of China Banking Corporation)

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2014	2013
NET INCOME (LOSS)	**(₱156,780,639)**	₱2,428,876
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that recycle to profit or loss in subsequent periods:		
Changes in net unrealized gains (losses) on available-for-sale financial assets (Note 7)	**18,443,212**	(38,468,267)
Items that do not recycle to profit or loss in subsequent periods:		
Remeasurement gains or (losses) on retirement liability (Note 22)	**(36,905,492)**	20,434,010
TOTAL COMPREHENSIVE LOSS	**(₱175,242,919)**	(₱15,605,381)

See accompanying Notes to Financial Statements.

CHINA BANK SAVINGS, INC.
(A Majority Owned Subsidiary of China Banking Corporation)

STATEMENTS OF CHANGES IN EQUITY

	Capital Stock (Note 19)	Additional Paid-in Capital (Note 19)	Surplus Reserves (Notes 20 and 25)	Deficit (Notes 20 and 25)	Remeasurement Gains (Losses) on Retirement Liability (Note 22)	Net Unrealized Gains (Losses) on Available-for-Sale Financial Assets (Note 7)	Total Equity
Balance at January 1, 2014	**₱881,323,400**	**₱227,811,601**	**₱7,850,911**	**(₱84,435,289)**	**₱12,892,042**	**(₱28,079,365)**	**₱1,017,363,300**
Issuance of capital stock	**658,991,600**	**135,508,741**	**–**	**–**	**–**	**–**	**794,500,341**
Effect of merger (Notes 30)	**517,388,100**	**(3,311,649)**	**–**	**–**	**–**	**–**	**514,076,451**
Total comprehensive income (loss) for the year	**–**	**–**	**–**	**(156,780,639)**	**(36,905,492)**	**18,443,212**	**(175,242,919)**
Transfer to surplus reserve	**–**	**–**	**211,756**	**(211,756)**	**–**	**–**	**–**
Balance at December 31, 2014	**₱2,057,703,100**	**₱360,008,693**	**₱8,062,667**	**(₱241,427,684)**	**(₱24,013,450)**	**(₱9,636,153)**	**₱2,150,697,173**
Balance at January 1, 2013	₱881,323,400	₱227,811,601	₱7,407,439	(₱86,420,693)	(₱7,541,968)	₱10,388,902	₱1,032,968,681
Total comprehensive income (loss) for the year	–	–	–	2,428,876	20,434,010	(38,468,267)	(15,605,381)
Transfer to surplus reserve	–	–	443,472	(443,472)	–	–	–
Balance at December 31, 2013	₱881,323,400	₱227,811,601	₱7,850,911	(₱84,435,289)	₱12,892,042	(₱28,079,365)	₱1,017,363,300

See accompanying Notes to Financial Statements.

CHINA BANK SAVINGS, INC.
(A Majority Owned Subsidiary of China Banking Corporation)
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) before income tax	**(₱123,019,660)**	₱14,239,314
Adjustments for:		
Provision for impairment and credit losses (Note 14)	**283,574,445**	129,352,655
Depreciation and amortization (Note 10)	**116,076,164**	100,424,322
Gain on foreclosures (Notes 9 and 11)	**(60,229,717)**	(423,800)
Investment gain (Notes 7 and 26)	**(1,715,451)**	(290,077,200)
Gain on sale of non-current assets held for sale (Note 9)	**(3,796,883)**	(3,061,485)
Gain on sale of investment properties (Note 11)	**(2,573,387)**	(5,444,050)
Discount amortization of held-to-maturity financial assets	**(30,208)**	–
Write-off of leasehold improvements (Note 10)	**26,643**	–
Changes in operating assets and liabilities:		
Decrease (increase) in the amounts of:		
Loans and receivables	**(5,573,172,676)**	(5,287,885,735)
Other assets (Notes 13 and 28)	**(42,303,918)**	(84,729,872)
Increase (decrease) in the amounts of:		
Deposit liabilities	**2,650,843,217**	5,661,610,775
Manager's checks	**44,513,425**	90,284,268
Accrued interest and other expenses	**35,227,832**	4,029,837
Other liabilities (Notes 17, 19 and 28)	**(2,334,650)**	48,674,910
Net cash generated from (used in) operations	**(2,678,914,824)**	376,993,939
Income tax paid (Notes 24 and 28)	**(18,758,585)**	(22,715,512)
Net cash provided by (used in) operating activities	**(2,697,673,409)**	354,278,427
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash and cash equivalents acquired from merger (Note 30)	**757,674,251**	–
Acquisitions of:		
Available-for-sale financial assets (Note 26)	**(309,141,436)**	(2,194,382,919)
Property and equipment (Note 10)	**(92,384,631)**	(151,479,221)
Software cost (Note 12)	**(5,718,858)**	(10,876,509)
Investment properties (Notes 11 and 28)	**–**	(2,524,746)
Proceeds from sale of:		
Available-for-sale financial assets (Note 26)	**233,211,451**	2,252,775,000
Non-current assets held for sale (Note 9)	**17,367,662**	11,775,809
Investment properties (Note 11)	**8,315,387**	42,680,000
Net cash provided by (used in) investing activities	**609,323,826**	(52,032,586)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from capital infusion (Note 19)	**794,500,341**	–
Advances from Parent Company (Note 1)	**312,600,000**	–
Net cash provided by financing activities	**1,107,100,341**	–

(Forward)

	Years Ended December 31	
	2014	2013
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(₱981,249,242)**	₱302,245,841
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**3,737,584,843**	3,435,339,002
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱2,756,335,601**	₱3,737,584,843

OPERATIONAL CASH FLOWS FROM INTEREST

	Years Ended December 31	
	2014	2013
Interest received	**₱1,239,797,487**	₱187,698,331
Interest paid	**326,002,467**	107,625,623

See accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

China Bank Savings, Inc. (the Bank) reopened to the public on June 26, 1999 as a thrift bank in accordance with the Monetary Board (MB) Resolution No. 512 dated April 21, 1999. Under MB Resolution No. 512, the Bank was allowed to reopen its seventy-two (72) branches as provided in the Bank's operating plan.

In 2007, China Banking Corporation (CBC) acquired the majority shareholdings of the Bank. Following the change in its majority owners, the Bank continues to operate as a thrift bank. In 2008, the Bank transferred its other existing branches and unused branch licenses to CBC to improve cost efficiency and branch networking. As at December 31, 2014 and 2013, the Bank has seventy-six (76) and fifty-seven (57) branches, respectively.

The Bank's original Certificate of Incorporation was issued by the Philippine Securities and Exchange Commission (SEC) on May 23, 1960. On August 20, 2009, the Board of Directors (BOD) approved the amendment of the Bank's Articles of Incorporation to extend its corporate term for another fifty (50) years, from and after May 23, 2010, the end of the original term of the Bank's corporate existence. The amendment to the Articles of Incorporation to extend the Bank's corporate term was subsequently approved by the Stockholders of the Bank, who own/represent at least two thirds (2/3) of the outstanding capital stock, at the Annual Stockholders' meeting held in October 2009. The Amended Articles of Incorporation was approved by the SEC on March 25, 2010.

As at December 31, 2014 and 2013, the Bank is 96.30% and 95.25%, respectively, owned by CBC, its ultimate parent company.

<u>Merger between the Bank and Unity Bank, A Rural Bank Inc.</u>
The BOD of the Bank and Unity Bank, A Rural Bank, Inc. (Unity Bank), in their meetings held last June 6, 2013 and June 11, 2013, respectively, approved the proposed merger with Unity Bank, with the Bank as the surviving entity. The Plan of Merger was approved by the stockholders of both banks in their meetings held on July 18, 2013 and July 19, 2013, respectively. Unity Bank is 99.95% owned by CBC, having acquired the former on November 20, 2012 under the Strengthening Program for Rural Banks (SPRB) Plus of the Bangko Sentral ng Pilipinas (BSP).

On December 10, 2013, the BSP approved the issuance of Certificate of Authority to register the approved Plan of Merger and Articles of Merger of the Bank and Unity Bank, with the Bank as the surviving entity. Thereafter, on January 20, 2014, the SEC formally issued the Certificate of the Filing of Articles and Plan of Merger by and between the Bank (surviving corporation) and Unity Bank (absorbed corporation).

The merger was effected via a share-for-share exchange (Notes 19 and 30).

<u>Planned merger between the Bank and Planters Development Bank (PDB)</u>
On September 18, 2013, the shareholders of PDB (selling shareholders) representing more than two-thirds of the shares of PDB and the Bank executed a Memorandum of Agreement (MOA) to sell PDB's shares to the Bank, subject to approval of the shareholders of both the Bank and PDB and the MB of the BSP. Under the MOA, the selling shareholders and the Bank agreed to execute a Share Purchase Agreement (SPA) and other definitive agreements as may be necessary to

finalize their mutual covenants in connection with the share sale transaction. PDB as issuer of the shares shall assist the Bank in exerting all reasonable efforts to achieve the transactions contemplated under the MOA.

The MB of the BSP, in its Resolution No. 2081 dated December 13, 2013, approved the merger between PDB and the Bank or CBC within three years from date of approval. The first stage of which is the acquisition by CBC of more than two-thirds of the shares of PDB and eventually to 100.00% of the outstanding subscribed capital stock of PDB.

On December 18, 2013, in accordance with the MOA, the SPA was executed by the selling shareholders and the Bank. Subject to the terms and conditions of the SPA, the selling shareholders have agreed to sell, transfer, and convey their collective shares in PDB in favor of the Bank, and CBC has agreed to purchase and acquire the said shares.

On June 26, 2014, the BOD of both the Bank and PDB approved the Plan and Articles of Merger of the Bank and PDB with former as the surviving corporation. The stockholders of both CBC and the Bank approved, ratified and confirmed the Plan and Articles of Merger on August 14, 2014. The said Plan and Articles of Merger are pending regulatory approvals.

Capital Infusion
On March 5, 2014, the BOD of CBC approved the capital infusion to the Bank of up to ₱800.00 million in tranches as may be considered necessary to support the latter's planned business growth and expansion and to enable it to meet the minimum capital requirement under Basel III. CBC made the following advances intended for capital infusion amounting to ₱500.00 million on February 28, 2014 and ₱300.00 million on May 20, 2014.

The Bank issued 6,589,916 common shares in exchange for the ₱800.00 million capital infusion of CBC (Note 19).

Amendment to the Articles of Incorporation
On June 26, 2014, the BOD of the Bank approved the increase in its authorized capital stock from ₱3.00 billion to ₱8.00 billion. The increase in capitalization aims to enable the Bank in meeting the minimum capital requirement under Basel III and the planned merger with PDB.

On September 5, 2014, CBC made advances to the Bank amounting to ₱312.60 million. These advances were used to comply with the required amount of capital stock to be subscribed and paid for the application in the increase of authorized capital stock. As of December 31, 2014, no shares has been issued yet for the ₱312.60 million capital infusion. The Bank is awaiting the approval of BSP and SEC for its application of increase in authorized capital.

2. Accounting Policies

Basis of Preparation
The accompanying financial statements have been prepared on a historical cost basis except for available-for-sale (AFS) financial assets that have been measured at fair value and non-current assets held for sale that have been measured at the lower of their carrying amount and fair value less cost to sell. All values are rounded to the nearest peso unless otherwise stated.

The accompanying financial statements of the Bank include the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU). The functional currency of the RBU and the FCDU is the Philippine peso and the United States dollar (USD), respectively. For financial reporting purposes, FCDU accounts and foreign currency-denominated accounts in the RBU are translated into their equivalents in Philippine peso (see accounting policy on foreign currency translation). The financial statements of these units are combined after eliminating inter-unit accounts and transactions.

Statement of Compliance
The financial statements of the Bank have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

Presentation of Financial Statements
The Bank presents its balance sheet in order of liquidity. An analysis regarding recovery of assets or settlement of liabilities within twelve (12) months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 18.

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet only when there is a legally enforceable right to offset the recognized amounts and there is intention to settle on a net basis, or to realize the assets and settle the liability simultaneously.

Income and expense are not offset in the statement of income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretation of International Financial Interpretation Reporting Committee (IFRIC), which were adopted as of January 1, 2014.

The following new and amended standards and interpretations did not have any impact on the financial position or performance of the Bank:

- Investment Entities (Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and PAS 27, *Separate Financial Statements*)
- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (Amendments)
- PAS 36, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets* (Amendments)
- PAS 39, *Financial Instruments: Recognition and Measurement*
- Philippine Interpretation IFRIC 21, *Levies*

Annual Improvements to PFRS (*2011-2013 cycle)*
- PFRS 1, *First-time Adoption of PFRS*

Annual Improvements to PFRS (2010-2012 cycle)
- PFRS 13, *Fair Value Measurement*

Significant Accounting Policies
<u>Common Control Business Combinations</u>
Where there are business combinations involving entities that are ultimately controlled by the same ultimate parent before and after the business combination and that the control is not transitory ("business combinations under common control"), the Bank accounts such business combinations using pooling of interest method.

In applying the pooling of interest method, the Bank follows the Philippine Interpretations Committee Q&A No. 2012-01, *PFRS 3.2 Application of the Pooling of Interest Method for Business Combinations of Entities under Common Control in Consolidated Financial Statements*, which provides the following guidance:

- The assets and liabilities of the combining entities are reflected in the consolidated financial statements at their carrying amounts. No adjustments are made to reflect fair values, or recognize any new assets or liabilities, at the date of the combination. The only adjustments that are made are those adjustments to harmonize accounting policies.
- No new goodwill is recognized as a result of the combination. The only goodwill that is recognized is any existing goodwill relating to either of the combining entities. Any difference between the consideration paid or transferred and the equity acquired is reflected within equity as additional paid-in capital, i.e., either contribution or distribution of equity.
- The consolidated statement of income reflects the results of the combining entities prospectively.

Foreign Currency Translation

RBU

As of reporting date, foreign currency-denominated monetary assets and monetary liabilities of the RBU are translated in Philippine peso based on the Philippine Dealing System (PDS) closing rate prevailing at end of year and foreign currency-denominated income and expenses based on the PDS weighted average rate (PDSWAR) for the year. Foreign exchange differences arising from the restatement of foreign currency-denominated assets and liabilities in the RBU are credited to or charged against profit or loss in the year in which the rates change. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

FCDU

As of reporting date, the assets and liabilities of the FCDU are translated into the Bank's presentation currency (the Philippine peso) at the PDS closing rate prevailing at the reporting date and its income and expenses are translated at PDSWAR for the year. Exchange differences arising on translation are taken directly to the statement of comprehensive income as 'Cumulative translation adjustment'.

Fair Value Measurement

The Bank measures financial instruments, such as AFS financial assets, at fair value at each reporting date. Also, fair values of financial instruments measured at amortized cost and nonfinancial assets measured at cost are disclosed in Note 4.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

If an asset or a liability measured at fair value has a bid price and an ask price, the price between bid-ask spread that is most representative of fair value in the circumstances shall be used to measure fair value regardless of where the input is categorized within the fair value hierarchy.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at every reporting date.

For purposes of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and fair value hierarchy as explained above.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, amounts due from BSP and other banks and interbank loans receivable with original maturities of three months or less from dates of placements and that are subject to insignificant risk of changes in value. Due from BSP includes the statutory reserves required by the BSP which the Bank considers as cash equivalents wherein withdrawals can be made to meet the Bank's cash requirements as allowed by the BSP.

Financial Instruments - Initial Recognition and Subsequent Measurement

Date of recognition

Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place are recognized on settlement date. Settlement date accounting refers to (a) the recognition of an asset on the day it is received by the Bank, and (b) the derecognition of an asset and recognition of any gain or loss on disposal on the day that such asset is delivered by the Bank. Deposits, amounts due to banks and customers and loans are recognized when cash is received by the Bank or advanced to the borrowers.

Initial recognition of financial instruments
Financial instruments are initially recognized at fair value. Except for financial assets and financial liabilities at fair value through profit or loss (FVPL), the initial measurement of financial instruments includes transaction costs. The Bank classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) financial assets, AFS financial assets, and loans and receivables while financial liabilities are classified as financial liabilities at FVPL and financial liabilities carried at amortized cost. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

As of December 31, 2014 and 2013, the Bank has no financial assets and financial liabilities at FVPL.

'Day 1' difference
Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include data from observable market, the Bank recognizes the difference between the transaction price and the fair value (a 'Day 1' difference) in the statement of income unless it qualifies for recognition as some other type of asset. In cases where data used is not observable, the difference between the transaction price and model value is only recognized in the statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Bank determines the appropriate method of recognizing the 'Day 1' difference amount.

HTM financial assets
HTM financial assets are quoted non-derivative financial assets with fixed or determinable payments and with fixed maturities for which the Bank has the positive intention and ability to hold to maturity. Where the Bank would sell other than an insignificant amount of HTM financial assets, the entire category would be tainted and reclassified as AFS financial assets.

After initial recognition, these investments are subsequently measured at amortized cost using the effective interest method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate (EIR). The amortization is included in 'Interest income' in the statement of income. Gains and losses are recognized in the statement of income when HTM financial assets are derecognized and impaired, as well as through the amortization process. The losses arising from impairment of such investments are recognized under 'Provision for impairment and credit losses' in the statement of income. The effects of restatement on foreign currency-denominated HTM financial assets are recognized in the statement of income.

Loans and receivables
Loans and receivables are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets at FVPL or as AFS financial assets.

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for impairment and credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in the 'Interest income' in the statement of income. The losses arising from impairment are recognized under ‘Provision for impairment and credit losses’ in the statement of income.

These accounting policies relate to ‘Due from BSP and other banks’ account, ‘Loans and receivables’ and financial assets reported under ‘Other assets’.

AFS financial assets
AFS financial assets are those which are designated as such or do not qualify to be classified as financial assets at FVPL, HTM financial assets or loans and receivables. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. They include debt and equity securities.

After initial measurement, AFS financial assets are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in the statement of income. The unrealized gains and losses arising from the fair valuation of AFS financial assets are excluded, net of tax, from reported earnings and are included under other comprehensive income (OCI).

When the security is disposed of, the cumulative gain or loss previously recognized in OCI is recognized as ‘Investment gain’ in the statement of income. Where the Bank holds more than one investment in the same security, these are deemed to be disposed of on a specific identification basis. Interest earned on holding AFS debt securities are reported as ‘Interest income’ using the EIR. Dividends earned on holding AFS equity securities are recognized in the statement of income as ‘Miscellaneous income’ when the right to receive the payment has been established. The losses arising from impairment of such investments are recognized as ‘Provision for impairment and credit losses’ in the statement of income.

Other financial liabilities
This accounting policy relates to the balance sheet captions ‘Deposit liabilities’, ‘Manager’s checks’, ‘Accrued interest and other expenses’, ‘Advances from Parent Company’ and ‘Other liabilities’. These are issued financial instruments or their components which are not designated as at FVPL and where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, other financial liabilities not qualified and not designated as at FVPL are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

<u>Derecognition of Financial Assets and Financial Liabilities</u>
Financial assets
A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired; or

- the Bank retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Bank has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risks and rewards of the asset but has transferred control over the asset.

Where the Bank has transferred its rights to receive cash flows from an asset or has entered into a "pass-through" arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control over the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset. In that case, the Bank also recognizes an associated liability. The transferred asset and associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

The transfer of risks and rewards is evaluated by comparing the Bank's exposure, before and after the transfer, with the variability in the amounts and timing of the net cash flows of the transferred asset. The Bank has retained substantially all the risks and rewards of ownership of a financial asset if its exposure to the variability in the present value of the future net cash flows from the financial asset does not change significantly as a result of the transfer (e.g., because the entity has sold a financial asset subject to an agreement to buy it back at a fixed price or the sole price plus a lender's return). The Bank has transferred substantially all the risks and rewards of ownership of a financial asset if its exposure to such variability is no longer significant in relation to the total variability in the present value of the future net cash flows associated with the financial asset (e.g., because the entity has sold a financial asset subject only to an option to buy it back at its fair value at the time of repurchase or has transferred fully proportionate share of the cash flows from a larger financial asset in an agreement).

Whether the Bank has retained control of the transferred asset depends on the transferee's ability to sell the asset. If the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer, the entity has not retained control.

Financial liabilities
A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of existing liability are substantially modified, such an exchange or modification is treated as derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of income.

<u>Impairment of Financial Assets</u>
The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will

enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost
For financial assets carried at amortized cost, which include HTM financial assets and loans and receivables, the Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If there is objective evidence that an impairment loss has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR.

If a financial asset carried at amortized cost has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged to the statement of income. Interest income continues to be recognized based on the original EIR of the asset. The financial assets, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized.

If the Bank determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as industry, collateral type and past-due status. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period 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 reflect, and are directionally consistent with changes in related observable data from period to period (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited to 'Provision for impairment and credit losses'.

Financial assets carried at cost
If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

AFS financial assets
For AFS financial assets, the Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity investments classified as AFS financial assets, this would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statement of income – is removed from the statement of comprehensive income and recognized in the statement of income.

Impairment losses on equity securities are not reversed through the statement of income.

Increases in fair value after impairment are recognized directly in the statement of comprehensive income.

In the case of debt securities classified as AFS financial assets, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of 'Interest income' in the statement of income. If, in the subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of income, the impairment loss is reversed through the statement of income.

Restructured loans
Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement 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 loan's original EIR. The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the original EIR, is recognized in 'Provision for impairment and credit losses' in the statement of income.

Collateral valuation
The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The Bank collateral comes in various forms such as cash, securities, letter of credits/guarantees, real estate, receivables and other non-financial assets and credit enhancements. The fair value of collateral is generally assessed, at a minimum, at inception. To the extent possible, the Bank use active market data for valuing financial assets held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral, such as real estate and chattel, is valued based on data provided by third parties such as independent appraisers.

Foreclosed collateral
The Bank's policy is to determine whether a foreclosed chattel asset is best used for its internal operations or should be sold. Chattel assets determined to be useful for the internal operations are transferred to their relevant asset category at carrying value of the original secured asset. Chattel assets that are determined better to be sold are immediately transferred to assets held for sale at carrying value of the original secured asset at the foreclosure date. Foreclosed collaterals that pertain to real estate properties are accounted for as investment properties.

Property and Equipment
Land is stated at cost less any impairment in value while depreciable properties including buildings and furniture, fixture and equipment are stated at cost less accumulated depreciation and amortization, and any impairment in value. Such cost includes the cost of replacing part of the property and equipment when that cost is incurred and if the recognition criteria are met, but excluding repairs and maintenance costs. Leasehold rights and improvements are stated at its net carrying amount after directly deducting amortization.

Depreciation and amortization is calculated on the straight-line method over the estimated useful life (EUL) of the depreciable assets as follows:

	EUL
Buildings	20 to 40 years
Furniture, fixtures and equipment	3 to 5 years
Leasehold improvements	5 to 8 years or the related lease terms, whichever is shorter

The depreciation and amortization method and useful life are reviewed periodically to ensure that the method and period of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income in the year the asset is derecognized.

Investment Properties
Investment properties include real properties acquired in settlement of loans and receivables and investments in real estate.

Real properties acquired in settlement of loans and receivables
The Bank applies the cost model in accounting for the real properties acquired in settlement of loans and receivables. These properties are carried at cost, which is the fair value at acquisition date including certain transaction costs, less accumulated depreciation and impairment in value. Transaction costs, which include nonrefundable capital gains tax and documentary stamp tax, incurred in connection with foreclosure are capitalized as part of the carrying values of the cost of the real properties acquired. Investment properties acquired through a nonmonetary asset exchange is measured initially at fair value unless (a) the exchange lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable, where the net carrying value of the related loans and receivables is used. Subsequent to initial recognition, real properties acquired in settlement of loans and receivables are stated at cost less accumulated depreciation and any accumulated impairment in value. Depreciation is computed on a straight-line basis over the EUL from the time of acquisition of the investment properties but not to exceed 10 years.

Investments in real estate
Investments in real estate consist of investments in land and building. The Bank applies the cost model in accounting for investments in real estate. Investment in land is carried at cost less impairment in value. Building is carried at cost less accumulated depreciation and impairment in value. All costs that are directly attributable to the acquisition and development of property are capitalized, including borrowing costs incurred to finance the property development. Depreciation is computed on a straight-line basis between 20 to 40 years.

Subsequent measurement of investment properties
The EUL of investment properties and the depreciation method are reviewed periodically to ensure that the period and the method of depreciation are consistent with the expected pattern of economic benefits from items of investment properties.

The carrying values of the investment properties are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any of such indication exists and where the carrying values exceed the estimated recoverable amount, the investment property or CGUs it is related to are written down to their recoverable amounts.

Investment properties are derecognized when they have either been disposed of or when they are permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the retirement or disposal of investment properties are recognized in the statement of income in the year of retirement or disposal under ‘Gain (loss) on sale of investment properties’.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment property when, and only when, there is a change in use evidenced by commencement of owner occupation or commencement of development with a view to sale.

Intangible Assets
Intangible assets consist of software costs and branch licenses.

Software costs
Costs related to software purchased by the Bank for use in operations are recognized as ‘Software costs’ in the balance sheet. Capitalized computer software costs are amortized on a straight-line basis over three (3) to five (5) years.

Branch licenses
These intangible assets were determined to have indefinite useful lives and are therefore not amortized. The useful life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis. Branch licenses are tested for impairment annually either individually or at the CGU level.

Impairment of Nonfinancial Assets
At each reporting date, the Bank assesses whether there is any indication that its nonfinancial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Bank makes a formal estimate of recoverable amount.

Recoverable amount is the higher of an asset’s or CGU’s fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent from those other assets or groups of assets, in which case the recoverable amount is assessed as part of the CGU to which it belongs. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset or CGU is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged against the statement of income in the period in which it arises.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation) had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is credited to current operations.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires 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. A reassessment is made after inception of the lease only if one of the following applies:

(a) There is a change in contractual terms, other than a renewal or extension of the arrangement;
(b) A renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
(c) There is a change in the determination of whether fulfillment is dependent on a specified asset; or
(d) There is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

Bank as lessee

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the statement of income on a straight-line basis over the lease term.

Bank as lessor

Leases where the Bank does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Non-current Assets Held for Sale

Non-current assets held for sale include repossessed vehicles acquired in settlement of loans and receivable. The Bank classifies non-current assets as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use.

Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell and are no longer depreciated or amortized.

The criteria for non-current asset held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition.

Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

If the Bank decides to use an asset as property and equipment, the related asset ceases to qualify as non-current asset held for sale and is reclassified to property and equipment.

Upon reclassification, the Bank measures a non-current asset that ceases to be classified as held for sale at the lower of:

(a) Its carrying amount before the asset was classified as held for sale, adjusted for any depreciation, amortization or revaluation that would have been recognized had the asset not been classified as held for sale, and
(b) Its recoverable amount at the date of the subsequent reclassification.

Equity
Capital stock is measured at par value for all shares issued and outstanding. When the shares are sold at a premium, the difference between the proceeds and the par value is credited to 'Additional paid-in capital' account. Direct costs incurred related to equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are chargeable to 'Additional paid-in capital' account. If the 'Additional paid-in capital' is not sufficient, the excess is charged against the 'Surplus (deficit)'. The effect of positive (negative) equity adjustments arising from business combination under common control is included under 'Additional paid-in capital'.

When the Bank issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued.

Revenue Recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duties.

The Bank assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or agent.

The Bank concluded that it is acting as a principal in all of its revenue arrangements except for certain trading transaction. The following specific recognition criteria must also be met before revenue is recognized.

Interest income
For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as AFS financial assets, interest income is recorded at the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the

financial instrument (for example, prepayment options), includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, as applicable, but not future credit losses. The adjusted carrying amount is calculated based on the original EIR. The change in carrying amount is recorded as 'Interest income'.

Once the recorded value of a financial asset or group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original EIR applied to the new carrying amount.

Service fees and penalties
Service fees and penalties are recognized only upon collection or accrued where there is a reasonable degree of certainty as to their collectability.

Dividend income
Dividend income is recognized under 'Miscellaneous income' when the Bank's right to receive payment is established.

Investment gain
This represents gains realized from sale of AFS financial assets.

Rental income
Rental income arising on leased properties is accounted for on a straight-line basis over the lease terms on ongoing leases and is recorded in the statement of income under 'Income from property rentals'.

Income from sale of property and equipment, investment property and non-current assets held for sale
Income from sale of properties is recognized upon completion of the earnings process and the collectability on the sales price is reasonably assured.

<u>Expense Recognition</u>
Expenses are recognized when it is probable that a decrease in future economic benefit related to a decrease in an asset or an increase of a liability has occurred and the decrease in economic benefits can be measured reliably. Expenses are recognized when incurred.

Interest expense
Interest expense for all interest-bearing financial liabilities are recognized in 'Interest expense' in the statement of income using the EIR of the financial liabilities to which they relate.

Operating expenses
Operating expenses constitute costs which arise in the normal business operation and are recognized when incurred.

Taxes and licenses
These include all other taxes, local and national, including gross receipts tax (GRT), real estate taxes and licenses and permit fees which are recognized when incurred.

<u>Retirement Benefits</u>
The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the reporting date reduced by the fair value of plan assets, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of

any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plan is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:
(a) service cost;
(b) net interest on the net defined benefit liability or asset; and
(c) remeasurements of net defined benefit liability or asset.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on high quality corporate bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Bank, nor can they be paid directly to the Bank. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations).

The Bank's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Provisions and Contingencies
Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Bank expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Contingent liabilities are not recognized in the financial statements but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized but are disclosed in the financial statements when an inflow of economic benefits is probable.

Income Taxes

Current tax

Current tax assets and current tax liabilities for the current period and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as at the reporting date.

Deferred tax

Deferred tax is provided, using the balance sheet liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, including asset revaluations. Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT), and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient taxable profit will be available against which the deductible temporary differences and carryforward of unused tax credits from MCIT and unused NOLCO can be utilized. Deferred tax, however, is not recognized on temporary differences that arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are applicable to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current tax and deferred tax relating to items recognized directly in equity is also recognized in equity and not in the statement of income.

Fiduciary Activities

Assets and income arising from fiduciary activities together with related undertakings to return such assets to customers are excluded from the financial statements where the Bank acts in a fiduciary capacity such as nominee, trustee or agent.

Events after the Reporting Date

Post-year-end event that provides additional information about the Bank’s position at the reporting date (adjusting events) is reflected in the financial statements. Any post-year-end event that is not an adjusting event is disclosed in the notes to the financial statements when material.

Future Changes in Accounting Policies
The Bank will adopt the Standards and Interpretations enumerated below when these become effective. Except as otherwise indicated, the Bank does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on the financial statements.

The following standards and amendments issued by the International Accounting Standards Board (IASB) were already adopted by the Financial Reporting Standards Council (FRSC) but are still for approval by Board of Accountancy (BOA).

New Accounting Standards, Interpretations and Amendments to Existing Standards Effective Subsequent to December 31, 2014
PFRS 9, *Financial Instruments - Classification and Measurement* (2010 version)
PFRS 9 (2010 version) reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement*. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either OCI or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Bank's financial assets, but will have no impact on the classification and measurement of financial liabilities.

PFRS 9 (2010 version) is effective for annual periods beginning on or after January 1, 2015. This mandatory adoption date was moved to January 1, 2018 when the final version of PFRS 9 was adopted by the FRSC. Such adoption, however, is still for approval by the Board of Accountancy (BOA).

Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The SEC and the FRSC have deferred the effectivity of this interpretation until the final Revenue standard is issued by the IASB and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

Adoption of the interpretation will not have any impact on the financial statements of the Bank.

Effective January 1, 2015
PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions* (Amendments)
PAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as negative benefit. These amendments clarify that, if the amount

of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. The Bank does not expect the amendment to have an impact since it has a noncontributory defined benefit plan.

Annual Improvements to PFRS (2010-2012 cycle)
The Annual Improvements to PFRS (2010-2012 cycle) are not expected to have a material impact on the Bank. They include:

PFRS 2, *Share-based Payment - Definition of Vesting Condition*
This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:
- A performance condition must contain a service condition;
- A performance target must be met while the counterparty is rendering service;
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group;
- A performance condition may be a market or non-market condition; and
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

This amendment does not apply to the Bank as it has no share-based payments.

PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination*
The amendment is applied prospectively. It clarifies that a contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PAS 39 (or PFRS 9, if early adopted). The Bank shall consider the amendment for future business combinations.

PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
The amendments are applied retrospectively and clarify that:
- An entity must disclose the judgments made by management in applying the aggregation criteria in the standard, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

The amendments are not applicable to the Bank.

PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization*
The amendment is applied retrospectively and clarifies in PAS 16 and PAS 38 that the asset may be revalued by reference to the observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset. The amendment has no impact on the Bank's financial position or performance.

PAS 24, *Related Party Disclosures - Key Management Personnel*
The amendment is applied retrospectively and clarifies that a management entity, which is an entity that provides key management personnel services, is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. The amendments affect disclosures only.

Annual Improvements to PFRS (2011-2013 cycle)
The Annual Improvements to PFRS (2011-2013 cycle) are not expected to have material impact on the Bank. They include:

PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements*
The amendment is applied prospectively and clarifies the following regarding the scope exceptions within PFRS 3:
- Joint arrangements, not just joint ventures, are outside the scope of PFRS 3.
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

PFRS 13, *Fair Value Measurement - Portfolio Exception*
The amendment is applied prospectively and clarifies that the portfolio exception in PFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of PAS 39 (*or PFRS 9, as applicable*).

PAS 40, *Investment Property*
The amendment is applied prospectively and clarifies that PFRS 3, and not the description of ancillary services in PAS 40, is used to determine if the transaction is a purchase of an asset or a business combination. The description of ancillary services in PAS 40 only differentiates between investment property and owner-occupied property (i.e., property, plant and equipment).

<u>Effective January 1, 2016</u>
PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization* (Amendments)
The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. Early adoption of the amendment is permitted. These amendments are not expected to have any impact to the Bank since it does not use a revenue-based method to depreciate its non-current assets.

PAS 16, *Property, Plant and Equipment*, and PAS 41, *Agriculture - Bearer Plants* (Amendments)
The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, will apply. Early adoption of the amendment is permitted. These amendments are not expected to have any impact to the Bank as it does not have any bearer plants.

PAS 27, *Separate Financial Statements - Equity Method in Separate Financial Statements* (Amendments)
The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of PFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to PFRS. Early adoption of the amendment is permitted. It is not expected that the amendment would be relevant to the Bank.

PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
These amendments address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. It is not expected that the amendment would be relevant to the Bank.

PFRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations* (Amendments)
The amendments to PFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively applied, with early adoption permitted. These amendments are not expected to have any impact to the Bank.

PFRS 14, *Regulatory Deferral Accounts*
PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. The standard would not apply to the Bank since it is an existing PFRS preparer.

Annual Improvements to PFRS (2012-2014 cycle)
The Annual Improvements to PFRS (2012-2014 cycle) are not expected to have a material impact on the Bank. They include:

PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal*
The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

PFRS 7, *Financial Instruments: Disclosures - Servicing Contracts*
PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.

PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.

PAS 19, *Employee Benefits - regional market issue regarding discount rate*
This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

PAS 34, *Interim Financial Reporting - disclosure of information 'elsewhere in the interim financial report'*
The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

Effective Subsequent to December 31, 2016
IFRS 9, *Financial Instruments - Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39* (2013 version)
IFRS 9 (2013 version) already includes the third phase of the project to replace PAS 39 which pertains to hedge accounting. This version of IFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the

forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a derivative instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

PFRS 9 (2013 version) has no mandatory effective date. The mandatory effective date of January 1, 2018 was eventually set when the final version of PFRS 9 was adopted by the FRSC. The adoption of the final version of PFRS 9, however, is still for approval by BOA.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Bank's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities. The Bank is currently assessing the impact of adopting this standard.

PFRS 9, *Financial Instruments* (2014 or final version)
In July 2014, the final version of PFRS 9 was issued. PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39 and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of PFRS 9 is permitted if the date of initial application is before January 1, 2015. The adoption of the final version of PFRS 9, however, is still for approval by BOA.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Bank's financial assets, including impairment methodology, but will potentially have no impact on the classification and measurement of financial liabilities. The Bank is currently assessing the impact of adopting this standard.

IFRS 15, *Revenue from Contracts with Customers*
IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2017 with early adoption permitted.

The Bank is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date once adopted locally. This new standard issued by the IASB has not yet been adopted by the FRSC.

3. Significant Accounting Judgments and Estimates

The preparation of the financial statements in accordance with PFRS requires the Bank to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

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.

Judgments

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

a. *Going concern*

The Bank's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as going concern. Therefore, the financial statements continue to be prepared on a going concern basis.

b. *Operating leases*

In determining whether or not there is an indication of operating lease treatment, the Bank considers retention of ownership title to the leased property, period of lease contract relative to the estimated useful economic life of the leased property, and bearer of executor costs, among others.

Bank as lessor

The Bank has entered into commercial property leases on its investment property portfolio. The Bank has determined that it retains all the significant risk and rewards of ownership of these properties which are leased out on operating leases.

Bank as lessee

The Bank has entered into lease on premises it uses for its operations. The Bank has determined that all significant risk and rewards of ownerships of the properties on operating lease are not transferable to the Bank.

c. *Fair value of financial instruments*

Where the fair values of financial assets and financial liabilities recorded on the balance sheet or disclosed in the notes to the financial statements cannot be derived from active markets, they are determined using a variety of valuation techniques acceptable to the market such as alternative valuation approaches that include the use of mathematical models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

The carrying values and corresponding fair values of financial assets and financial liabilities as well as the manner in which fair values were determined are discussed in Note 4.

d. *HTM financial assets*
The classification to HTM financial assets requires significant judgment. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than in certain specific circumstances - for example, selling an insignificant amount close to maturity - it will be required to reclassify the entire portfolio as part of AFS financial assets. The investments would therefore be measured at fair value and not at amortized cost.

e. *Financial assets not quoted in an active market*
The Bank classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination of whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions conducted on an arm's length basis.

f. *Classification of non-current assets held for sale*
The Bank classifies non-current assets held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use.

The criteria for non-current asset held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition.

g. *Contingencies*
The Bank is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the Bank's defense in these matters and is based upon an analysis of potential results. The Bank currently does not believe that these proceedings will have a material adverse effect on the financial statements. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (Note 27).

h. *Functional currency*
PAS 21, *The Effect of Changes in Foreign Exchange Rates,* requires management to use its judgment to determine the entity's functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the entity. In making this judgment, the Bank considers the following:

- the currency that mainly influences sales prices for financial instruments and services (this will often be the currency in which sales prices for its financial instruments and services are denominated and settled);
- the currency in which funds from financing activities are generated; and
- the currency in which receipts from operating activities are usually retained.

<u>Estimates</u>
The key assumptions concerning the future and other sources of estimation uncertainty at the reporting date that have a significant risk of causing material adjustment to the carrying amounts in the balance sheet within the next financial year are described below:

a. *Credit losses on loans and receivables, HTM financial assets and AFS debt securities*
The Bank reviews its loans and receivables, HTM financial assets and AFS debt securities at each reporting date to assess whether an allowance for credit losses should be recorded in the

balance sheet and any changes thereto in the statement of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors. Actual results may differ, resulting in future changes to the allowance.

In addition to specific allowance against individually significant financial assets, the Bank also makes a collective impairment assessment against exposures which, although not specifically identified as requiring an allowance, have a greater risk of default than when originally granted. This collective impairment assessment is based on any deterioration in the credit quality of a group of financial assets with similar credit risk characteristics. The collective impairment assessment considers factors such as deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

The carrying value of loans and receivables and the related allowance for credit losses are disclosed in Notes 8 and 14, respectively.

As of December 31, 2014 and 2013, AFS debt investments and HTM financial assets were unimpaired. The carrying values of AFS debt securities and HTM financial assets are disclosed in Note 7.

b. *Impairment of AFS equity securities*
The Bank determines that AFS equity securities are impaired when there has been a significant or prolonged decline in their fair value below their cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Bank treats 'significant' generally as 20.00% or more and 'prolonged' as greater than 12 months. Among the other factors that the Bank considers in evaluating impairment on AFS equity investments are discussed in Note 5.
The carrying value of AFS equity securities and the related allowance for impairment and credit losses are disclosed in Notes 7 and 14, respectively.

c. *Impairment of non-financial assets*
Property and equipment, investment properties and software costs
The Bank assesses impairment on nonfinancial assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Bank considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

The Bank recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is computed using the fair value less cost to sell for real properties and value in use for software costs. Recoverable amounts are estimated for individual assets or, if it is not possible, for the CGU which the asset belongs.

The carrying values of the Bank's property and equipment, investment properties and software costs are disclosed in Notes 10, 11 and 12, respectively.

Branch licenses
The Bank's management conducts an annual review for any impairment in value of its branch licenses. Branch licenses are written down for impairment where the recoverable amount is insufficient to support its carrying value. In 2014, the Bank recognized impairment loss on branch licenses amounting to ₱12.60 million (Note 12).

d. *Estimated useful lives of property and equipment, investment properties and software costs*
The Bank reviews on an annual basis the estimated useful lives of property and equipment, depreciable investment properties and software costs based on expected asset utilization as anchored on business plans and strategies that also consider expected future technological developments and market behavior. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned. A reduction in the estimated useful lives of property and equipment, depreciable investment properties and software costs would increase the recorded depreciation expense and amortization expense and decrease non-current assets. The estimated useful lives of property and equipment, investment properties and software cost are disclosed in Note 2.

e. *Recognition of deferred income taxes*
Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Management's discretion is required to determine the amount of deferred tax assets that can be recognized, based on the forecasted level of future taxable profits and the related future tax planning strategies.

The Bank has been in a tax loss position over the past few years. The recognized and unrecognized deferred tax assets are disclosed in Note 24.

f. *Net retirement liability and retirement expense*
The determination of the Bank's net retirement liability and annual retirement expense is dependent on the selection of certain assumptions used in calculating such amounts. These assumptions include, among others, discount rates and salary increase.

The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of the reporting date. Refer to Note 22 for the details on the assumptions used in the calculation.

The present value of the retirement obligation and fair value of plan assets are disclosed in Note 22.

4. Fair Value Measurement

The methods and assumptions used by the Bank in estimating the fair values of its assets and liabilities are:

Cash and other cash items, due from BSP and other banks, accrued interest receivable and accounts receivable - The carrying amounts approximate their fair values in view of the relatively short-term maturities of these instruments.

AFS debt securities - The fair values of government and private bonds are based on quoted market prices. The fair value of unquoted debt securities is estimated based on the discounted cash flow methodology using the Bank's current incremental lending rates for similar types of securities.

AFS equity securities - Unquoted AFS equity securities are carried at cost less allowance for impairment losses due to the unpredictable nature of future cash flows and the lack of suitable method of arriving at a reliable fair value. Unquoted equity securities are not significant in relation to the Bank's portfolio of financial instruments.

Loans and receivables - Fair values are estimated using the discounted cash flow methodology, using the Bank's current incremental lending rates of 4.86% to 17.66% for similar types of receivables.

Accounts receivable, returned checks and other cash items (RCOCI) and other financial assets included in 'Other assets' - Quoted market prices are not readily available for these assets. These are reported at cost and are not significant in relation to the Bank's total portfolio of securities.

Deposit liabilities - Fair values of time deposits are estimated using the discounted cash flow methodology, using the Bank's current incremental borrowing rates of 4.45% to 8.00% for similar borrowings with maturities consistent with those remaining for the liability being valued. For demand and savings deposits, carrying amounts approximate fair values considering that these are currently due and demandable.

Manager's checks, accrued interest and other expenses and other liabilities - Carrying amounts approximate fair values due to the short-term nature of the accounts.
As at December 31, 2014 and 2013, the fair value hierarchy of the Bank's assets and liabilities are presented below:

	December 31, 2014				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total**
Recurring fair value measurement					
AFS financial assets					
Government bonds	**₱941,349,704**	**₱900,135,191**	**₱41,214,513**	**₱–**	**₱941,349,704**
Private bonds	**153,809,501**	**153,809,501**	**–**	**–**	**153,809,501**
	₱1,095,159,205	**₱1,053,944,692**	**₱41,214,513**	**₱–**	**₱1,095,159,205**
Fair values of assets carried at amortized cost					
HTM financial assets	**₱27,979,865**	**₱–**	**₱29,295,989**	**₱–**	**₱29,295,989**
Loans and receivables:					
Loans and discounts:					
Consumer lending	**10,803,086,235**	**–**	**–**	**12,315,176,544**	**12,315,176,544**
Corporate and commercial lending	**3,820,940,529**	**–**	**–**	**4,105,484,513**	**4,105,484,513**
Others	**14,648,499**	**–**	**–**	**15,685,671**	**15,685,671**
Unquoted debt securities	**338,204,530**	**–**	**–**	**360,187,825**	**360,187,825**
Sales contract receivable	**41,627,249**	**–**	**–**	**45,408,522**	**45,408,522**
	₱15,046,486,907	**–**	**₱29,295,989**	**₱16,841,943,075**	**₱16,871,239,064**
Fair values of assets carried at cost					
Investment properties					
Land	**₱375,159,989**	**₱–**	**₱–**	**₱483,316,243**	**₱483,316,243**
Buildings and improvements	**160,118,291**	**–**	**–**	**366,359,680**	**366,359,680**
	₱535,278,280	**₱–**	**₱–**	**₱849,675,923**	**₱849,675,923**
Non recurring fair value measurement					
Non-current assets held for sale	**₱75,788,175**	**₱–**	**₱–**	**₱77,035,000**	**₱77,035,000**
Fair values of liabilities carried at amortized cost					
Deposit liabilities	**₱13,155,235,539**	**₱–**	**₱–**	**₱13,124,171,175**	**₱13,124,171,175**

	December 31, 2013				
	Carrying Value	Level 1	Level 2	Level 3	Total
Recurring fair value measurement					
AFS financial assets					
Government bonds	₱848,656,358	₱836,199,171	₱12,457,187	₱–	₱848,656,358
Private bonds	150,414,199	150,414,199	–	–	150,414,199
	₱999,070,557	₱986,613,370	₱ 12,457,187	₱–	₱999,070,557
Fair values of assets carried at amortized cost					
Loans and receivables:					
Loans and discounts:					
Consumer lending	₱6,000,457,152	₱–	₱–	₱6,129,651,251	₱6,129,651,251
Corporate and commercial lending	3,217,927,333	–	–	3,242,974,380	3,242,974,380
Others	10,191,013	–	–	10,468,928	10,468,928
Unquoted debt securities	340,423,231	–	–	358,227,250	358,227,250
Sales contract receivable	43,813,026	–	–	49,493,129	49,493,129
	₱9,612,811,755	₱–	₱–	₱9,790,814,938	₱9,790,814,938
Fair values of assets carried at cost					
Investment properties					
Land	₱152,278,431	₱–	₱–	₱186,872,700	₱186,872,700
Buildings and improvements	92,534,474	–	–	260,553,330	260,553,330
	₱244,812,905	₱–	₱–	₱447,426,030	₱447,426,030
Non recurring fair value measurement					
Non-current assets held for sale	₱12,256,002	₱–	₱–	₱12,256,002	₱12,256,002
Fair values of liabilities carried at amortized cost					
Deposit liabilities	₱10,776,590,234	₱–	₱–	₱10,937,226,416	₱10,937,226,416

For the years ended December 31, 2014 and 2013, there were no transfers between the fair value measurement levels.

Inputs used in estimating fair values of financial instruments carried at amortized cost and categorized under Level 3 include risk-free rates and applicable risk premium.

The fair values of the Bank's investment properties have been determined by the appraisal method by independent external and in-house appraisers on the basis of recent sales of similar properties in the same areas as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made.

The table below summarizes the valuation techniques used and the significant unobservable inputs valuation for each type of investment properties held by the Bank:

	Valuation Techniques	**Significant Unobservable Inputs**
Land	Market Data Approach	Price per square meter, size, location, shape, time, element and corner influence
Land and Building	Market Data Approach and Cost Approach	Reproduction cost new – the cost to create a virtual replica of the existing structure, employing the same design and similar building materials

Description of the valuation techniques and significant unobservable inputs used in the valuation of the Bank's investment properties are as follows:

Valuation Techniques	
Market Data Approach	A process of comparing the subject property being appraised to similar comparable properties recently sold or being offered for sale.
Cost Approach	It is an estimate of the investment required to duplicate the property in its present condition. It is reached by estimating the value of the land and adding the depreciated cost of the improvement. Fundamental to the Cost Approach is the estimate of Reproduction Cost New of the improvements.

5. Financial Risk Management Objectives and Policies

The Bank's activities are principally related to the profitable use of financial instruments. Risks are inherent in these activities but are managed by the Bank through a rigorous, comprehensive and continuous process of identification, measurement, monitoring and mitigation of these risks, partly through the effective use of risk and authority limits, process controls and monitoring, and independent controls. As reflected in its corporate actions and organizational improvements, the Bank has placed due importance to expanding and strengthening its risk management process and considers it as a vital component to the Bank's continuing profitability and financial stability.

Central to the Bank's risk management process is its adoption of a risk management program intended to avoid unnecessary risks, manage and mitigate unavoidable risks and maximize returns from taking acceptable risks necessary to sustain its business viability and good financial position in the market.

The key financial risks that the Bank faces are: credit risk, market risk (i.e., interest rate risk), and liquidity risk. The Bank's risk management objective is primarily focused on controlling and mitigating these risks. The gravity of the risks, the magnitude of the financial instruments involved, and the regulatory requirements are the primary considerations to the scope and extent of the risk management processes put in place for the Bank.

Risk Management Structure
The BOD of the Bank has the primary responsibility for the establishment of a risk management system and is ultimately accountable for all risks taken within the Bank. The BOD has established, among others, the following committees to directly handle the Bank's risk management framework, policies and implementation in their respective risk management areas: the Executive Committee (ExeCom), Audit Committee (AudCom), Credit Committee (CreCom), Corporate Governance Committee (CGC) and the Risk Management Committee (RMC). All Board committees report regularly to the BOD on their activities as follows:

The Bank's risk management policies are established to identify and analyze the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Bank's RMC shall be responsible for the oversight and development of all risk management functions within the Bank. The RMC develops appropriate strategies through a written practical risk management plan for managing the major categories of risk events and minimizing the magnitude of expected losses, giving priority to the risk events with the largest expected losses. The Risk Management Unit assists the RMC with all of its responsibilities.

The Bank's AudCom, on the other hand, focuses on checking whether adequate process and operational controls are in place and functioning as designed, as well as monitoring compliance thereto by the business and support units. The role of the AudCom is very critical in the proper corporate governance and effective risk management because of its independence from the Bank's top and middle level management. The AudCom is comprised of independent directors who neither participate in the Bank's daily activities nor take decision-making responsibilities. The AudCom delegates its daily control and monitoring functions to the Internal Audit Department (IAD). The IAD is likewise independent from the business and support units and reports exclusively to the AudCom.

The IAD undertakes its control function through regular process, operational and financial audits which it conducts all throughout the year. The audit covers all processes and controls in the Head Office and the branches. The audit results and exceptions, including recommendations for their resolution or improvement, are discussed initially with the business units concerned before these are presented to the AudCom on a quarterly basis.

Risk Management Reporting
The RMC discusses risk management issues on a quarterly basis. The RMC discusses key risk indicators and specific risk management issues that would need resolution from top management. The key risk indicators were formulated on the basis of the financial risks faced by the Bank. The key risk indicators contain information from all business units that provide measurements on the level of the risks taken by the Bank with its transactions, products and financial structure. Among others, the report on key risk indicators includes information on the Bank's aggregate credit exposure, credit metric forecasts, market risk analysis, utilization of market and credit limits, liquidity ratios, overall loan loss provisioning and risk profile changes.

The CreCom reviews and resolves credit-related issues such as credit facility approval, credit and collection strategies on a particular account, and credit monitoring. Loan loss provisioning and credit limit utilization are also discussed in more detail in the CreCom. On a weekly basis, the CreCom discusses detailed reporting of industry, customer and geographic risks arising from the Bank's existing loan portfolio. A comprehensive risk report is submitted to the BOD every quarter for an overall assessment of the level of risks taken by the Bank.

Risk Mitigation
The Bank uses financial instruments to manage exposures resulting from changes in interest rates, foreign currencies, credit risks and exposures arising from forecast transactions. However, the nature and extent of use of these financial instruments to mitigate risks are limited to those allowed by the BSP for a savings bank.

To further mitigate risk throughout its different business and supporting units, the Bank is in the continuous process of improving its existing risk management policies. These policies further serve as the framework and set the guidelines in the creation or revisions of operating policies and manuals for each business unit. In the process design and implementation, process controls are preferred over detection controls. Clear delineation of responsibilities and separation of incompatible duties among officers and staff as well as among business units are reiterated in these policies. To the extent possible, reporting and accounting responsibilities are segregated from units directly involved in operations and front line activities (i.e., players must not be scorers). This is to improve the credibility and accuracy of management information. Any inconsistencies in the operating policies and manuals with the risk framework established by risk management policies are taken up and resolved in the RMC and ExeCom.

Monitoring and controlling risks are primarily performed based on various limits established by the top management covering the Bank's transactions and dealings. These limits reflect the Bank's business strategies and market environment as well as the levels of risks that the Bank is willing to tolerate, with additional emphasis on selected industries. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Excessive Risk Concentration
Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines focusing on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

The Bank's AudCom is responsible for monitoring compliance with the risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Bank's AudCom is assisted in these functions by IAD. The IAD undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the AudCom.

Credit Risk
Credit Risk and Concentration of Assets and Liabilities and Off - Balance Sheet Items
Credit risk is the risk of financial loss due to one party to a financial product failing to discharge an obligation. The Bank faces potential credit risks every time it extends funds to borrowers, commits funds to counterparties, guarantees the paying performance of its clients, invests funds to issuers (i.e., investment securities issued by either sovereign or corporate entities) and through implied or actual contractual agreements (i.e., on or off-balance sheet exposures). The Bank manages its credit risk at various levels (i.e., strategic level, portfolio level down to individual credit or transaction).

Collateral and other credit enhancements
The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented with regard to the acceptability of types of collateral and valuation parameters.

The Bank has risk limits setting for purposes of monitoring and managing credit risk from individual counterparties and groups of counterparties. It also conducts periodic assessment of the creditworthiness of its counterparties. In addition, the Bank obtains collateral where appropriate, enters into master netting agreements and collateral arrangements with counterparties, and limits the duration of exposures.

The Bank adopted an internal credit scoring system for the purpose of measuring credit risk for retail borrowers in a consistent manner, as accurately as possible, and thereafter uses the risk information for business and financial decision making.

The details of the composition of the loans and receivable portfolio and information on credit concentration as to industry are disclosed in Note 8.

Maximum exposure to credit risk

The tables below provide the analysis of the maximum exposure to credit risk of the Bank's financial instruments, excluding those where the carrying values as reflected in the balance sheets and related notes already represent the financial instruments' maximum exposure to credit risk, before and after taking into account collateral held or other credit enhancements:

	December 31, 2014			
	Gross maximum exposure	**Fair value of collateral or credit enhancement**	**Net exposure**	**Financial effect of collateral or credit enhancement**
Credit risk exposure relating to on-balance sheet items are as follows:				
Loans and receivables				
Loans and discounts:				
Corporate and commercial lending	**₱3,820,781,651**	**₱412,855,064**	**₱3,500,187,391**	**₱320,594,260**
Unquoted debt securities	**338,204,530**	**474,892,000**	**–**	**338,204,530**
	₱4,158,986,181	**₱887,747,064**	**₱3,500,187,391**	**₱658,798,790**

	December 31, 2013			
	Gross maximum exposure	Fair value of collateral or credit enhancement	Net exposure	Financial effect of collateral or credit enhancement
Credit risk exposure relating to on-balance sheet items are as follows:				
Loans and receivables				
Loans and discounts:				
Corporate and commercial lending	₱3,217,927,333	₱1,326,200,892	₱1,911,560,544	₱1,306,366,789
Unquoted debt securities	340,423,231	474,892,000	–	340,423,231
	₱3,558,350,564	₱1,801,092,892	₱1,911,560,544	₱1,646,790,020

For other types of loans and sales contract receivables, the fair value of collaterals and their corresponding financial effect on credit exposure are no longer disclosed since the Bank's current information system does not regularly monitor such information. The carrying values of those loans and receivables are disclosed in Note 8.

The maximum exposure to credit risks for the other financial assets is limited to the carrying value as of December 31, 2014 and 2013.

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions - cash or securities
- For consumer lending - real estate and chattel over vehicle
- For corporate and commercial lending - real estate, chattel over properties, assignment of deposits, shares of stocks, bonds, and guarantees

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment and credit losses.

It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In most cases, the Bank does not occupy repossessed properties for business use. Collaterals foreclosed in 2014 and 2013 that are still held by the Bank as of December 2014 and 2013 amounted to ₱63.62 million and ₱21.42 million, respectively. These collaterals comprised of real properties and vehicles.

Credit quality per class of financial assets

The tables below show the credit quality by class of financial assets as of December 31, 2014 and 2013 excluding other receivables (gross of allowance for impairment and credit losses):

	December 31, 2014					
	Neither past due nor impaired					
	High grade	**Standard Grade**	**Sub-Standard Grade**	**Past Due but Not Impaired**	**Past Due and Impaired**	**Total**
Due from BSP	**₱1,867,573,008**	**₱–**	**₱–**	**₱–**	**₱–**	**₱1,867,573,008**
Due from other banks	**439,672,783**	**–**	**–**	**–**	**–**	**439,672,783**
AFS financial assets:						
Quoted:						
Government bonds	**941,349,704**	**–**	**–**	**–**	**–**	**941,349,704**
Private bonds	**153,809,501**	**–**	**–**	**–**	**–**	**153,809,501**
Unquoted equities	**–**	**16,410,276**	**–**	**–**	**867,000**	**17,277,276**
HTM financial assets	**27,979,865**	**–**	**–**	**–**	**–**	**27,979,865**
Loans and receivables:						
Loans and discounts:						
Consumer lending	**10,510,487,352**	**11,028,890**	**–**	**189,499,547**	**376,317,870**	**11,087,333,659**
Corporate and commercial lending	**3,758,329,471**	**–**	**–**	**4,022,154**	**104,058,124**	**3,866,409,749**
Others	**14,647,919**	**–**	**–**	**580**	**158,878**	**14,807,377**
Unquoted debt securities	**–**	**–**	**–**	**340,000,000**	**151,836,309**	**491,836,309**
Sales contract receivable	**9,815,988**	**–**	**–**	**9,405,512**	**31,955,745**	**51,177,245**
Other assets*	**125,799,373**	**385,603**	**46,422,478**	**4,376,522**	**27,567,230**	**204,551,206**
Total	**₱17,849,464,964**	**₱27,824,769**	**₱46,422,478**	**₱547,304,315**	**₱692,761,156**	**₱19,163,777,682**

**Other assets include accounts receivable, accrued interest receivable, RCOCI and miscellaneous assets*

	December 31, 2013					
	Neither past due nor impaired					
	High grade	Standard Grade	Sub-Standard Grade	Past Due but Not Impaired	Past Due and Impaired	Total
Due from BSP	₱3,250,493,368	₱–	₱–	₱–	₱–	₱3,250,493,368
Due from other banks	269,185,463	–	–	–	–	269,185,463
AFS financial assets:						
Quoted:						
Government bonds	848,656,358	–	–	–	–	848,656,358
Private bonds	150,414,199	–	–	–	–	150,414,199
Unquoted equities	–	16,410,276	–	–	867,000	17,277,276
Loans and receivables:						
Loans and discounts:						
Consumer lending	3,400,808,154	15,984,989	2,464,288,374	26,189,013	228,354,023	6,135,624,553
Corporate and commercial lending	3,141,195,680	81,061,886	–	–	15,395,626	3,237,653,192
Others	10,125,096	–	–	–	65,917	10,191,013
Unquoted debt securities	423,231	340,000,000	–	–	151,836,309	492,259,540
Sales contract receivable	27,083,913	–	–	–	21,678,369	48,762,282
Other assets*	172,828,091	973,214	16,927,188	595,979	13,265,408	204,589,880
Total	₱11,271,213,553	₱454,430,365	₱2,481,215,562	₱26,784,992	₱431,462,652	₱14,665,107,124

**Other assets include accounts receivable, accrued interest receivable, RCOCI and miscellaneous assets*

The credit quality of financial assets is managed by the Bank using the BSP guidelines in identifying and monitoring problematic loans and other risk assets particularly Appendix 18 of the Manual of Regulations for Banks.

As discussed in the above paragraph, for loans and receivables, risk rating is made based on the loan classification of BSP. High grade comprised of unclassified loans which may include technical past-due accounts, which under BSP regulations are not considered as outright past-due.

Standard grade comprised of loans that have loan classification of miscellaneous exception and loans especially mentioned. Standard grade may also include matured loans subject to renewal. Sub-standard grade are accounts that are watch listed based on internal credit assessment, accounts that have the tendency to turn past due. Loans with classification of sub-standard, doubtful and loss are included under past-due or individually impaired.

It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly. The standard credit rating equivalent grades are relevant only for certain of the exposures in each risk rating class.

Due from BSP and due from other banks are classified as high grade since these are deposited in/or transacted with reputable banks which has low probability of insolvency. Quoted bonds and equities which are either issued by the Philippine government or reputable companies are classified as High grade. Unquoted bonds and equities are classified as standard grade based on the reputation of the counterparty and lack of marketability as compared with quoted investments.

The tables below show the aging analysis of gross past due but not impaired loans and receivables that the Bank held as of December 31, 2014 and 2013:

	December 31, 2014			
	Less than 30 days	**31 to 60 days**	**61 to 90 days**	**Total**
Loans and receivables:				
Loans and discounts:				
Consumer lending	**₱2,120,089**	**₱4,252,016**	**₱183,127,442**	**₱189,499,547**
Corporate and commercial lending	**3,605,056**	**333,493**	**83,605**	**4,022,154**
Others	–	**580**	–	**580**
Sales contract receivable	**9,405,512**	–	–	**9,405,512**
Unquoted debt securities	**340,000,000**	–	–	**340,000,000**
Other assets:				
Accrued interest receivable	**112,168**	**72,560**	**4,191,794**	**4,376,522**
	₱355,242,825	**₱4,658,649**	**₱187,402,841**	**₱547,304,315**

	December 31, 2013			
	Less than 30 days	31 to 60 days	61 to 90 days	Total
Loans and receivables:				
Loans and discounts:				
Consumer lending	₱815,552	₱823,641	₱24,549,820	₱26,189,013
Other assets:				
Accrued interest receivable	128,650	7,137	460,192	595,979
	₱944,202	₱830,778	₱25,010,012	₱26,784,992

Impairment assessment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than ninety (90) days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed impairment and collectively assessed impairment.

Individually assessed impairment
The Bank determines the allowances appropriate for each significant loan or advances on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realizable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed impairment
Allowances are assessed collectively for losses on loans and advances that are not individually significant (including residential mortgages and unsecured consumer lending) and for individually significant loans and advances that have no objective evidence as a result of individual impairment testing. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking the following information into consideration: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired.

Management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Bank's overall policy.

Market Risk
Market risk is the risk of loss that may result from changes in the price of a financial product. The value of a financial product may change as a result of changes in interest rates, foreign exchange rates, commodity prices, equity prices and other market changes. The Bank's market risk originates from its holdings of foreign exchange instruments and debt securities.

a. *Interest rate risk*
The Bank's interest rate risk originates from its holdings of interest rate sensitive assets and interest rate sensitive liabilities. The Bank follows prudent policies in managing its exposures to interest rate fluctuations, and constantly monitors its assets and liabilities.

The table below presents the interest rate sensitive loans' composition as to maturity as of December 31, 2014 and 2013:

	2014	2013
Long-term retail loans with monthly amortization	**71.17%**	61.74%
Commercial loans with monthly or quarterly amortization,	**19.28%**	24.16%
Commercial loans payable at maturity (mostly maturing for less than 6 months)	**9.55%**	14.10%
	100.00%	100.00%

The table below represents the interest paid percentage of savings, demand and time deposit accounts over total deposit liabilities for the year ended December 31, 2014 and 2013:

	2014	2013
Demand	**1.12%**	8.01%
Savings	**6.60%**	14.91%
Time	**92.28%**	77.08%
	100.00%	100.00%

Interest rates on savings account are set by reference to prevailing market rates, while interest rates on time deposits and special savings accounts are usually priced by reference to prevailing rates of short-term government bonds and other money market instruments or, in the case of foreign currency deposits, inter-bank deposit rates and other benchmark deposit rates in international money markets with similar maturities.

The Bank is likewise exposed to fair value interest rate risk due to its holdings of fixed rate government bonds as part of its AFS portfolio. Market values of these investments are sensitive to fluctuations in interest rates.

The asset-liability gap analysis method is used by the Bank to measure the sensitivity of its assets and liabilities to interest rate fluctuations. This analysis measures the Bank's susceptibility to changes in interest rates. The repricing gap is calculated by first distributing the assets and liabilities contained in the Bank's balance sheet into tenor buckets according to the time remaining to the next repricing date (or the time remaining to maturity if there is no repricing), and then obtaining the difference between the total of the repricing (interest rate sensitive) assets and the total of repricing (interest rate sensitive) liabilities.

A gap is considered negative when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. A gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities.

Accordingly, during a period of rising interest rates, a bank with a positive gap would be in a position to invest in higher yielding assets earlier than it would need to refinance its interest rate sensitive liabilities. During a period of falling interest rates, a bank with a positive gap would tend to see its interest rate sensitive assets repricing earlier than its interest rate sensitive liabilities, restraining the growth of its net income or resulting in a decline in net interest income.

The following table sets forth the repricing gap position of the Bank as of December 31, 2014 and 2013 (in millions):

	December 31, 2014					
	Up to 1 Month	**>1 to 3 Months**	**>3 to 6 Months**	**>6 to 12 Months**	**>12 Months**	**Total**
Financial Assets						
Loans and receivables	**₱810**	**₱1,938**	**₱1,934**	**₱3,281**	**₱6,848**	**₱14,811**
Investment securities	**135**	**–**	**5**	**16**	**966**	**1,122**
Sales contracts receivable	**–**	**1**	**1**	**2**	**43**	**47**
Total financial assets	**945**	**1,939**	**1,940**	**3,299**	**7,857**	**15,980**
Financial Liabilities						
Deposit liabilities	**10,701**	**2,844**	**218**	**392**	**3,412**	**17,567**
Repricing gap	**(₱9,756)**	**(₱905)**	**₱1,722**	**₱2,907**	**₱4,445**	**(₱1,587)**

	December 31, 2013					
	Up to 1 Month	>1 to 3 Months	>3 to 6 Months	>6 to 12 Months	>12 Months	Total
Financial Assets						
Loans and receivables	₱728	₱1,052	₱1,146	₱2,430	₱4,044	₱9,400
Investment securities	–	–	–	1	998	999
Sales contracts receivable	–	1	1	2	43	47
Total financial assets	728	1,053	1,147	2,433	5,085	10,446
Financial Liabilities						
Deposit liabilities	8,686	2,287	166	16	2,825	13,980
Repricing gap	(₱7,958)	(₱1,234)	₱981	₱2,417	₱2,260	(₱3,534)

The Bank also monitors its exposure to fluctuations in interest rates by using scenario analysis to estimate the impact of interest rate movements on its interest income. This is done by modeling the impact to the Bank's interest income and interest expenses of different parallel changes in the interest rate curve, assuming the parallel change only occurs once and the interest rate curve after the parallel change does not change again for the next twelve months.

The following table sets forth the estimated change in the Bank's annualized net interest income due to a parallel change in the interest rate curve as of December 31, 2014 and 2013 (amounts in thousands):

	December 31, 2014			
	Change in interest rates (in basis points)			
	100bp rise	**50bp rise**	**50bp fall**	**100bp fall**
Change in annualized net interest income	**(₱47,661)**	**(₱23,831)**	**₱23,831**	**₱47,661**
As a percentage of the Bank's net interest	**(4.99%)**	**(2.50%)**	**2.50%**	**4.99%**
	December 31, 2013			
	Change in interest rates (in basis points)			
	100bp rise	50bp rise	50bp fall	100bp fall
Change in annualized net interest income	(₱34,608)	(₱17,304)	₱17,304	₱34,608
As a percentage of the Bank's net interest income	(7.71%)	(3.86%)	3.86%	7.71%

The following table sets forth the estimated change in the Bank's equity due to a reasonably possible change in the market prices of quoted bonds classified under AFS financial assets, brought about by movement in the interest rate curve as of December 31, 2014 and 2013 (amounts in thousands):

	December 31, 2014			
	Change in interest rates (in basis points)			
	25bp rise	**10bp rise**	**10bp fall**	**25bp fall**
Change in equity	**(₱14,565)**	**(₱5,863)**	**₱5,863**	**₱14,565**

	December 31, 2013			
	Change in interest rates (in basis points)			
	25bp rise	10bp rise	10bp fall	25bp fall
Change in equity	(₱13,619)	(₱5,483)	₱5,530	₱13,915

b. *Equity Price Risk*
Equity price risk is the risk that the fair values of equities decrease as the result of changes in the level of equity indices and the value of individual stocks. The Bank holds a minimal amount of equity securities, hence any change to equity prices is deemed to not significantly affect its financial performance.

c. *Foreign Currency Risk*
The Bank's foreign exchange risk originates from its holdings of foreign currency-denominated assets (foreign exchange assets).

The Bank's policy is to maintain foreign currency exposure within existing regulations, and within acceptable risk limits. The Bank believes in ensuring its foreign currency is at all times within limits prescribed for financial institutions who are engaged in the same types of businesses in which the Bank is engaged.

The Bank assessed that its exposure to foreign currency risk does not have a material effect.

Liquidity Risk and Funding Management
Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from the Bank's inability to meet its obligations when they become due without incurring unacceptable losses or costs.

The Bank's liquidity management involves maintaining funding capacity to accommodate fluctuations in asset and liability levels due to changes in the Bank's business operations or unanticipated events created by customer behavior or capital market conditions. The Bank seeks to ensure liquidity through a combination of active management of liabilities, a liquid asset portfolio composed substantially of deposits in primary and secondary reserves, and the securing of money market lines and the maintenance of repurchase facilities to address any unexpected liquidity situations.

Liquidity risk is monitored and controlled primarily by a gap analysis of maturities of relevant assets and liabilities reflected in the maximum cumulative outflow report, as well as an analysis of available liquid assets. Furthermore, monthly internal liquidity ratio equivalent to the ratio of volatile deposits has been set to determine sufficiency of liquid assets over deposit liabilities. As of December 31, 2014, volatile ratios for Philippine peso deposits and USD deposits are at 2.79% and 1.57%, respectively, while as of December 31, 2013, volatile ratios for Philippine peso deposits and USD deposits are at 4.21% and 3.96%, respectively.

Liquidity is managed by the Bank on a daily basis, while scenario stress tests are conducted monthly. The tables below show the maturity profile of the Bank's financial assets and financial liabilities, based on contractual undiscounted cash flows:

	December 31, 2014			
	On demand	**Within 1 year**	**Over 1 year***	**Total**
Financial Assets				
Cash and other cash items	**₱449,089,810**	**₱–**	**₱–**	**₱449,089,810**
Due from BSP	**1,867,713,633**	–	–	**1,867,713,633**
Due from other banks	**440,040,684**	–	–	**440,040,684**
AFS financial assets	–	**21,552,112**	**1,107,076,098**	**1,128,628,210**
HTM financial assets	–	–	**28,167,956**	**28,167,956**
Loans and receivables*	–	**6,646,367,075**	**11,767,412,434**	**18,413,779,509**
Other assets:				
Accounts receivable	–	**46,422,478**	–	**46,422,478**
Accrued interest receivable	–	**139,907,899**	–	**139,907,899**
RCOCI	**17,626,999**	–	–	**17,626,999**
Miscellaneous	**593,830**	–	–	**593,830**
Total financial assets	**₱2,775,064,956**	**₱6,854,249,564**	**₱12,902,656,488**	**₱22,531,971,008**
Financial Liabilities				
Deposit liabilities:				
Demand	**₱1,613,145,756**	**₱–**	**₱–**	**₱1,613,145,756**
Savings	**2,798,469,883**	–	–	**2,798,469,883**
Time	–	**9,760,343,944**	**3,919,741,329**	**13,680,085,273**
Manager's checks	**199,917,414**	–	–	**199,917,414**
Accrued interest and other expenses	**41,226,252**	**56,567,903**	–	**97,794,155**
Other liabilities:				
Accounts payable	–	**110,130,027**	–	**110,130,027**
Inter-office float items	–	**18,953,407**	–	**18,953,407**
Total financial liabilities	**₱4,652,759,305**	**₱9,945,995,281**	**₱3,919,741,329**	**₱18,518,495,915**

**Includes non-performing loans and receivables*

	December 31, 2013			
	On demand	Within 1 year	Over 1 year*	Total
Financial Assets				
Cash and other cash items	₱217,906,012	₱–	₱–	₱217,906,012
Due from BSP	799,493,368	2,451,762,533	–	3,251,255,901
Due from other banks	179,723,492	89,823,787	–	269,547,279
AFS financial assets	–	26,001,392	1,206,376,341	1,232,377,733
Loans and receivables*	–	4,810,730,729	9,547,412,534	14,358,143,263
Other assets:				
Accounts receivable	81,888,310	–	–	81,888,310
Accrued interest receivable	–	94,446,202	–	94,446,202
RCOCI	2,648,510	–	–	2,648,510
Miscellaneous	–	25,606,858	–	25,606,858
Total financial assets	₱1,281,659,692	₱7,498,371,501	₱10,753,788,875	₱19,533,820,068
Financial Liabilities				
Deposit liabilities:				
Demand	₱1,119,486,789	₱–	₱–	₱1,119,486,789
Savings	2,084,415,682	–	–	2,084,415,682
Time	–	1,703,924,701	9,547,658,902	11,251,583,603
Manager's checks	155,403,989	–	–	155,403,989
Accrued interest and other expenses	–	44,026,078	–	44,026,078
Other liabilities:				
Accounts payable	76,561,026	–	–	76,561,026
Inter-office float items	2,840,826	–	–	2,840,826
Miscellaneous	561,294	–	–	561,294
Total financial liabilities	₱3,439,269,606	₱1,747,950,779	₱9,547,658,902	₱14,734,879,287

**Includes non-performing loans and receivables*

6. Cash and Cash Equivalents

	2014	2013
Cash and other cash items	**₱449,089,810**	₱217,906,012
Due from BSP (Note 15)	**1,867,573,008**	3,250,493,368
Due from other banks (Notes 26 and 29)	**439,672,783**	269,185,463
	₱2,756,335,601	₱3,737,584,843

Due from BSP comprises of the total outstanding balance of the Bank's demand deposit and special deposit accounts with the BSP. As of December 31, 2014 and 2013, the balance of demand deposit accounts amounted to ₱1.42 billion and ₱799.49 million, respectively. As of December 31, 2014 and 2013, special deposit accounts with the BSP amounted to ₱450.00 million and ₱2.45 billion, respectively. The special deposit accounts earned average annual interest of 2.19% and 2.09% in 2014 and 2013, respectively.

Due from other banks represent funds deposited in domestic and foreign banks which are used by the Bank as part of its working fund. These deposits bear annual interest rates ranging from 0.13% to 1.85% and from 0.16% to 1.74% in 2014 and 2013, respectively.

7. Investment Securities

AFS Financial Assets

	2014	2013
Quoted:		
Government debt securities (Note 25)	**₱941,349,704**	₱848,656,358
Private debt securities	**153,809,501**	150,414,199
	1,095,159,205	999,070,557
Unquoted equity securities	**16,410,276**	16,410,276
	₱1,111,569,481	₱1,015,480,833

The movements in net unrealized gains (losses) on AFS financial assets follow:

	2014	2013
Balance at beginning of year	**(₱28,079,365)**	₱10,388,902
Gains (losses) on AFS financial assets		
Changes in fair value of AFS financial assets	**20,158,663**	251,608,933
Realized gain from sale of AFS financial assets taken to profit or loss	**(1,715,451)**	(290,077,200)
	18,443,212	(38,468,267)
	(₱9,636,153)	(₱28,079,365)

Unquoted equity securities of the Bank pertain to investments in stocks of private corporations. There is currently no market for these investments and the Bank intends to hold these securities for the long term. As of December 31, 2014 and 2013, unquoted equity securities are carried at cost net of allowance for impairment losses of ₱0.87 million (Note 14).

HTM Financial Assets
HTM financial assets composed of government debt securities with face value of ₱28.04 million and carrying amount of ₱27.98 million as of December 31, 2014. These government debt securities carry a yield-to-maturity rates ranging from 6.00% to 8.38%.

Interest Income on Investment Securities
Interest income on investment securities follows:

	Years ended	
	2014	2013
AFS financial assets	**₱41,113,073**	₱62,104,630
HTM financial assets	**1,982,427**	–
	₱43,095,500	₱62,104,630

Investment Gain
In 2014 and 2013, investment gain amounted to ₱1.72 million and ₱290.08 million, respectively (Note 26).

8. Loans and Receivables

This account consists of:

	2014	2013
Loans and discounts:		
Consumer lending	**₱11,127,619,506**	₱6,238,669,945
Corporate and commercial lending	**3,867,599,183**	3,239,091,306
Others	**14,807,377**	10,191,013
	15,010,026,066	9,487,952,264
Unearned interest and discounts	**(41,475,281)**	(104,483,506)
	14,968,550,785	9,383,468,758
Unquoted debt securities	**491,836,309**	492,259,540
Sales contracts receivable	**51,177,245**	48,762,282
	15,511,564,339	9,924,490,580
Allowance for credit losses (Note 14)	**(493,057,297)**	(311,678,825)
	₱15,018,507,042	₱9,612,811,755

As of December 31, 2014 and 2013, 43.01% and 27.61% of the total loans and receivables of the Bank, respectively, are subject to periodic interest repricing. In 2014 and 2013, the remaining loans and receivables bear annual fixed interest rates ranging from 3.00% to 14.31% and from 3.50% to 16.99%, respectively.

Unquoted debt securities
Included in unquoted debt securities are notes issued by First Sovereign Asset Management Inc. (FSAMI) as part of the payment it made to the Bank in exchange for selected investment properties, non-performing loans, AFS financial assets and other assets of the latter as identified in the Omnibus Agreement.

Under the Omnibus Agreement dated July 2, 2007, the purchase price for the assets sold, transferred and conveyed by the Bank to FSAMI aggregated to ₱2.21 billion payable, as follows:

First Tranche (paid on June 25, 2007)	₱10,000,000
Second Tranche	1,676,000,000
Third Tranche	528,758,638
	₱2,214,758,638

The first two tranches have been settled by FSAMI on June 25, 2007 and July 2, 2007.

The third tranche was partially collected on October 31, 2007 in the amount of ₱188.76 million and the remaining balance of ₱340.00 million was paid through issuance of a new promissory note with final maturity date of June 26, 2017 with the following mandatory principal repayments and principal payment dates:

a) 50.00% of the principal amount plus accrued interest on or before June 26, 2012 (which was subsequently extended on to February 17, 2014, payment of this tranche was extended to June 16, 2014).
b) The balance of 50.00% of the principal amount plus accrued interest payable on June 26, 2017.

On February 11, 2015, the Bank collected the amount of ₱10.00 million out of the ₱340.00 million promissory note issued by FSAMI. On March 5, 2015, the promissory note for the remaining balance of ₱330.00 million was renewed by FSAMI and which was approved by the ExeCom of the Bank on the same date the promissory note was renewed. The repayment proposal is as follows:

a. Quarterly principal payment of ₱30.00 million to start by July 2015 and;
b. monthly interest payment based on current loan balance, initially at 6.45% subject to quarterly repricing for downward adjustment and allow prepayment of loan without penalties, charges and fees.

The promissory note is secured by real estate properties mortgaged by FSAMI to the Bank with total appraised value of ₱474.89 million as of December 31, 2014 and 2013, respectively.

In 2013, unquoted debt securities include 10-year term bonds of Land Bank of the Philippines (LBP bonds) with amortizing principal maturing until 2014 and earn interest based on the average 91-day Treasury bill rates of the auction immediately preceding the end of February, May, August and November.

Regulatory Reporting
Information on the concentration of credit as to industry of loans and receivables (gross of unearned interests and discounts and allowance for impairment and credit losses) follows:

	2014		2013	
	Amounts	**%**	Amounts	%
Real estate, renting and business services	**₱7,059,146,721**	**45.39**	₱4,114,049,170	41.02
Consumer	**4,963,445,773**	**31.91**	3,220,067,719	32.11
Wholesale and retail trade	**807,802,638**	**5.20**	763,204,855	7.61
Other community, social and personal services	**784,229,533**	**5.04**	570,854,853	5.69
Financial intermediaries	**369,855,817**	**2.38**	–	–
Transportation, storage and communication	**340,271,173**	**2.19**	211,588,454	2.11
Health and social work	**230,390,689**	**1.48**	190,075,822	1.89
Fishing	**163,780,274**	**1.05**	92,083,891	0.92
Hotels and restaurant	**90,499,907**	**0.58**	302,004,042	3.01
Manufacturing	**84,598,754**	**0.54**	103,328,270	1.03
Education	**77,949,593**	**0.50**	51,798,884	0.52
Construction	**72,461,919**	**0.47**	76,048,115	0.76
Agriculture	**1,764,380**	**0.01**	6,000,000	0.06
Others	**506,842,449**	**3.26**	327,870,011	3.27
	₱15,553,039,620	**100.00**	₱10,028,974,086	100.00

The BSP considers that loan concentration exists when total loan exposure to a particular industry or economic sector exceeds 30.00% of total loan portfolio. Identified concentration of credit risks are managed and controlled.

Information on the amounts of secured and unsecured loans and receivables (gross of unearned interests and discounts and allowance for impairment and credit losses) follows:

	2014		2013	
	Amounts	**%**	Amounts	%
Loans secured by:				
Real estate	**₱6,701,738,889**	**43.08**	₱4,878,381,313	48.64
Chattel mortgage	**5,242,192,435**	**33.71**	2,957,296,382	29.49
Deposit hold out and others	**91,292,294**	**0.59**	54,056,739	0.54
	12,035,223,618	**77.38**	7,889,734,434	78.67
Unsecured loans	**3,517,816,002**	**22.62**	2,139,239,652	21.33
	₱15,553,039,620	**100.00**	₱10,028,974,086	100.00

Nonperforming Loans
Generally, nonperforming loans (NPLs) refer to loans whose principal and/or interest is unpaid for thirty (30) days or more after due date or after they have become past due in accordance with existing BSP 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 nonperforming. Under BSP Circular No. 772, which was issued on October 16, 2012, gross NPLs include NPLs that are covered with 100% allowance.

As at December 31, 2014 and 2013, NPLs of the Bank not fully covered by allowance for credit losses follow:

	2014	2013
Total NPLs	**₱600,073,761**	₱291,019,652
NPLs fully covered by allowance for credit losses	**(134,285,206)**	(42,977,578)
	₱465,788,555	₱248,042,074

As of December 31, 2014 and 2013, secured and unsecured NPLs of the Bank follow:

	2014	2013
Secured	**₱437,828,984**	₱228,595,970
Unsecured	**162,244,777**	62,423,682
	₱600,073,761	₱291,019,652

The estimated aggregate fair value of collaterals held by the Bank pertaining to the NPLs as at December 31, 2014 and 2013 amounted to ₱103.88 million and ₱190.00 million, respectively.

Interest Income on Loans and Receivables

Interest income on loans and receivables consist of interest income on:

	2014	2013
Loans and discounts:		
Consumer lending	**₱907,254,470**	₱407,423,976
Corporate and commercial lending	**261,718,878**	189,545,619
Others	**1,889,140**	651,104
Unquoted debt securities	**22,217,061**	22,261,891
Sales contract receivable	**3,707,372**	5,211,130
Others	–	778,030
	₱1,196,786,921	₱625,871,750

9. Non-current Assets Held for Sale

Non-current assets held for sale consist of vehicles foreclosed in settlement of loans receivable. These assets are expected to be sold within one year from the reporting date and are carried at the lower of carrying amount and fair value less cost to sell. In 2014 and 2013, loans receivable amounting to ₱77.10 million and ₱18.01 million, respectively, were converted to non-current assets held for sale (Note 28).

In 2014 and 2013, the Bank sold a number of its foreclosed vehicles with carrying value of ₱13.57 million and ₱8.72 million, respectively. Gain recognized on the sale of these properties presented under 'Miscellaneous income' in the statements of income amounted to ₱3.80 million and ₱3.06 million in 2014 and 2013, respectively. Loss netted in the gain on asset foreclosures in the statements of income amounted to nil and ₱2.07 million in 2014 and 2013, respectively.

In 2013, the Bank reclassified properties from non-current assets held for sale to furniture, fixtures and equipment amounting to ₱4.36 million after the Bank decided to use the related assets as corporate vehicles (Note 10).

10. Property and Equipment

The composition of and movements in this account follow:

K01

	December 31, 2014				
	Land	Condominium Properties, Buildings and Improvements	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost					
Balance at beginning of year	₱8,974,288	₱246,588,551	₱313,770,216	₱118,418,280	₱687,751,335
Effect of merger (Note 30)	15,697,500	21,118,353	24,369,847	1,886,693	63,072,393
Additions	–	1,298,100	60,135,712	30,950,819	92,384,631
Transfers (Note 11)	–	(370,607)	–	–	(370,607)
Amortization	–	–	–	(27,055,180)	(27,055,180)
Write-offs	–	–	(7,015,775)	(26,643)	(7,042,418)
Balance at end of year	24,671,788	268,634,397	391,260,000	124,173,969	808,740,154
Accumulated Depreciation					
Balance at beginning of year	–	165,474,819	151,433,723	–	316,908,542
Effect of merger (Note 30)	–	14,332,436	14,664,095	–	28,996,531
Depreciation and amortization	–	14,077,932	44,877,279	–	58,955,211
Write-offs	–	–	(7,015,775)	–	(7,015,775)
Balance at end of year	–	193,885,187	203,959,322	–	397,844,509
Accumulated Impairment Losses (Note 14)					
Balance at beginning of the year	–	359,702	–	–	359,702
Reversals		(359,702)			(359,702)
Balance at end of the year	–	–	–	–	–
Net Book Value at End of Year	₱24,671,788	₱74,749,210	₱187,300,678	₱124,173,969	₱410,895,645

PY

	December 31, 2013				
	Land	Condominium Properties, Buildings and Improvements	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost					
Balance at beginning of year	₱1,779,000	₱232,940,939	₱252,727,052	₱93,359,694	₱580,806,685
Additions	–	9,766,244	98,882,128	42,830,849	151,479,221
Transfers (Notes 9 and 11)	7,195,288	3,881,368	4,362,508	–	15,439,164
Amortization	–	–	–	(17,772,263)	(17,772,263)
Write-offs	–	–	(42,201,472)	–	(42,201,472)
Balance at end of year	8,974,288	246,588,551	313,770,216	118,418,280	687,751,335
Accumulated Depreciation					
Balance at beginning of year	–	149,175,700	141,243,989	–	290,419,689
Depreciation and amortization	–	14,159,633	52,391,206	–	66,550,839
Transfers (Note 11)	–	2,139,486	–	–	2,139,486
Write-offs	–	–	(42,201,472)	–	(42,201,472)
Balance at end of year	–	165,474,819	151,433,723	–	316,908,542
Accumulated Impairment Losses (Note 14)					
Balance at beginning of the year	–	–	4,628,835	–	4,628,835
Provision for impairment	–	359,702	(4,628,835)	–	(4,269,133)
Balance at end of the year	–	359,702	–	–	359,702
Net Book Value at End of Year	₱8,974,288	₱80,754,030	₱162,336,493	₱118,418,280	₱370,483,091

The details of depreciation and amortization under the statements of income follow:

	2014	2013
Property and equipment	**₱86,010,391**	₱84,323,102
Investment properties (Note 11)	**25,123,185**	14,406,142
Software costs (Note 12)	**4,942,588**	1,695,078
	₱116,076,164	₱100,424,322

As of December 31, 2014 and 2013, the gross carrying amount of fully depreciated building and furniture, fixtures and equipment still in use amounted to ₱37.24 million and ₱32.53 million, respectively.

There are no restrictions on titles on property and equipment and the Bank does not have any contractual commitments for acquisition of property and equipment as of December 31, 2014 and 2013.

11. Investment Properties

The composition of and movements in this account follow:

	December 31, 2014		
	Land	**Condominium Properties, Buildings and Improvements**	**Total**
Cost			
Balance at beginning of year	**₱161,524,570**	**₱239,371,960**	**₱400,896,530**
Effect of merger (Note 30)	**163,513,544**	**67,215,388**	**230,728,932**
Additions	**62,549,800**	**55,767,000**	**118,316,800**
Disposals	**(3,165,000)**	**(3,747,000)**	**(6,912,000)**
Transfers (Note 10)	**–**	**370,607**	**370,607**
Balance at end of year	**384,422,914**	**358,977,955**	**743,400,869**
Accumulated Depreciation			
Balance at beginning of year	**–**	**144,237,189**	**144,237,189**
Effect of merger (Note 30)	**–**	**9,502,870**	**9,502,870**
Depreciation (Note 10)	**–**	**25,123,185**	**25,123,185**
Disposals	**–**	**(1,170,000)**	**(1,170,000)**
Balance at end of year	**–**	**177,693,244**	**177,693,244**
Accumulated Impairment Losses (Note 14)			
Balance at beginning of year	**9,246,139**	**2,600,297**	**11,846,436**
Provision for impairment losses	**16,786**	**18,566,123**	**18,582,909**
Balance at end of year	**9,262,925**	**21,166,420**	**30,429,345**
Net Book Value at End of Year	**₱375,159,989**	**₱160,118,291**	**₱535,278,280**

	December 31, 2013		
	Land	Condominium Properties, Buildings and Improvements	Total
Cost			
Balance at beginning of year	₱189,904,439	₱253,484,779	₱443,389,218
Additions	1,452,679	10,231,067	11,683,746
Disposals	(22,637,260)	(20,462,518)	(43,099,778)
Transfers (Note 10)	(7,195,288)	(3,881,368)	(11,076,656)
Balance at end of year	161,524,570	239,371,960	400,896,530
Accumulated Depreciation			
Balance at beginning of year	–	137,834,361	137,834,361
Depreciation	–	14,406,142	14,406,142
Disposals	–	(5,863,828)	(5,863,828)
Transfers (Note 10)	–	(2,139,486)	(2,139,486)
Balance at end of year	–	144,237,189	144,237,189
Accumulated Impairment Losses (Note 14)			
Balance at beginning of year	9,246,139	3,612,257	12,858,396
Provision for impairment losses	–	(1,011,960)	(1,011,960)
Balance at end of year	9,246,139	2,600,297	11,846,436
Net Book Value at End of Year	₱152,278,431	₱92,534,474	₱244,812,905

The Bank's investment properties consist entirely of real estate properties acquired in settlement of loans and receivables and investments in real estate. In 2014 and 2013, the Bank recognized gain on foreclosure amounting to ₱60.23 million and ₱2.50 million, respectively, and gain on sale of investment properties amounting to ₱5.23 million and ₱5.44 million, respectively.

Details of rent income earned and direct operating expense incurred on investment properties of the Bank follow:

	2014	2013
Rent income on investment properties (included under income from property rentals)	**₱26,663,373**	₱24,507,740
Direct operating expenses on investment properties not generating rent income (included under miscellaneous expenses)	**2,768,757**	2,305,013

Expenses on investment properties generating rent income are shouldered by the lessee.

Transfers pertain to properties with change in use, from owner-occupied to property intended for sale in 2014, and properties converted to branch offices in 2013 (Note 10).

12. Intangible Assets

Branch Licenses

This account pertains to the incentive received by the Bank from BSP in 2014 in connection with its merger with Unity Bank (Note 30). This account comprised of 24 branch licenses in restricted areas as identified under BSP Circular No. 728. As of December 31, 2014, the carrying value of branch licenses is presented net of allowance for impairment losses of ₱12.60 million (Note 14).

The recoverable amount of the CGU has been determined based on the fair value less cost to sell calculations, using estimated cost to sell of 3.50%, net of deferred tax asset.

Software Costs

Movements in software costs are as follows:

	2014	2013
Cost		
Balance at beginning of year	**₱17,087,646**	₱6,354,233
Additions	**5,718,858**	10,876,509
Write-off	–	(143,096)
Balance at end of year	**22,806,504**	17,087,646
Accumulated Amortization		
Balance at beginning of year	**4,772,651**	3,220,669
Amortization (Note 10)	**4,942,588**	1,695,078
Write-off	–	(143,096)
Balance at end of year	**9,715,239**	4,772,651
Net Book Value at End of Year	**₱13,091,265**	₱12,314,995

13. **Other Assets**

This account consists of:

	2014	2013
Accrued interest receivable	**₱139,907,899**	₱94,446,202
Creditable withholding taxes (CWT)	**90,367,378**	101,586,448
Accounts receivable (Note 26)	**46,422,478**	81,888,310
Receivable from Bureau of Internal Revenue (BIR)	**33,816,164**	33,816,164
Prepaid expenses	**22,933,312**	1,129,610
RCOCI	**17,626,999**	2,648,510
Stationery and supplies	**7,107,328**	4,093,242
Documentary stamp tax	**6,149,927**	–
Miscellaneous (Note 26)	**24,706,865**	31,448,099
	389,038,350	351,056,585
Allowance for impairment and credit losses (Note 14)	**(16,082,258)**	(16,692,157)
	₱372,956,092	₱334,364,428

Receivable from BIR represents the Bank's claim for refund of its MCIT in 1999. Under tax regulations, domestic and resident foreign corporation are given a four (4)-year period from their time of registration with the BIR before they are subjected to MCIT. However, for thrift banks in particular, the reckoning period is the date of registration with the SEC or the date when the Certificate of Authority to Operate as thrift bank was signed by the MB of the BSP, whichever comes later. As discussed in Note 1, the MB granted the Bank its thrift bank license on April 21, 1999.

Miscellaneous assets consist of prepayments to contractors for construction of leasehold improvements, security deposits and postage stamps.

Allowance for impairment and credit losses principally pertains to provision against impaired accrued interest receivable and long-outstanding advances.

14. **Allowance for Impairment and Credit Losses**

Changes in the allowance for impairment and credit losses are as follows:

	2014	2013
Balance at beginning of year:		
Loans and receivables	**₱311,678,825**	₱206,638,743
Property and equipment	**359,702**	4,628,835
Investment properties	**11,846,436**	12,858,396
AFS financial assets	**867,000**	867,000
Other assets	**16,692,157**	16,692,157
	341,444,120	241,685,131
Provisions charged to operations	**283,574,445**	129,352,655
Accounts charged off and others	**(71,982,665)**	(29,593,666)
	211,591,780	99,758,989
Balance at end of year:		
Loans and receivables (Note 8)	**493,057,297**	311,678,825
Property and equipment (Note 10)	**–**	359,702
Investment properties (Note 11)	**30,429,345**	11,846,436
AFS financial assets (Note 7)	**867,000**	867,000
Branch licenses (Note 12)	**12,600,000**	–
Other assets (Note 13)	**16,082,258**	16,692,157
	₱553,035,900	₱341,444,120

Below is the breakdown of provision for impairment and credit losses in 2014 and 2013.

	2014	2013
Loans and receivables	**₱249,876,353**	₱134,633,748
Investment properties (Note 12)	**18,582,909**	(1,011,960)
Branch licenses (Note 12)	**12,600,000**	–
Property and equipment (Note 10)	**(359,702)**	(4,269,133)
Other assets	**2,874,885**	–
	₱283,574,445	₱129,352,655

A reconciliation of the allowance for credit losses on receivables from customers, AFS financial assets and other financial assets are as follows:

	December 31, 2014						
	Loans and Receivables					**AFS Financial Assets**	**Other Assets**
	Corporate Lending	**Consumer Lending**	**Sales Contracts Receivable**	**Unquoted Debt Securities**	**Total**	**Equity Instruments**	**Accounts Receivable and Others**
Balance at beginning of year	**₱19,725,859**	**₱135,167,401**	**₱4,949,256**	**₱151,836,309**	**₱311,678,825**	**₱867,000**	**₱16,692,157**
Provision	**29,110,315**	**214,369,828**	**4,600,740**	**1,795,470**	**249,876,353**	**–**	**2,874,885**
Accounts charged off	**(3,208,077)**	**(65,289,804)**	**–**	**–**	**(68,497,881)**	**–**	**(3,484,784)**
Balance at end of year	**₱45,628,097**	**₱284,247,425**	**₱9,549,996**	**₱153,631,779**	**₱493,057,297**	**₱867,000**	**₱16,082,258**
Individual impairment	**₱38,540,767**	**₱208,373,108**	**₱9,549,996**	**₱151,836,309**	**₱408,300,180**	**₱867,000**	**₱10,633,790**
Collective impairment	**7,087,330**	**75,874,317**	**–**	**1,795,470**	**84,757,117**	**–**	**5,448,468**
	₱45,628,097	**₱284,247,425**	**₱9,549,996**	**₱153,631,779**	**₱493,057,297**	**₱867,000**	**₱16,082,258**
Gross amount of loans and receivables individually determined to be impaired	**₱104,058,124**	**₱376,317,870**	**₱31,955,745**	**₱151,836,309**	**₱664,168,048**	**₱867,000**	**₱27,567,230**

	December 31, 2013						
	Loans and Receivables						Other Assets
	Corporate Lending	Consumer Lending	Sales Contracts Receivable	Unquoted Debt Securities	Total	AFS Financial Assets	Accounts Receivable and Others
Balance at beginning of year	₱14,023,149	₱36,482,456	₱4,296,829	₱151,836,309	₱206,638,743	₱867,000	₱16,692,157
Provision	16,642,050	117,339,271	652,427	–	134,633,748	–	–
Accounts charged off	(10,939,340)	(18,654,326)	–	–	(29,593,666)	–	–
Balance at end of year	₱19,725,859	₱135,167,401	₱4,949,256	₱151,836,309	₱311,678,825	₱867,000	₱16,692,157
Individual impairment	₱1,011,897	₱63,003,375	₱4,949,256	₱151,836,309	₱220,800,837	₱867,000	₱12,216,453
Collective impairment	18,713,962	72,164,026	–	–	90,877,988	–	4,475,704
	₱19,725,859	₱135,167,401	₱4,949,256	₱151,836,309	₱311,678,825	₱867,000	₱16,692,157
Gross amount of loans and receivables individually determined to be impaired	₱15,395,626	₱191,911,154	₱21,678,369	₱151,836,309	₱380,821,458	₱–	₱12,216,453

15. Deposit Liabilities

On April 3, 2014, BSP issued Circular No. 830 increasing the reserve requirement of thrift banks for deposit liabilities from 6.00% to 7.00%. On May 27, 2014, the BSP released BSP Circular No. 832 which further increased the reserve requirement of thrift banks for deposit liabilities to 8.00%

As of December 31, 2014 and 2013, Due from BSP amounting to ₱1.39 billion and ₱799.49 million, respectively, was set aside as reserves for deposit liabilities. As of December 31, 2014 and 2013, the Bank is in compliance with reserves regulation.

Foreign currency-denominated deposit liabilities bear annual fixed interest rates ranging from 0.50% to 1.95% and from 0.75% to 1.75% in 2014 and 2013, respectively, while peso-denominated deposit liabilities bear interest rates ranging from 0.25% to 5.50% and from 0.25% to 3.75% in 2014 and 2013, respectively.

16. Accrued Interest and Other Expenses

This account consists of:

	2014	2013
Accrued other expenses	**₱47,040,694**	₱9,909,424
Accrued rent payable	**25,791,887**	19,149,556
Accrued interest payable	**24,961,574**	20,711,965
	₱97,794,155	₱49,770,945

Accrued other expenses include accrual for utilities, janitorial and security services.

17. **Other Liabilities**

This account consists of:

	2014	2013
Financial:		
Accounts payable	**₱110,130,027**	₱76,561,026
Inter-office float items	**18,953,407**	2,840,826
Miscellaneous	**–**	561,294
	129,083,434	79,963,146
Nonfinancial:		
Accrued retirement obligation (Note 22)	**58,279,523**	28,309,126
Withholding tax payable	**18,755,680**	11,190,706
Accrued gross receipts tax	**2,646,394**	5,491,521
Miscellaneous	**3,843,929**	10,485,972
	83,525,526	55,477,325
	₱212,608,960	₱135,440,471

Accounts payable consists mainly of mortgage and vehicle registration fees held for the account of loan borrowers which will be remitted to various government agencies, liability to automated tellering machine interbank network service provider and accrued payroll.

Miscellaneous liabilities mainly pertain to security deposits, equivalent to two (2) or three (3) months rental, received from lessees upon execution of lease contracts. The security deposit is non-refundable to the lessee upon termination of the contract without interest, except when the lessee is in default of payment of such rentals and other fees. In such case, the deposit shall be applied to the unpaid rentals and fees.

18. Maturity Analysis of Assets and Liabilities

The table below presents the Bank's assets and liabilities as of December 31, 2014 and 2013 analyzed according to when they are expected to be recovered or settled within one year and beyond one year from the respective reporting dates:

	December 31, 2014			December 31, 2013		
	Within twelve months	Over twelve months	Total	Within twelve months	Over twelve months	Total
Financial assets						
Cash and cash equivalents	₱2,756,335,601	₱–	₱2,756,335,601	₱3,737,584,843	₱–	₱3,737,584,843
AFS financial assets	21,354,151	1,091,082,330	1,112,436,481	1,035,503	1,015,312,330	1,016,347,833
HTM financial assets	–	27,979,865	27,979,865	–	–	–
Loans and receivables	4,909,337,526	10,643,702,094	15,553,039,620	3,849,037,455	6,179,936,631	10,028,974,086
Other assets						
Accrued interest receivable	139,907,899	–	139,907,899	94,446,202	–	94,446,202
Accounts receivable	46,422,478	–	46,422,478	81,888,310	–	81,888,310
RCOCI	17,626,999	–	17,626,999	2,648,510	–	2,648,510
Miscellaneous	593,830	–	593,830	213,769	25,393,089	25,606,858
	7,891,578,484	11,762,764,289	19,654,342,773	7,766,854,592	7,220,642,050	14,987,496,642
Nonfinancial assets						
Property and equipment	–	808,740,154	808,740,154	–	687,751,335	687,751,335
Investment properties	–	743,400,869	743,400,869	–	400,896,530	400,896,530
Software costs	–	22,806,504	22,806,504	–	17,087,646	17,087,646
Non-current assets held for sale	75,788,175	–	75,788,175	12,256,002	–	12,256,002
Branch licenses		360,000,000	360,000,000	–	–	–
Other assets						
CWT		90,367,378	90,367,378	–	101,586,448	101,586,448
Receivable from BIR	33,816,164	–	33,816,164	33,816,164	–	33,816,164
Miscellaneous	60,303,602	–	60,303,602	11,064,093	–	11,064,093
	169,907,941	2,025,314,905	2,195,222,846	57,136,259	1,207,321,959	1,264,458,218
	8,061,486,425	13,788,079,194	21,849,565,619	₱7,823,990,851	₱8,427,964,009	16,251,954,860
Allowances for impairment and credit losses (Note 14)			(553,035,900)			(341,444,120)
Unearned interest and discounts (Note 8)			(41,475,281)			(104,483,506)
Accumulated depreciation and amortization (Notes 10, 11 and 12)			(585,252,992)			(465,918,382)
			(1,179,764,173)			(911,846,008)
			₱20,669,801,446			₱15,340,108,852
Financial liabilities						
Deposit liabilities	₱4,411,615,639	₱13,155,235,539	₱17,566,851,178	₱4,798,666,815	₱9,181,825,890	₱13,980,492,705
Manager's checks	199,917,414	–	199,917,414	155,403,989	–	155,403,989
Accrued interest and other expenses	97,794,155	–	97,794,155	49,770,945	–	49,770,945
Other liabilities:		–				
Accounts payable	110,130,027	–	110,130,027	76,561,026	–	76,561,026
Inter-office float items	18,953,407	–	18,953,407	2,840,826	–	2,840,826
Miscellaneous	–	–	–	561,294	–	561,294
	4,838,410,642	13,155,235,539	17,993,646,181	5,083,804,895	9,181,825,890	14,265,630,785
Nonfinancial liabilities						
Retirement obligation	–	58,279,523	58,279,523	–	28,309,126	28,309,126
Deferred tax liabilities	–	129,332,566	129,332,566	–	1,637,442	1,637,442
Advances from Parent Company	–	312,600,000	312,600,000	–	–	–
Other liabilities	25,246,003	–	25,246,003	27,168,199	–	27,168,199
	25,246,003	500,212,089	525,458,092	27,168,199	29,946,568	57,114,767
	₱4,863,656,645	₱13,655,447,628	₱18,519,104,273	₱5,110,973,094	₱9,211,772,458	₱14,322,745,552

19. **Equity**

As of December 31, 2014 and 2013, the Bank's capital stock consists of:

	2014	2013
Preferred stock - ₱100 par value		
Authorized shares (6,000,000 shares)		
Issued and outstanding (22,042 shares)	**₱2,204,200**	₱2,204,200
Common stock - ₱100 par value		
Authorized shares (24,000,000 shares)		
Subscribed shares (20,558,079 and 8,794,282 shares as of December 31, 2014 and 2013, respectively)	**2,055,807,900**	879,428,200
Subscriptions receivable on common stock (3,090 shares as of December 31, 2014 and 2013)	**(309,000)**	(309,000)
	2,055,498,900	879,119,200
	₱2,057,703,100	₱881,323,400

The Bank's amended articles of incorporation disclosed the following features of its preferred stock:

a. Non-voting and non-participating;
b. Preference at liquidation, including declared dividends which have not been distributed;
c. Non-cumulative dividend rate as determined by the BOD, provided not to exceed twice the current ninety-day Treasury bill rate at date of approval by the BOD;
d. Convertible to common shares, at the option of the stockholder, if no dividends are declared for three consecutive years, at book value of common shares at the time of the conversion; and
e. Re-issuable.

The summarized information on the Bank's registration of securities under the Securities Regulation Code follows:

Date of SEC Approval	Type/Class	Authorized Shares	Par Value
March 1, 1973	Common	24,000,000	₱100
	Preferred	6,000,000	100

The total number of stockholders is 1,421 and 1,394 as of December 31, 2014 and 2013, respectively.

Capital Infusion
As discussed in Note 1, the Bank issued 6,589,916 common shares in exchange for the ₱800.00 million capital infused by CBC. The Bank has recognized additional paid-in-capital amounting to ₱135.51 million from the said capital infusion.

Merger
The Bank issued 5,173,881 common shares as a result of the merger, as discussed in Note 1, and recognized other equity reserves amounting to ₱3.31 million upon application of the pooling of interest method (Note 30).

Capital Management
The primary objectives of the Bank's capital management are to ensure that it complies with externally imposed capital requirements and that it maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Bank manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made to the Bank's capital management objectives, policies and processes as of December 31, 2014 and 2013.

Capital Allocation
The allocation of capital between specific operations and activities is, to a large extent, driven by optimization of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risks associated with different activities. In such cases, the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes. The process of allocating capital to specific operations and activities is undertaken by the ExCom.

Although maximization of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Bank to particular operations or activities, it is not the sole basis used for decision-making. Account also is taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Bank's longer term strategic objectives. The Bank's policies in respect of capital management and allocation are reviewed regularly by the BOD.

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

In addition, the risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.00%. Qualifying capital and risk-weighted assets are computed based on BSP regulations. Risk-weighted assets consist of total assets less cash on hand, due from BSP, loans covered by deposit hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the MB of the BSP.

On August 4, 2006, the BSP, under Circular No. 538, issued the prescribed guidelines implementing the revised risk-based capital adequacy framework for the Philippine banking system to conform to Basel II capital adequacy framework. The new BSP guidelines took effect on July 1, 2007. Thereafter, banks were required to compute their Capital Adequacy Ratio (CAR) using these guidelines.

On January 15, 2013, the BSP issued Circular No. 781, *Basel III Implementing Guidelines on Minimum Capital Requirements*, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. The circular took effect on January 1, 2014.

The Circular sets out a minimum Common Equity Tier 1 (CET1) ratio of 6.00% and Tier 1 capital ratio of 7.50%. It also introduces a capital conservation buffer of 2.50% comprised of CET1 capital. The BSP's existing requirement for Total CAR remains unchanged at 10.00% and this ratio shall be maintained at all times.

Further, existing capital instruments as of December 31, 2010 which do not meet the eligibility criteria for capital instruments under the revised capital framework shall no longer be recognized as capital upon the effectivity of Basel III. Capital instruments issued under BSP Circular Nos. 709 and 716 (the circulars amending the definition of qualifying capital particularly on Hybrid Tier 1 and Lower Tier 2 capitals), starting January 1, 2011 and before the effectivity of BSP Circular No. 781, shall be recognized as qualifying capital until December 31, 2015. In addition to changes in minimum capital requirements, this Circular also requires various regulatory adjustments in the calculation of qualifying capital.

The Bank has taken into consideration the impact of the foregoing requirements to ensure that the appropriate level and quality of capital are maintained on an ongoing basis.

The CAR of the Bank as reported to the BSP as of December 31 2014 and 2013 are shown in the tables below (amounts in thousands).

	2014	2013
Tier 1 capital	**₱2,087,262**	₱873,244
Tier 2 capital	**328,012**	277,208
Total qualifying capital	**2,415,274**	1,150,452
Risk weighted assets	**₱15,619,546**	₱10,314,519
Total CAR	**15.46%**	11.15%

The regulatory qualifying capital of the Bank consists of Tier 1 (core) capital, which comprises of paid-up common stock, hybrid capital securities, deficit including results of current year operations, surplus reserves and non-controlling interest less required deductions such as unsecured credit accommodations to DOSRI, deferred income tax, and goodwill. Certain adjustments are made to PFRS-based results and reserves, as prescribed by the BSP. The other component of regulatory capital is Tier 2 (supplementary) capital, which includes general loan loss provision and appraisal increment authorized by the MB.

Standardized credit risk weights were used in the credit assessment of asset exposures. Third party credit assessments were based on ratings by Standard & Poor's, Moody's and Fitch, while PhilRatings were used on peso-denominated exposures to Sovereigns, MDBs, Banks, Local Government Units, Government Corporations and Corporates.

The Bank has complied with all externally imposed capital requirements throughout the period.

The issuance of BSP Circular No. 639 covering the Internal Capital Adequacy Assessment Process (ICAAP) in 2009 supplements the BSP's risk-based capital adequacy framework under Circular No. 538. In compliance with this new circular, the CBC Group (the Group) has adopted and developed its ICAAP framework to ensure that appropriate level and quality of capital are maintained by the Group. Under this framework, the assessment of risks extends beyond the Pillar 1 set of credit, market and operational risks and onto other risks deemed material by the

Group. The level and structure of capital are assessed and determined in light of the Group business environment, plans, performance, risks and budget; as well as regulatory directives. BSP requires submission of an ICAAP document every January 31 of each year. The Bank has complied with this requirement.

Financial Performance
The following basic ratios measure the financial performance of the Bank:

	2014	2013
Return on average equity	**(7.43%)**	1.25%
Return on average asset	**(0.66%)**	0.13%
Net interest margin over average earning assets*	**6.31%**	4.02%

**Average monthly balances of the related balance sheet accounts were used for the computation of ratios*

20. **Deficit and Reserves**

Deficit
As of December 31, 2014 and 2013, deficit included the amount of ₱147.80 million and ₱163.76 million , respectively, representing the transfer of revaluation increment on condominium properties, net of deferred tax liability, which was carried at deemed cost when the Bank transitioned to PFRS in 2005. This amount will be available to be declared as dividends upon sale of the underlying condominium properties.

Surplus reserves
This account consists of general reserves for the Bank's self-insurance and trust business, representing accumulated amounts set up by the Bank in compliance with BSP regulations. Additional reserves for trust business amounting to ₱0.21 million and ₱0.44 million were appropriated from unrestricted surplus in 2014 and 2013, respectively.

21. **Miscellaneous Expenses**

Miscellaneous expenses consist of:

	2014	2013
Advertising	**₱15,549,061**	₱12,647,121
Fuel and lubricants	**10,065,231**	7,534,441
Information and technology expenses	**8,591,568**	2,534,082
Acquired asset and other litigation expenses (Note 11)	**5,818,446**	4,547,258
Supervision fees	**3,237,652**	2,425,735
Clearing and processing fees	**2,691,664**	1,538,882
Freight	**1,354,303**	932,140
Membership fees and dues	**438,216**	545,974
Others	**8,426,992**	4,039,519
	₱56,173,133	₱36,745,152

'Others' pertains mainly to processing fees paid to Philippine Clearing House Corporation, internal meeting expenses, printing expenses and expenditures for Christmas party, anniversary and team-building activities.

22. **Retirement Obligation**

The Bank has a separate funded noncontributory defined benefit retirement plan managed by the trust department of the Bank covering substantially all its officers and regular employees. Under this retirement plan, all covered officers and employees are entitled to cash benefits after satisfying certain age and service requirements. The latest actuarial valuation study of the retirement plan was made as of December 31, 2014. The principal actuarial assumptions as of December 31, 2014 and 2013 used in determining the retirement obligation for the Bank's retirement plan are shown below:

	2014	2013
Discount rate	**4.66%**	5.77%
Salary increase rate	**6.00%**	6.00%
Turnover rate	**Ranging from 9.98% at age 20 decreasing to 0.00% at age 50**	Ranging from 10.00% at age 20 decreasing to 0.00% at age 45

The movements in the defined retirement liability, present value of defined benefit obligation and fair value of plan assets follow:

	2014										
		Net benefit cost				**Remeasurements in other comprehensive income**					
	January 1, 2014	**Current service cost**	**Net interest**	**Net pension expense***	**Benefits paid**	**Return on plan assets (excluding amount included in net interest)**	**Actuarial changes arising from experience adjustments**	**Actuarial changes arising from changes in financial assumptions**	**Changes in remeasurement gains**	**Contribution by employer**	**December 31, 2014**
	(a)	**(b)**	**(c)**	**(d) = b + c**	**(e)**	**(f)**	**(g)**	**(h)**	**(i) = f + g + h**	**(j)**	**(k) = a + d + e + i + j**
Fair value of plan assets	**₱377,935**	**₱–**	**₱994,077**	**₱994,077**	**₱–**	**(₱487,191)**	**₱–**	**₱–**	**(₱487,191)**	**₱25,254,552**	**₱26,139,373**
Present value of defined benefit obligation	**28,687,061**	**17,656,937**	**1,656,597**	**19,313,534**	**–**	**–**	**26,262,228**	**10,156,073**	**36,418,301**	**–**	**84,418,896**
Net defined benefit liability	**(₱28,309,126)**	**(₱17,656,937)**	**(₱662,520)**	**(₱18,319,457)**	**₱–**	**(₱487,191)**	**(₱26,262,228)**	**(₱10,156,073)**	**(₱36,905,492)**	**₱25,254,552**	**(₱58,279,523)**

**Presented under Compensation and fringe benefits in the statements of income.*

	2013										
		Net benefit cost				Remeasurements in other comprehensive income					
	January 1, 2013	Current service cost	Net interest	Net pension expense*	Benefits paid	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from experience adjustments	Actuarial changes arising from changes in financial assumptions	Changes in remeasurement gains	Contribution by employer	December 31, 2013
	(a)	(b)	(c)	(d) = b + c	(e)	(f)	(g)	(h)	(i) = f + g + h	(j)	(k) = a + d + e + i + j
Fair value of plan assets	₱361,400	₱–	₱22,082	₱22,082	₱–	(₱5,547)	₱–	₱–	(₱5,547)	₱–	₱377,935
Present value of defined benefit obligation	32,247,123	14,909,196	1,970,299	16,879,495	–	–	(19,601,569)	(837,988)	(20,439,557)	–	28,687,061
Net defined benefit liability	(₱31,885,723)	(₱14,909,196)	(₱1,948,217)	(₱16,857,413)	₱–	(₱5,547)	₱19,601,569	₱837,988	₱20,434,010	₱–	(₱28,309,126)

**Presented under Compensation and fringe benefits in the statements of income.*

The maximum economic benefit available is a combination of expected refunds from the plan and reductions in future contributions.

The carrying values of total plan assets which approximate their fair values as of the end of the reporting periods are as follows:

	2014	2013
Cash and cash equivalents	**₱22,199,844**	₱35,888
Debt instruments	**3,936,991**	340,393
Accrued interest receivable	**48,184**	2,128
Accrued trust fees	**43,852**	474
Due to BIR	**1,794**	–
Balance at end of year	**₱26,230,665**	₱378,883

The sensitivity analysis below has been determined based on the impact of reasonably possible changes of each significant assumption on the defined benefit obligation as of December 31, 2013, assuming if all other assumptions were held constant:

	Increase (Decrease) in defined benefit obligation	
	2014	2013
Discount rate		
1.00%	**(₱12,832,108)**	(₱2,276,262)
(1.00%)	**16,118,081**	8,622,146
Salary increase rate		
1.00%	**15,302,022**	8,392,825
(1.00%)	**(12,496,014)**	(2,210,724)
Turnover rate		
3.00%	**(5,115,954)**	457,587
(3.00%)	**6,062,782**	5,012,962

Risk Arising from the Retirement Plan

The Plan is currently underfunded by ₱68.51 million based on the latest funding valuation. While there are no minimum funding standards in the Philippines, the size of the underfunding may pose a cash flow risk in about 5 years' time when the total expected benefit payments would have exhausted the assets currently in the fund.

The Bank plans to eliminate the retirement plan deficit in the foreseeable future. Funding levels are monitored on an annual basis and the Bank expects to contribute ₱42.57 million to the defined benefit pension plan in 2015.

Shown below is the maturity analysis of the undiscounted benefit payments:

	2014	2013
Less than five years	**₱11,579,689**	₱4,501,175
More than five years to ten years	**65,697,238**	43,833,319
More than ten years to fifteen years	**135,478,494**	63,718,461
More than fifteen years to twenty years	**339,910,590**	154,128,339
More than twenty years	**1,740,978,747**	1,180,644,920

The average duration of the defined benefit obligation at the reporting date is 26.40 years.

23. **Lease Contracts**

The Bank leases the premises occupied by its branches. The lease contracts are for periods ranging from one to ten years from the dates of contracts and are renewable under certain terms and conditions. Various lease contracts include escalation clauses, which bear an annual rent increase of 5.00% to 10.00%.

For the years ended December 31, 2014 and 2013, annual rentals of the Bank on these lease contracts included in 'Occupancy costs' in the statements of income amounted to ₱106.27 million and ₱65.10 million, respectively.

Future minimum rentals payable of the Bank under non-cancelable operating leases follow:

	2014	2013
Within one year	**₱83,156,429**	₱57,713,182
After one year but not more than five years	**330,851,630**	183,640,317
After more than five years	**4,885,398,138**	80,835,910
	₱5,299,406,197	₱322,189,409

The Bank has also entered into commercial property leases on its investment properties, most of which are with related parties (Note 26). These non-cancelable leases have remaining lease terms of between one to five years.

Future minimum rentals receivable under non-cancelable operating leases follow:

	2014	2013
Within one year	**₱16,320,390**	₱20,140,094
After one year but not more than five years	**65,281,561**	41,767,673
After more than five years	**3,793,492**	–
	₱85,395,443	₱61,907,767

24. **Income and Other Taxes**

Under Philippine tax laws, the Bank is subject to percentage and other taxes (presented as 'Taxes and licenses' in the statements of income) as well as income taxes. Percentage and other taxes paid consist principally of GRT.

Income taxes include the corporate income tax, as discussed below, and final tax paid at the rate of 20.00% on gross interest income from government securities and other deposit substitutes and 7.50% on interest income on deposit placements with other FCDU and offshore banking units (OBUs). These income taxes, as well as the deferred tax benefits and provisions, are presented as 'Provision for income tax' in the statements of income.

Current tax regulations provide that RCIT rate shall be 30.00% while interest expense allowed as a deductible expense is reduced to 33.00% of interest income subject to final tax.

The regulations also provide for MCIT of 2.00% on modified gross income and allow a NOLCO. The excess MCIT over RCIT and NOLCO, if any, may be applied against the Bank's income tax liability and taxable income, respectively, over a three-year period from the year of inception.

Current tax regulations also prescribe the attribution and allocation of expenses between FCDUs/Expanded FCDUs or OBU and RBU and within RBU. Pursuant to the regulations, the Bank made an allocation of its expenses in calculating income taxes due from its RBU and FCDU.

Further, current tax regulations also provide for the ceiling on the amount of entertainment, amusement and recreation (EAR) expense that can be claimed as a deduction against taxable income. Under the regulations, EAR expense allowed as a deductible expense is limited to the actual EAR paid or incurred but not to exceed 1.00% of the Bank's net revenue.

Under current tax regulations, the income derived by the FCDU from foreign currency transactions with nonresidents, OBUs, local commercial banks including branches of foreign banks is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10.00% gross income tax. In addition, interest income on deposit placements with other FCDUs and RBUs is fixed at 7.50%. All other income of the FCDU is subject to the 30.00% RCIT rate.

Provision for income tax consists of:

	2014	2013
Current:		
Final tax	**₱18,758,585**	₱22,715,512
MCIT	**16,153,157**	8,221,302
	34,911,742	30,936,814
Deferred	**(1,150,763)**	(19,126,376)
	₱33,760,979	₱11,810,438

Components of net deferred tax liabilities are as follows:

	2014	2013
Deferred tax liability on:		
Fair value adjustments from assets from UBI (Note 30)	**₱128,845,888**	₱–
Revaluation increment on condominium properties credited to surplus free	**20,398,115**	24,551,100
Fair value adjustment on asset foreclosures	**10,501,531**	4,753,016
Capitalized loan origination cost	**2,418,005**	3,292,806
Accrued lease receivable	**711,524**	569,629
	162,875,063	33,166,551
Deferred tax asset on:		
Allowance for impairment and credit losses	**(25,784,242)**	(25,784,242)
Accrued lease payable	**(7,758,255)**	(5,744,867)
	(33,542,497)	(31,529,109)
	₱129,332,566	₱1,637,442

The Bank did not set up deferred tax assets on the following temporary differences as it believes that it is highly probable that these temporary differences will not be realized in the near foreseeable future:

	2014	2013
Tax effects of:		
Allowance for impairment and credit losses	**₱468,059,806**	₱248,388,698
NOLCO	**52,492,193**	114,328,758
Accrued retirement	**58,279,523**	28,309,126
Depreciation on asset foreclosures	**43,271,157**	20,808,557
Excess MCIT over RCIT	**25,473,954**	12,587,199
Unamortized past service cost	**3,138,986**	3,138,986

Details of the Bank's NOLCO are as follows:

Year incurred	Amount	Used	Balance	Expiry date
2011	₱18,744,851	₱18,744,851	₱–	2014
2012	95,583,907	43,091,714	52,492,193	2015
	₱114,328,758	₱61,836,565	₱52,492,193	

Details of the Bank's excess MCIT over RCIT are as follows:

Year incurred	Amount	Used/Expired	Balance	Expiry date
2011	₱3,266,402	₱3,266,402	₱–	2014
2012	1,099,495	–	1,099,495	2015
2013	8,221,302	–	8,221,302	2016
2014	16,153,157	–	16,153,157	2017
	₱28,740,356	₱3,266,402	₱25,473,954	

The reconciliation between the statutory income tax and effective income tax follows:

	2014	2013
Statutory income tax	**(₱36,905,898)**	₱4,271,794
Tax effects of:		
Nondeductible expenses	**108,376,725**	92,472,083
Nontaxable income	**(19,938,233)**	(54,529,259)
Movement in unrecognized deferred tax assets	**(9,640,490)**	(20,507,540)
Tax paid income	**(7,348,901)**	(9,436,879)
FCDU income	**(782,224)**	(459,761)
Effective income tax	**₱33,760,979**	₱11,810,438

25. **Trust Operations**

Securities and other properties (other than deposits) held by the Bank in fiduciary or agency capacities for clients and beneficiaries are not included in the accompanying balance sheets since these are not assets of the Bank (Note 27).

In compliance with the requirements of current banking regulations relative to the Bank's trust functions: (a) government bonds included under AFS financial assets in the balance sheets with total face value of ₱45.00 million and ₱46.00 million as of December 31, 2014 and 2013, respectively, are deposited with the BSP as security for the Bank's faithful compliance with its fiduciary obligations; and (b) 10.00% of the Bank's annual trust fee income is transferred to surplus reserve.

26. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Bank's related parties include key management personnel, close family members of key management personnel and entities which are controlled, significantly influenced by or for which significant voting power is held by key management personnel or their close family members. Generally, related party transactions are settled in cash.

Transactions with Retirement Plans
Under PFRS, certain post-employment benefit plans are considered as related parties. The Bank has a business relationship with its retirement plan pursuant to which it provides trust and management services. As of December 31, 2014 and 2013, all plan assets of the Bank are managed by the Bank's Trust Department (Note 22). Trust fee income earned by the Bank for the years ended December 31, 2014 and 2013 were ₱2.12 million and ₱4.43 million, respectively.

Significant transactions of the retirement fund, particularly with related parties, are approved by the Retirement Committee (RC) of the Bank. The members of the RC are directors and key management personnel of the Bank.

A summary of transactions with related party retirement plans follows:

	2014	2013
Cash and cash equivalents	**₱21,944,750**	₱35,222
Debt instruments	**3,936,991**	338,480
Other receivables	**37,406**	–
Accrued interest receivable	**10,778**	3,610
Interest income	**–**	22,011

Remunerations of Directors and other Key Management Personnel
Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly. The Bank considers the members of the Management Committee to constitute key management personnel for purposes of PAS 24. The Bank's officers also serve as the management committee members of Unity Bank, an affiliate, prior to the merger. The compensation of such officers are borne by the Bank.

In 2014 and 2013, total remunerations of key management personnel include short-term employee benefits amounting to ₱32.25 million and ₱22.37 million, respectively. In 2014 and 2013, no remunerations were given to the directors of the Bank who are all occupying key management positions in its ultimate parent company.

The Bank also provides banking services to key management personnel and persons connected to them. These transactions are presented in the tables below.

Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
	December 31, 2014		
Key Management Personnel			
Loans:		**₱7,048,125**	Loans with interest rates ranging from 6.00% to 8.00% and maturity of 15 years and secured by real estate mortgage.
Issuances	**₱4,145,461**		
Repayments	**(196,756)**		
Deposit liabilities:		**1,265,601**	These are checking and savings account with annual interest rates ranging from 0.25% to 0.75%.
Deposits	**27,620,633**		
Withdrawals	**27,042,080**		
Other Related Party			
Deposit liabilities:		**28,878,032**	This deposit account earns annual interest ranging from 0.25% to 4.25%.
Deposits	**30,727,803**		
Withdrawals	**32,350,632**		

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	December 31, 2013		
Key Management Personnel			
Loans:		₱3,099,420	Loans with interest rates ranging from 6.00% to 8.00% and maturity of 15 years. Collateral includes real estate mortgage with aggregate fair values amounting to ₱5.30 million.
Issuances	₱–		
Repayments	(184,630)		
Deposit liabilities:		682,082	These are checking and savings account with annual interest rates ranging from 0.25% to 0.75%.
Deposits	21,393,317		
Withdrawals	(21,731,347)		
Other Related Party			
Deposit liabilities:		30,246,542	This deposit account earns annual interest ranging from 1.75% to 4.25%.
Deposits	26,688,756		
Withdrawals	(32,060,678)		

As of December 31, 2014 and 2013, all loans to related parties are secured and no provision for credit losses was recorded.

Interest income earned and interest expense incurred from the above loans and deposit liabilities, respectively, for the years ended December 31, 2014 and 2013 are as follows:

	2014	2013
Interest income	**₱300,742**	₱205,888
Interest expense	**319,736**	747,129

Related party transactions of the Bank with the Parent Company and affiliates are as follows:

	Parent Company		
	2014	2013	**Nature, Terms and Conditions**
Balance Sheets			
Due from other banks	**₱139,071,850**	₱133,176,301	This pertains to cash in bank deposited with CBC that bears annual interest rates ranging from 0.13% to 0.25% in 2014 and 2013.
Deposits	**5,150,306,834**	2,872,074,253	
Withdrawals	**(5,144,411,285)**	(2,843,050,491)	
Accounts receivable	**6,682,669**	1,472,358	This pertains to receivable from CBC for unpaid rental.
Security deposit	**2,192,538**	1,936,657	This pertains to the rental deposits for office space leased out to CBC presented under 'Other assets' (Note 13).
Accounts payable	**1,723,775**	338,959	This pertains to the various expenses advanced by CBC on behalf of the Bank.
Statements of Income			
Interest income	**₱243,068**	₱120,45	This pertains to interest income earned from cash in bank deposited with CBC.
Investment gain	**1,715,451**	290,077,200	The Bank earned investment gain from its outright sale of securities to CBC.
Rental income	**5,460,175**	18,239,705	Certain units of the condominium owned by the Bank are being leased to CBC for a term of 5 years, with no escalation clause.

	Other Related Party		
	2014	2013	**Nature, Terms and Conditions**
Balance Sheets			
Accounts receivable	**₱57,495**	₱50,909	This pertains to receivable from China Bank Insurance Brokers (CIBI) for unpaid rental.
Security deposit	**287,429**	287,429	These pertain to rental deposits for office space leased out to CIBI presented under 'Other assets' (Note 13).
Accounts payable	–	1,358,121	These are non-interest bearing insurance premiums held in behalf of loan borrowers to be subsequently remitted to CIBI.
Statements of Income			
Rental income	**₱2,361,775**	₱2,698,374	Certain units of the condominium owned by the Bank are being leased to CIBI for a term of 5 years, with no escalation clause.

Outright purchases and outright sale of debt securities of the Bank with CBC are as follows:

	2014	2013
Outright purchase	**₱309,141,436**	₱2,455,342,500
Outright sale	**233,211,451**	2,252,775,000

Investment gain recognized from sale amounted to ₱1.72 million and ₱290.08 million for the years ended December 31, 2014 and 2013, respectively. Trading transactions are conducted based on the following terms and conditions: (a) trade prices were determined based on Philippine Dealing System Treasury Reference Rates PM (PDST-R2) on trade date (b) payment and settlement through the Bank's demand deposit account with BSP on the day of transaction.

Regulatory Reporting

As required by BSP, the Bank discloses loan transactions with investees and with certain directors, officers, stockholders and related interests (DOSRI). Existing banking regulations limit the amount of individual loans to DOSRI, 70.00% of which must be secured, to the total of their respective deposits and book value of their respective investments in the lending company within the Bank. In the aggregate, loans to DOSRI generally should not exceed total equity or 15.00% of total loan portfolio, whichever is lower. BSP Circular No. 423 dated March 15, 2004 amended the definition of DOSRI accounts. The following table shows information relating to the loans, other credit accommodations and guarantees classified as DOSRI accounts under regulations existing prior to said Circular, and new DOSRI loans, other credit accommodations granted under said circular:

	2014	2013
Total outstanding DOSRI accounts	**₱14,044,608**	₱9,116,813
Total outstanding DOSRI accounts prior to effectivity of BSP Circular No. 423	**14,044,608**	9,116,813
Percent of DOSRI accounts to total loans	**0.09%**	0.10%
Percent of unsecured DOSRI accounts to total DOSRI accounts	**6.31%**	4.28%
Percent of nonperforming DOSRI accounts to total DOSRI accounts	**0.00%**	0.00%

The amounts of loans disclosed for related parties above differ with the amounts disclosed for key management personnel since the composition of DOSRI is more expansive than that of key management personnel.

BSP Circular No. 560 provides that the total outstanding loans, other credit accommodation and guarantees to each of the bank's/quasi-bank's subsidiaries and affiliates shall not exceed 10.00% of the net worth of the lending bank/quasi-bank, provided that the unsecured portion of which shall not exceed 5.00% of such net worth. Further, the total outstanding loans, credit accommodations and guarantees to all subsidiaries and affiliates shall not exceed 20.00% of the net worth of the lending bank/quasi-bank; and the subsidiaries and affiliates of the lending bank/quasi-bank are not related interest of any director, officer and/or stockholder of the lending institution, except where such director, officer or stockholder sits in the BOD or is appointed officer of such corporation as representative of the bank/quasi-bank. As of December 31, 2014 and 2013, the Bank is in compliance with these requirements.

27. Commitments and Contingencies

In the normal course of the Bank's operations, there are various outstanding commitments and contingent liabilities which are not reflected in the accompanying financial statements. Management does not anticipate any material losses as a result of these transactions.

Summary of the Bank's contingencies and commitments follows:

	2014	2013
Trust department accounts	**₱3,102,424,872**	₱3,968,442,342
Late deposits/payments received	**33,642,418**	3,686,075
Outward bills for collection	**1,636,520**	1,624,627
Others	**21,167,874**	426,292
	₱3,158,871,684	₱3,974,179,336

The Bank has several suits and claims that remain unsettled. It is not practicable to estimate the potential financial statement impact of these contingencies. However, in the opinion of management, the suits and claims, if decided adversely, will not involve sums having a material effect on the financial statements.

28. Notes to Statements of Cash Flows

The following is a summary of non-cash activities:

	2014	2013
Non-cash operating activity:		
Recognition of non-current assets held for sale arising from foreclosure of chattel mortgage on loans and receivables (Note 9)	**₱77,102,952**	₱18,010,067
Non-cash investing activities:		
Recognition of investment properties from foreclosure of real estate mortgage on loans and receivables	**58,087,083**	6,661,837
Fair value gains or (losses) of AFS financial assets	**18,443,212**	(38,468,267)
Transfers from investment property to property and equipment (Notes 10 and 11)	**(370,607)**	8,937,170
Application of CWT against income tax due	**16,153,157**	8,221,302
Reclassification from non-current assets held for sale to property and equipment (Notes 9 and 10)	**–**	4,362,508
Receipt of investment shares in settlement of accrued interest receivable	**–**	3,700,000
Non-cash financing activities:		
Transfers to surplus reserves	**211,756**	443,472

29. Offsetting of Financial Assets and Liabilities

The amendments to PFRS 7, which is effective January 1, 2013, require the Bank to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreements or similar arrangements. The effects of these arrangements are disclosed in the succeeding table.

December 31, 2014

Financial assets recognized at end of reporting period by type	**Gross carrying amounts (before offsetting)**	**Gross amounts offset in accordance with the offsetting criteria**	**Net amount presented in statements of financial position [a-b]**	**Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria**		**Net exposure [c-d]**
				Financial Instruments	**Fair value of financial collateral**	
	[a]	**[b]**	**[c]**	**[d]**		**[e]**
Due from other banks (Note 4)	**₱139,071,850**	**₱–**	**₱139,071,850**	**₱–**	**₱300,000,000**	**₱–**

December 31, 2013

Financial assets recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d]
				Financial Instruments	Fair value of financial collateral	
	[a]	[b]	[c]	[d]		[e]
Due from other banks (Note 4)	₱133,176,301	₱–	₱133,176,301	₱–	₱200,000,000	₱–

The amounts disclosed in column (d) include those rights to set-off amounts that are only enforceable and exercisable in the event of default, insolvency or bankruptcy. This includes amounts related to financial collateral both received and pledged, whether cash or non-cash collateral, excluding the extent of over-collateralization.

30. Business Combination

On June 6, 2013, the BOD approved the merger of the Bank with Unity Bank. The terms of the Plan of Merger were approved by the Bank's stockholders in their meeting held on July 18, 2013 with the Bank as the surviving entity.

On November 22, 2013, the MB, in its Resolution No. 1949, approved the Plan of Merger and Articles of Merger of the Bank and Unity Bank subject to certain conditions. On January 20, 2014, the Bank obtained approval from the SEC for the merger to be effective. Under the approved plan of merger, all the issued and outstanding common stocks of Unity Bank ("Unity shares"), as well as shares that have been subscribed but have not been issued or covered by Stock Purchase Agreement, shall be convertible into fully-paid and non-assessable common stock of CBS at the approximate ratio of 1.144 Unity Bank common shares for every CBS common share (the "Exchange Ratio"). The actual merger took place on January 31, 2014.

In accordance with PIC Q&A 2012-01, the Bank elected to use 'pooling of interest' method in accounting for its merger with Unity Bank. The Bank also opted not to restate prior period comparative balances in its financial statement and to account for the merger prospectively.

As of January 31, 2014, the assets acquired and liabilities assumed by the Bank as a result of the merger are as follows:

Assets	
Cash and cash equivalents	₱28,579,309
Due from BSP	39,327,105
Due from other banks	689,767,837
HTM financial assets	27,949,657
Loans and receivables	200,262,254
Sales contract receivable	17,326,745
Property and equipment	34,075,862
Investment properties	221,226,062
Branch licenses	360,000,000
Other assets	14,495,522
	₱1,633,010,353
Liabilities	
Deposit liabilities	₱935,515,256
Accrued interest and other expenses	12,169,080
Income tax payable	626,298
Deferred tax liability	128,845,888
Other liabilities	42,597,646
	₱1,119,754,168

31. Approval of the Release of Financial Statements

The accompanying financial statements were authorized for issue by the Bank's BOD on March 19, 2015.

32. Supplementary Information Required Under Revenue Regulations 15-2010

In compliance with the requirements set forth by Revenue Regulations 15-2010, hereunder are the details of percentage and other taxes paid or accrued by the Bank in 2014.

Taxes and Licenses

Gross receipts tax	₱63,818,534
Local taxes	3,742,742
Others	236,714
Balance at end of year	₱67,797,990

Withholding Taxes
Details of total remittances of withholding taxes in 2014 and amounts outstanding as of December 31, 2014 are as follows:

	Total Remittances	Amounts Outstanding
Withholding taxes on compensation and benefits	₱42,647,846	₱3,238,848
Final withholding taxes	31,402,397	4,118,779
Expanded withholding taxes	10,311,971	1,059,429
	₱84,362,214	₱8,417,056

As of December 31, 2014, there are no outstanding tax assessment and tax cases under investigation, litigation nor prosecution in courts or bodies outside the BIR.