China Bank Savings, Inc.
(A Majority Owned Subsidiary of China Banking Corporation)

Financial Statements
December 31, 2015 and 2014

and

Independent Auditors' Report

Building a better working world

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. which comprise the statements of financial position as at December 31, 2015 and 2014, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the year ended December 31, 2015 and 2014, 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, 2015 and 2014, and its financial performance and its cash flows for the year ended December 31, 2015 and 2014 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 33 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.

SYCIP GORRES VELAYO & CO.

Ray Francis C. Balagtas

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Partner
CPA Certificate No. 108795
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PTR No. 5321607, January 4, 2016, Makati City

April 14, 2016

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

STATEMENTS OF FINANCIAL POSITION

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	December 31	
	2015	2014 (As restated - Note 31)
ASSETS		
Cash and Cash Equivalents (Notes 6 and 30)	**₱12,943,866,324**	₱2,756,335,601
Fair Value Through Profit and Loss Investments (Notes 7 and 30)	**753,576,139**	–
Available-for-Sale Financial Assets (Notes 7, 25 and 30)	**1,899,520,234**	1,111,569,481
Held-to-Maturity Financial Assets (Notes 7 and 30)	**2,190,545,120**	27,979,865
Loans and Receivables (Notes 8 and 30)	**50,952,682,820**	14,994,374,169
Non-current Assets Held for Sale (Notes 9 and 30)	**77,051,290**	75,788,175
Property and Equipment (Notes 10 and 30)	**1,165,873,784**	410,895,645
Investment Properties (Notes 11 and 30)	**2,994,810,807**	489,919,467
Branch Licenses (Notes 12 and 30)	**74,480,000**	–
Software Costs (Notes 12 and 30)	**83,339,924**	13,091,265
Other Assets (Notes 13 and 30)	**1,128,371,605**	372,956,092
	₱74,264,118,047	₱20,252,909,760
LIABILITIES AND EQUITY		
Liabilities		
Deposit Liabilities (Notes 15 and 30)		
Demand	**₱10,891,110,126**	₱1,613,145,756
Savings	**10,165,580,027**	2,798,469,883
Time	**45,326,858,501**	13,155,235,539
	66,383,548,654	17,566,851,178
Manager's Checks (Note 30)	**671,898,143**	199,917,414
Bills Payable (Notes 16 and 30)	**662,530,655**	–
Income Tax Payable (Note 30)	**1,361,031**	–
Accrued Interest and Other Expenses (Notes 17 and 30)	**236,541,982**	97,794,155
Deferred Tax Liabilities (Notes 24 and 30)	**107,469,435**	486,679
Advances from Parent Company (Notes 1 and 19)	–	312,500,000
Other Liabilities (Notes 17 and 30)	**887,050,494**	212,708,960
	68,950,400,394	18,390,258,386
Equity		
Capital stock (Notes 19 and 30)	**3,707,812,400**	2,057,703,100
Additional paid-in capital (Note 19)	**363,320,342**	363,320,342
Deposit for stock subscription (Notes 1 and 19)	**4,012,500,000**	–
Other equity reserves (Note 19)	**(2,248,520,637)**	(303,957,448)
Surplus reserves (Notes 20 and 25)	**22,002,127**	8,062,667
Deficit (Notes 20 and 25)	**(492,037,516)**	(228,827,684)
Remeasurement losses on retirement liability (Note 22)	**(17,791,309)**	(24,013,450)
Net unrealized losses on available-for-sale financial assets (Note 7)	**(23,926,611)**	(9,636,153)
Cumulative translation adjustment	**(9,641,143)**	–
	5,313,717,653	1,862,651,374
	₱74,264,118,047	₱20,252,909,760

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	
	2015	2014 (As restated - Note 31)
INTEREST INCOME		
Loans and receivables (Note 8)	**₱1,443,458,753**	₱1,196,786,921
Due from BSP and other banks (Notes 6 and 26)	**35,524,560**	45,406,971
Investment securities (Note 7)	**55,863,658**	43,095,500
	1,534,846,971	1,285,289,392
INTEREST EXPENSE		
Deposit liabilities (Note 15)	**425,528,702**	330,252,076
NET INTEREST INCOME	**1,109,318,269**	955,037,316
Service charges, fees and commissions	**90,471,735**	69,655,300
Gain (loss) on asset exchange (Notes 2, 9 and 11)	**(24,467,051)**	66,599,987
Income from property rentals (Notes 11 and 23)	**23,910,158**	26,934,523
Gain from investment securities (Notes 7 and 26)	**19,149,033**	1,715,451
Trust fee income (Note 25)	**3,988,465**	2,117,557
Foreign exchange gain	**–**	1,569,681
Miscellaneous	**9,317,320**	4,245,058
TOTAL OPERATING INCOME	**1,231,687,929**	1,127,874,873
Compensation and fringe benefits (Note 22)	**365,540,884**	335,402,336
Provision for impairment and credit losses (Note 14)	**292,558,154**	270,974,445
Depreciation and amortization (Note 10)	**186,366,241**	116,076,164
Occupancy costs (Note 23)	**139,689,904**	118,885,661
Security, messengerial and janitorial	**102,874,543**	71,444,998
Taxes and licenses (Note 33)	**78,513,991**	67,797,990
Insurance	**70,810,538**	50,461,333
Documentary stamp taxes	**48,586,887**	35,578,465
Utilities	**43,623,960**	42,447,041
Entertainment, amusement and recreation (Note 24)	**27,552,742**	25,198,834
Transportation and travel	**19,636,945**	18,074,093
Management and other professional fees	**11,762,373**	16,154,815
Stationery, supplies and postage	**7,262,578**	9,828,342
Miscellaneous (Notes 2 and 21)	**62,775,165**	59,970,016
TOTAL OPERATING EXPENSES	**1,457,554,905**	1,238,294,533
LOSS BEFORE INCOME TAX	**(225,866,976)**	(110,419,660)
PROVISION FOR INCOME TAX (Note 24)	**37,342,856**	33,760,979
NET LOSS	**(₱263,209,832)**	(₱144,180,639)

See accompanying Notes to Financial Statements.

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

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2015	2014 (As restated - Note 31)	
NET LOSS	**(₱263,209,832)**	(₱144,180,639)	A1 5 2
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)	**(14,479,742)**	18,443,212	
Items that do not recycle to profit or loss in subsequent periods:			
Remeasurement gains or (losses) on retirement liability (Note 22)	**39,852,078**	(36,905,492)	
TOTAL COMPREHENSIVE LOSS	**(₱237,837,496)**	(₱162,642,919)	

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)	Other Equity Reserves (Note 19)	Deposit for Stock Subscription (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)	Cumulative Translation Adjustment	Total Equity
Balance at January 1, 2015, as previously reported	**₱2,057,703,100**	**₱360,008,693**	**–**	**₱–**	**₱8,062,667**	**(₱228,827,684)**	**(₱24,013,450)**	**(₱9,636,153)**	**₱–**	**₱2,163,297,173**
Prior period adjustment (Note 31)	**–**	**3,311,649**	**(303,957,448)**	**–**	**–**	**–**	**–**	**–**	**–**	**(300,645,799)**
Balance at January 1, 2015, as restated	**2,057,703,100**	**363,320,342**	**(303,957,448)**	**–**	**8,062,667**	**(228,827,684)**	**(24,013,450)**	**(9,636,153)**	**–**	**1,862,651,374**
Reclassification of deposit for stock subscription to equity	**–**	**–**	**–**	**312,500,000**	**–**	**–**	**–**	**–**	**–**	**312,500,000**
Proceeds from stocks subscription	**–**	**–**	**–**	**2,000,000,000**	**–**	**–**	**–**	**–**	**–**	**2,000,000,000**
Effect of merger (Note 30)	**1,650,109,300**	**–**	**(1,944,563,189)**	**1,700,000,000**	**13,939,460**	**–**	**(33,629,937)**	**189,284**	**(9,641,143)**	**1,376,403,775**
Total comprehensive income (loss) for the year	**–**	**–**	**–**	**–**	**–**	**(263,209,832)**	**39,852,078**	**(14,479,742)**	**–**	**(237,837,496)**
Balance at December 31, 2015	**₱3,707,812,400**	**₱363,320,342**	**(₱2,248,520,637)**	**₱4,012,500,000**	**₱22,002,127**	**(₱492,037,516)**	**(₱17,791,309)**	**(₱23,926,611)**	**(9,641,143)**	**₱5,313,717,653**
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 (Note 30)	517,388,100	–	(303,957,448)	–	–	–	–	–	–	213,430,652
Total comprehensive income (loss) for the year	–	–	–	–	–	(144,180,639)	(36,905,492)	18,443,212	–	(162,642,919)
Transfer to surplus reserve	–	–	–	–	211,756	(211,756)	–	–	–	–
Balance at December 31, 2014	₱2,057,703,100	₱363,320,342	(₱303,957,448)	₱–	₱8,062,667	(₱228,827,684)	(₱24,013,450)	(₱9,636,153)	₱–	1,862,651,374

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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	
	2015	2014 (As restated - Note 31)
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before income tax	**(₱225,866,976)**	(₱110,419,660)
Adjustments for:		
Provision for impairment and credit losses (Note 14)	**292,558,154**	270,974,445
Depreciation and amortization (Note 10)	**186,366,241**	116,076,164
Loss (gain) on asset exchange (Notes 9 and 11)	**24,467,051**	(66,599,987)
Investment securities gain (Notes 7 and 26)	**(19,149,033)**	(1,715,451)
Discount amortization of held-to-maturity financial assets	**3,698,523**	(30,208)
Write-off of non-financial asset (Notes 10 and 11)	**2,024,745**	26,643
Changes in operating assets and liabilities:		
Decrease (increase) in the amounts of:		
Loans and receivables	**(1,472,877,384)**	(5,573,172,676)
Other assets (Notes 13 and 28)	**(129,150,320)**	(42,303,918)
Increase (decrease) in the amounts of:		
Deposit liabilities	**3,972,041,224**	2,650,843,217
Manager's checks	**64,926,979**	44,513,425
Accrued interest and other expenses	**(20,745,970)**	35,227,832
Other liabilities (Notes 17 and 28)	**178,658,217**	(2,234,650)
Net cash generated from (used in) operations	**2,856,951,451**	(2,678,814,824)
Income tax paid (Notes 24 and 28)	**(16,267,700)**	(18,758,585)
Net cash provided by (used in) operating activities	**2,840,683,751**	(2,697,573,409)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash and cash equivalents acquired from merger (Note 30)	**6,199,302,250**	757,674,251
Acquisitions of:		
Available-for-sale financial assets (Note 26)	**(1,459,560,008)**	(309,141,436)
Property and equipment (Note 10)	**(77,328,235)**	(92,384,631)
Fair value through profit and loss investments	**(76,335,683)**	–
Software cost (Note 12)	**(14,083,153)**	(5,718,858)
Held-to maturity financial assets	**(81,741,912)**	–
Proceeds from sale of:		
Available-for-sale financial assets (Note 26)	**718,432,186**	233,211,451
Non-current assets held for sale (Note 9)	**137,253,527**	17,367,662
Investment properties (Note 11)	**908,000**	8,315,387
Net cash provided by investing activities	**5,346,846,972**	609,323,826
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from capital infusion (Note 19)	–	794,500,341
Advances from Parent Company (Notes 1 and 19)	**2,000,000,000**	312,500,000
Net cash provided by financing activities	**2,000,000,000**	1,107,000,341

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(Forward)

	Years Ended December 31	
	2015	2014
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**₱10,187,530,723**	(₱981,249,242)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**2,756,335,601**	3,737,584,843
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱12,943,866,324**	₱2,756,335,601

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OPERATIONAL CASH FLOWS FROM INTEREST

	Years Ended December 31	
	2015	2014
Interest received	**₱1,474,536,150**	₱1,239,797,487
Interest paid	**421,774,136**	326,002,467

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, 2015 and 2014, the Bank has one hundred sixty-five (165) and seventy-six (76) 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, 2015 and 2014, the Bank is 94.38% and 96.30%, respectively, owned by CBC, its ultimate parent company.

Merger between the Bank and Unity Bank, A Rural Bank Inc.
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).

Merger between the Bank and Planters Development Bank (PDB)
On June 26, 2014, the BOD of both the Bank and Planters Development Bank (PDB) approved the Plan and Articles of Merger of the Bank and PDB, with the former as the surviving corporation. PDB is a 99.85% owned subsidiary of CBC. The stockholders of both PDB and the Bank approved, ratified and confirmed the Plan and Articles of Merger on August 14, 2014. An amended plan of merger was approved by both BOD of the Bank on January 29, 2015.

On August 19, 2015 and December 17, 2015, the MB of the BSP and the Securities and Exchange Commission (SEC) approved the merger, respectively.

The salient provisions of the articles of the merger are as follows:

a. Upon the effectivity date of the merger, PDB shall be merged with and into the Bank. The separate and distinct existence of PDB shall cease and terminate upon the effective date of merger.
b. The Bank shall be the surviving corporation.
c. As of the effective date, all common and preferred shares of PDB shall be converted into fully paid China Bank Savings common shares totaling to 16.5 million shares.

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.

In 2014, the Bank issued 6,589,916 common shares in exchange for the ₱800.00 million capital infusion of CBC (Note 19).

On December 16, 2015, the Executive Committee (ExeCom) of CBC approved the capital infusion to the Bank of up to ₱2.00 billion to support the latter's planned business growth and expansion.

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 December 16, 2015 and September 5, 2014, CBC made advances to the Bank amounting to ₱2.00 billion and ₱312.50 million, respectively. 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.

2. Accounting Policies

Basis of Preparation

The accompanying financial statements have been prepared on a historical cost basis except for financial assets at fair value through profit or loss (FVPL) and 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. The Bank assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Bank and all of the counterparties.

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.

<u>Basis of Consolidation</u>
The Bank elected not to prepare consolidated financial statements under the exemption provided by PFRS 10, *Consolidated Financial Statements*. CBC, a corporation incorporated in the Philippines and the Bank's ultimate Parent Company (Note 1), has prepared the consolidated financial statements which are in accordance with PFRS and filed the same with the Securities and Exchange Commission (SEC). All the Bank's other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the Bank not presenting consolidated financial statements.

The consolidated accounts of CBC can be obtained from the Corporate Secretary at its office at 8745 Paseo de Roxas cor. Villar St., Makati City.

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial years except for the following new and amended PFRSs and Philippine Accounting Standards (PAS) which were adopted as of January 1, 2015.

Changes in the accounting policies did not have any significant impact on the financial statements of the Bank.

- Amendments to PAS 19, *Defined Benefit Plans: Employee Contributions*

- Annual Improvements 2010-2012 Cycle
  - PFRS 2, *Share-based Payment – Definition of Vesting Condition*
  - PFRS 3, *Business Combinations – Accounting for Contingent Consideration in a Business Combination*
  - PFRS 8, *Operating Segments – Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
  - PAS 16, *Property, Plant and Equipment* and PAS 38, *Intangible Assets – Revaluation method – Proportionate Restatement of Accumulated Depreciation and Amortization*
  - PAS 24, *Related Party Disclosures – Key Management Personnel*

- Annual Improvements 2011-2013 Cycle
  - PFRS 3, *Business Combinations – Scope Exceptions for Joint Arrangements*
  - PFRS 13, *Fair Value Measurement – Portfolio Exception*
  - PAS 40, *Investment Property*

Change in Accounting Policy
The Bank has restated its financial statements as of and for the period ended December 31, 2014 as it applied a change in accounting policy retrospectively, as required under PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. A third balance sheet is not presented as restatement involves 2014 transactions only.

The details of the restatement are disclosed in Note 31.

Reclassification
The Bank made reclassification adjustment to the following statement of income accounts to be comparable with the 2015 presentation and better reflect the substance of transactions:

	December 31, 2014		
	As previously reported	Reclassification	As restated
Statement of Income			
Gain on foreclosure	₱60,229,717	(₱60,229,717)	₱–
Gain on sale of investment property	2,573,387	(2,573,387)	–
Miscellaneous expense	(56,173,133)	(3,796,883)	(59,970,016)
Gain (loss) on asset exchange	–	66,599,987	66,599,987

Significant Accounting Policies
Common Control Business Combinations
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 for such business combinations using pooling of interest method.

In applying the pooling of interest method, the Bank follows 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 as contribution or distribution of equity.
- The consolidated statement of income reflects the results of the combining entities prospectively.

In applying the above guidance, the Bank made the accounting policy choice of:

a. Recognizing the assets acquired and liabilities assumed from the absorbed entity based on their respective carrying values as reported in the financial statements of the absorbed entity as of merger date and adjusted to harmonize with the accounting recognition and measurement policies of the Bank.
b. For presentation of the merged balances, the consolidated financial statements of the Bank are not restated for periods prior to the merger date.
c. Recognizing equity reserves of the absorbed entity such as those arising from the remeasurement of AFS financial assets, retirement liability and cumulative translation adjustment, based on amounts reflected in the financial statements of the absorbed entity on merger date.

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 FVPL investments and 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.

<u>Cash and Cash Equivalents</u>
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.

<u>Financial Instruments - Initial Recognition and Subsequent Measurement</u>
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, 2015, the Bank has no financial liabilities at FVPL. As of December 31, 2014, the Bank has no financial instruments 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.

Financial assets and financial liabilities at FVPL
Financial assets and financial liabilities at FVPL include financial assets and liabilities held for trading purposes, financial assets and financial liabilities designated upon initial recognition as at FVPL, and derivative instruments. As of December 31, 2015, all financial assets at FVPL of the Bank are classified or held for trading.

Financial instruments held for trading
Financial instruments held for trading (HFT) include government debt securities purchased and held principally with the intention of selling them in the near term. These securities are carried at fair value, and realized and unrealized gains and losses on these instruments are recognized as 'Trading and securities gain - net' in the statement of income. Interest earned or incurred on financial instruments held for trading is reported in the statement of income under 'Interest income' (for financial assets) and 'Interest expense' (for financial liabilities).

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 in 'Trading and securities 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 financial liabilities under '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.

Derecognition of Financial Assets and Financial Liabilities

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.

Impairment of Financial Assets
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 assets' 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.

Investments in a Subsidiary and an Associate
Investments in a subsidiary
A subsidiary pertains to an entity over which the Bank has control. Control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. When the Bank has less than a majority of the voting or similar rights of an investee, the Bank considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements; and
- the Bank's voting rights and potential voting rights.

Investment in a subsidiary is carried at acquisition cost, less any impairment in value.

Investment in an associate
An associate pertains to an entity over which the Bank has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. Investment in an associate is accounted for under the equity method of accounting.

Under the equity method, an investment in an associate is carried in the statement of financial position at cost plus post-acquisition changes in the Bank's share of the net assets of the associates. Goodwill, if any, relating to an associate is included in the carrying value of the investment and is not amortized. When the Bank increases its ownership interest in an associate that continues to be accounted for under the equity method, the cost for the additional interest is added to the existing carrying amount of the associate and the existing interest in the associate is not remeasured.

The Bank's share of its associates' post-acquisition profits or losses is recognized in the statement of income, and its share of post-acquisition movements in the associates' equity reserves is recognized directly in equity. When the Bank's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Bank does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. Profits and losses resulting from transactions between the Bank and an associate are eliminated to the extent of the interest in the associate. Dividends received, if any, are treated as a reduction in the carrying value of the investment.

As of December 31, 2015, investment in an associate, which was acquired as a result of merger with PDB, is fully impaired.

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	2 to 15 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
Real properties acquired in settlement of loans and receivables are booked under ROPA account as follows:

- upon the date of entry of judgment in case of judicial foreclosure; or
- upon the date of Sheriff's Certificate of Sale in case of extrajudicial foreclosure; or
- upon the date of notarization of the Deed of Dacion in case of dation in payment.

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 asset exchange'.

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.

Transfer of branch licenses between a parent company and subsidiary at no consideration are accounted for as equity transaction; either as a capital contribution if an asset is given by the parent company to the subsidiary, or non-cash distribution if an asset is given by a subsidiary to its parent company. The entity receiving the asset at no consideration has a choice of recognizing it at zero or at fair value.

Impairment of Nonfinancial Assets
At each reporting date, the Bank assesses whether there is any indication that its nonfinancial assets (i.e., property and equipment, investment properties, investment in a subsidiary and an associate, software cost) 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.

Deposit for Future Stock Subscription / Advances from Parent Company
Advances from parent company pertains to deposit for future stock subscriptions made by stockholders of the Bank on subscription to the increase in the authorized capital which cannot be directly credited to capital stock issued pending approval by the BSP and registration with the SEC of the amendment to the Articles of Incorporation for the proposed increase in capital stock. Under SEC Financial Reporting Bulletin 006 issued in 2012, an entity should not consider a deposit for future subscription as an equity instrument unless all of the following elements are present:

a. There is a lack or insufficiency of authorized unissued shares of stock to cover the deposit;
b. The entity's BOD and shareholders have approved an increase in capital stock to cover the shares corresponding to the amount of the deposit; and
c. An application for the approval of the increase in capital stock has been presented for filing or filed with the SEC and BSP.

If any or all of the foregoing elements above are not present, the deposit for future stock subscription should be recognized as a liability.

As of December 31, 2015, the increase in authorized capital stock was already approved by SEC. Consequently, the Bank accounted for its deposit for future stock subscriptions as equity.

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' ('Other equity reserves').

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.

Trading and securities gains
This represents gains realized from sale of FVPL investments and AFS financial assets, as well as the fair value change of FVPL investments.

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.

Retirement Benefits
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. 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.

Standards Issued but not yet Effective
The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are listed below. The Bank intends to adopt these standards when they become effective. Adoption of these standards and interpretations are not expected to have any significant impact on the financial statements of the Bank.

No definite adoption date prescribed by the Securities and Exchange Commission (SEC) and Financial Reporting Standards Council (FRSC):

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate.*

Effective January 1, 2016
- PFRS 10, *Consolidated Financial Statements, and* PAS 28*, Investments in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception* (Amendments)
- PAS 27, *Separate Financial Statements – Equity Method in Separate Financial Statements (Amendments)*
- PFRS 11, *Joint Arrangements – Accounting for Acquisitions of Interests* (Amendments)
- PAS 1, *Presentation of Financial Statements – Disclosure Initiative* (Amendments)
- PFRS 14, *Regulatory Deferral Accounts*
- PAS 16, *Property, Plant and Equipment,* and PAS 38, *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization* (Amendments)
- PAS 16, *Property, Plant and Equipment,* and PAS 41, *Agriculture – Bearer Plants*
- Annual Improvements to PFRSs (2012-2014 Cycle)
  - PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations – Changes in Methods of Disposal*
  - PFRS 7, *Financial Instruments: Disclosures - Servicing Contracts*
  - PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
  - PAS 19, *Employee Benefits – regional market issue regarding discount rate*
  - PAS 34, *Interim Financial Reporting – disclosures of information 'elsewhere in the interim financial report'*

Effective January 1, 2018
PFRS 9, *Financial Instruments*
In July 2014, the International Accounting Standards Board (IASB) issued the final version of PFRS 9, *Financial Instruments*. The new standard (renamed as PFRS 9) reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement* 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 providing comparative information is not compulsory.

For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. Early application of previous versions of PFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before February 1, 2015. The Bank did not early adopt PFRS 9.

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

In addition, the IASB has issued the following new standards that have not yet been adopted locally by the SEC and FRSC. The Bank is currently assessing the impact of these new standards and plans to adopt them on their effective dates once adopted locally.

International Financial Reporting Standard (IFRS) 15, *Revenue from Contracts with Customers*
IFRS 15 was issued in May 2014 by IASB 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 retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted.

<u>Effective January 1, 2019</u>
IFRS 16, *Leases*
On January 13, 2016, the IASB issued its new standard, IFRS 16, *Leases*, which replaces International Accounting Standard (IAS) 17, the current leases standard, and the related Interpretations.

Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with IAS 17. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their statement of financial position, and subsequently, will depreciate the leased assets and recognize interest on the leased liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

The accounting of lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under IAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

Entities may early adopt IFRS 16 but only if they have also adopted IFRS 15, *Revenue from Contracts with Customers*. When adopting IFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

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.

Estimates
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 values of AFS debt securities and loans and receivables are disclosed in Notes 7 and 8, respectively. As of December 31, 2015 and 2014, AFS debt securities were unimpaired. The related allowance for credit losses on loans and receivables is disclosed in Note 14.

   As of December 31, 2015 and 2014, HTM financial assets were unimpaired. The carrying values of HTM financial assets are disclosed in Note 7.

b. *Impairment losses on AFS equity securities*
   The Bank reviews its AFS equity 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 case of equity securities classified as AFS financial assets, this would include a significant or prolonged decline in the fair value of the investments below their 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 those financial assets previously recognized in the statement of comprehensive income - is removed from OCI and charged to current operations.

   The Bank determines that AFS equity securities are impaired when various factors raise substantial doubt about the ability of the investee company to continue as a going concern. These factors include, but not limited to:

   - material operating losses over several years,
   - adverse key financial ratios,
   - adverse cash flow and liquidity issues,
   - adverse solvency issues, and
   - operational and management issues.

   Impairment losses on equity securities are not reversed through profit or loss. Increases in fair value after impairment are recognized directly in OCI.

As of December 31, 2015 and 2014, AFS financial assets consist of unquoted equity securities with cost of ₱121.72 million and ₱17.28 million, respectively, and are provided with allowance for impairment losses amounting to ₱63.15 million and ₱0.87 million, respectively.

c. *Impairment of non-financial assets*
Property and equipment, investment properties, software costs and investment in a subsidiary and an associate
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 and equity investments. 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, software costs and investment in a subsidiary and an associate are disclosed in Notes 10, 11, 12 and 13, respectively.

Branch licenses
The Bank conducts an annual review for any impairment in the value of branch licenses. Branch licenses are written down for impairment where the recoverable value is insufficient to support their carrying value. The recoverable amount of branch licenses is the higher between its fair value less costs of disposal and its value in use. For value in use, the Bank estimates the discount rate used for the computation of the net present value by reference to industry cost of capital. Future cash flows from the business are estimated based on the theoretical annual income of the CGUs. Average growth rate is derived from the average increase in annual income of the CGUs during the last 5 years. The recoverable amount of the CGU is determined based on a value-in-use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. Key assumptions in value-in-use calculation of CGUs are most sensitive to discount rates and growth rates used to project cash flows.

The carrying values of the Bank's branch licenses are disclosed in Note 12. In 2015, the Bank did not recognize impairment loss on branch licenses, which pertains to assets acquired on December 31, 2015 resulting from the merger with PDB (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. The salary projection rate was based on the historical trend of salary increase rate of the Company. 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.

FVPL investment and AFS debt securities - The fair values of government and private bonds are based on quoted market prices. If the market prices are not readily available, fair values are estimated using either value obtained from independent parties offering pricing services or adjusted quoted market prices or comparable investments or is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities. 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 for similar types of receivables.

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 and bills payables are estimated using the discounted cash flow methodology, using the Bank's current incremental borrowing rates 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.

Advances from Parent Company, 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, 2015 and 2014, the fair value hierarchy of the Bank's assets and liabilities are presented below:

	December 31, 2015					
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total**	
Recurring fair value measurement						
FVPL financial assets	₱753,576,139	₱753,576,139	₱–	₱–	₱753,576,139	A1.6
AFS financial assets						
Quoted government bonds	1,405,120,935	1,402,125,255	2,995,680	–	1,405,120,935	
Quoted private bonds	435,835,382	435,835,382	–	–	435,835,382	
	₱2,594,532,456	₱2,591,536,776	₱2,995,680	₱–	₱2,594,532,456	
Fair values of assets carried at amortized cost						
HTM financial assets	₱2,190,545,120	₱–	₱2,159,553,322	₱–	₱2,159,553,322	
Loans and receivables:						
Loans and discounts:						
Consumer lending	17,985,733,003	–	–	19,300,941,758	19,300,941,758	A1.7.2
Corporate and commercial lending	31,558,673,496	–	–	32,940,088,412	32,940,088,412	
Others	321,780,467	–	–	119,329,629	119,329,629	
Unquoted debt securities	373,201,880	–	–	372,011,825	372,011,825	
Sales contract receivable	713,293,974	–	–	921,048,181	921,048,181	
	₱53,143,227,940	₱–	₱2,159,553,322	₱53,653,419,805	₱55,812,973,127	
Fair values of assets carried at cost						
Investment properties						
Land	₱2,373,519,896	₱–	₱–	₱2,864,289,221	₱2,864,289,221	A1.6
Buildings and improvements	621,290,911	–	–	1,004,753,296	1,004,753,296	
	₱2,994,810,807	₱–	₱–	₱3,869,042,517	₱3,869,042,517	
Non recurring fair value measurement						
Non-current assets held for sale	₱77,051,290	₱–	₱–	₱79,237,485	₱79,237,485	
Fair values of liabilities carried at amortized cost						
Deposit liabilities	₱45,326,858,501	₱–	₱–	₱45,676,626,880	₱45,676,626,880	

PY

	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	10,792,217,052	–	–	12,315,176,544	12,315,176,544
Corporate and commercial lending	3,809,936,955	–	–	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	39,367,133	–	–	45,408,522	45,408,522
	₱15,022,354,034	₱–	₱29,295,989	₱16,841,943,075	₱16,871,239,064
Fair values of assets carried at cost					
Investment properties					
Land	₱382,612,052	₱–	₱–	₱483,316,243	₱483,316,243
Buildings and improvements	107,307,415	–	–	366,359,680	366,359,680
	₱489,919,467	₱–	₱–	₱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

In 2015, government securities amounting to ₱24.06 million presented under 'AFS financial assets' were reclassified from level 2 to level 1 of the fair value hierarchy as their fair values qualified within the bid and ask spreads. For the year ended December 31, 2014, 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.

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 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 and investment securities portfolios and the corresponding information on credit concentration as to industry are disclosed below (in thousands).

	2015					
	Loans and receivables	**%**	**Other financial assets ***	**%**	**Off balance sheet exposures**	**Total**
Real estate, renting and business services	**₱14,915,738**	**27.94**	**₱685,197**	**3.87**	**₱485,165**	**₱16,086,100**
Government	**103,216**	**0.19**	**13,233,962**	**74.76**	**–**	**13,337,178**
Consumer	**11,630,718**	**21.79**	**–**	**–**	**–**	**11,630,718**
Wholesale and retail trade	**8,403,458**	**15.74**	**–**	**–**	**1,364,394**	**9,767,852**
Financial intermediaries	**3,146,514**	**5.89**	**2,286,584**	**12.92**	**349,768**	**5,782,866**
Manufacturing	**4,356,351**	**8.16**	**–**	**–**	**505,121**	**4,861,472**
Construction	**1,491,156**	**2.79**	**–**	**–**	**557,811**	**2,048,967**
Transportation, storage and communication	**1,666,807**	**3.12**	**–**	**–**	**170,945**	**1,837,752**
Agriculture	**1,650,961**	**3.09**	**–**	**–**	**61,237**	**1,712,198**
Hotels and restaurant	**1,638,523**	**3.07**	**–**	**–**	**–**	**1,638,523**
Education	**891,651**	**1.67**	**–**	**–**	**–**	**891,651**
Other community, social and personal services	**527,805**	**0.99**	**–**	**–**	**–**	**527,805**
Health and social work	**435,736**	**0.82**	**–**	**–**	**–**	**435,736**
Electricity, gas, steam and air-conditioning supply	**295,515**	**0.55**	**100,000**	**0.56**	**11,750**	**407,265**
Fishing	**139,449**	**0.26**	**–**	**–**	**–**	**139,449**
Others	**2,091,446**	**3.93**	**1,395,568**	**7.89**	**3,578,716**	**7,065,730**
Total	**53,385,044**	**100.00**	**17,701,311**	**100.00**	**7,084,907**	**78,171,262**
Allowance for credit and impairment losses	**(2,329,190)**	**–**	**(472,891)**	**–**	**–**	**(2,802,081)**
Unearned interest and discount	**(103,171)**	**–**	**–**	**–**	**–**	**(103,171)**
Net	**₱50,952,683**	**100.00**	**₱17,228,420**	**100.00**	**₱7,084,907**	**₱75,266,010**

EH01

**Other financial assets include the following: due from BSP, due from other banks, financial assets at FVTPL, AFS financial assets, HTM financial assets, returned checks and other financial assets.*

	2014				
	Loans and receivables	%	Other financial assets*	%	Total
Real estate, renting and business services	₱7,059,147	45.39	₱153,810	4.20	₱7,212,957
Government	–	–	2,836,902	77.45	2,836,902
Consumer	4,963,446	31.91	–	–	4,963,446
Wholesale and retail trade	807,803	5.19	–	–	807,803
Financial intermediaries	369,856	2.38	439,673	12.00	809,529
Manufacturing	84,599	0.54	–	–	84,599
Construction	72,462	0.47	–	–	72,462
Transportation, storage and communication	340,271	2.19	–	–	340,271
Agriculture	1,764	0.01	–	–	1,764
Hotels and restaurant	90,500	0.58	–	–	90,500
Education	77,949	0.50	–	–	77,949
Other community, social and personal services	784,229	5.04	–	–	784,229
Health and social work	230,391	1.48	–	–	230,391
Electricity, gas, steam and air-conditioning supply	–	–	–	–	–
Fishing	163,780	1.05	–	–	163,780
Others	506,842	3.27	232,372	6.35	739,214
Total	15,553,039	100.00	3,662,757	100.00	19,215,796
Allowance for credit and impairment losses	(517,190)	–	(17,921)	–	(535,111)
Unearned interest and discount	(41,475)	–	–	–	(41,475)
Net	₱14,994,374	100.00	₱3,644,836	100.00	₱18,639,210

PY

**Other financial assets include the following: due from BSP, due from other banks, financial assets at FVTPL, AFS financial assets, HTM financial assets, returned checks and other financial assets.*

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, 2015			
	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*	**₱31,558,673,496**	**₱24,852,048,806**	**₱10,008,009,009**	**₱21,550,664,487**
Consumer loans**	**5,964,140,618**	**5,106,716,538**	**906,201,494**	**5,057,939,124**
Others**	**295,671,068**	**36,522,845**	**259,148,223**	**36,522,845**
Sales contract receivable**	**678,500,681**	**719,873,315**	**–**	**678,500,681**
Unquoted debt securities*	**373,201,880**	**474,892,000**	**–**	**373,201,880**
	₱38,870,187,743	**₱31,190,053,504**	**₱11,173,358,726**	**₱27,696,829,017**

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**Merged bank balances*
***Receivables arising from the merger*

	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

PY

For other types of loans and sales contract receivable which the Bank originated, 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 maximum exposure to credit risks for the other financial assets is limited to the carrying value as of December 31, 2015 and 2014.

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 2015 and 2014 that are still held by the Bank as of December 2015 and 2014 amounted to ₱106.60 million and ₱63.62 million, respectively. These collaterals comprise 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, 2015 and 2014 excluding other receivables (gross of allowance for impairment and credit losses):

	December 31, 2015					
	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	**₱9,332,977,226**	**₱–**	**₱–**	**₱–**	**₱–**	**₱9,332,977,226**
Due from other banks	**2,287,575,643**	–	–	–	–	**2,287,575,643**
Investment in FVPL	**753,576,139**	–	–	–	–	**753,576,139**
AFS financial assets:						
Quoted:						
Government bonds	**1,405,120,935**	–	–	–	–	**1,405,120,935**
Private bonds	**435,835,382**	–	–	–	–	**435,835,382**
Unquoted equities	–	**58,563,917**	–	–	**63,153,755**	**121,717,672**
HTM financial assets	**2,190,545,120**	–	–	–	–	**2,190,545,120**
Loans and receivables:						
Loans and discounts:						
Consumer lending	**15,989,402,121**	**1,016,556,596**	**106,365,394**	**1,041,449,233**	**830,046,141**	**18,983,819,485**
Corporate and commercial lending	**27,551,386,947**	**2,175,459,499**	**76,491,691**	**242,348,545**	**2,639,071,774**	**32,684,758,456**
Others	**316,478,985**	**415,005**	–	**4,345,499**	**540,978**	**321,780,467**
Unquoted debt securities	**103,201,880**	–	–	**270,000,000**	**151,836,309**	**525,038,189**
Sales contract receivable	**675,954,872**	–	–	**7,329,129**	**83,192,719**	**766,476,720**
Other assets*	**484,114,684**	**380,309,774**	**162,434,183**	**48,514,858**	**98,588,920**	**1,173,962,419**
Total	**₱61,526,169,934**	**₱3,631,304,791**	**₱345,291,268**	**₱1,613,987,264**	**₱3,866,430,596**	**₱70,983,183,853**

A1.8

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

	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	10,928,982	46,422,478	4,376,522	27,567,230	215,094,585
Total	₱17,849,464,964	₱38,368,148	₱46,422,478	₱547,304,315	₱692,761,156	₱19,174,321,061

PY

**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, 2015 and 2014:

	December 31, 2015			
	Less than 30 days	**31 to 60 days**	**61 to 90 days**	**Total**
Loans and receivables:				
Loans and discounts:				
Consumer lending	**₱106,310,356**	**₱28,517,061**	**₱906,621,816**	**₱1,041,449,233**
Corporate and commercial lending	**41,690,600**	**19,113,432**	**181,544,513**	**242,348,545**
Others	**440,649**	**1,092,807**	**2,812,043**	**4,345,499**
Unquoted debt securities	**270,000,000**	**–**	**–**	**270,000,000**
Sales contract receivable	**1,505,416**	**2,200,113**	**3,623,600**	**7,329,129**
Other assets:				
Accrued interest receivable	**1,705,173**	**917,276**	**45,892,409**	**48,514,858**
	₱421,652,194	**₱51,840,689**	**₱1,140,494,381**	**₱1,613,987,264**

A1.8

	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
Unquoted debt securities	340,000,000	–	–	340,000,000
Sales contract receivable	9,405,512	–	–	9,405,512
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

PY

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, 2015 and 2014:

	2015	2014
Long-term retail loans with monthly amortization	**35.20%**	71.17%
Commercial loans with monthly or quarterly amortization,	**59.95%**	19.28%
Commercial loans payable at maturity (mostly maturing for less than 6 months)	**4.85%**	9.55%
	100.00%	100.00%

The table below represents the percentage of interest bearing savings, demand and time deposit accounts over total deposit liabilities for the year ended December 31, 2015 and 2014:

	2015	2014
Demand	**3.82%**	1.12%
Savings	**4.90%**	6.60%
Time	**91.28%**	92.28%
	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 FVPL and 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, 2015 and 2014 (in millions):

	December 31, 2015					
	Up to 1 Month	**>1 to 3 Months**	**>3 to 6 Months**	**>6 to 12 Months**	**>12 Months**	**Total**
Financial Assets						
Loans and receivables	**₱4,838**	**₱7,843**	**₱7,199**	**₱5,961**	**₱20,595**	**₱46,436**
Investment securities	**32**	**22**	**51**	**3**	**3,724**	**3,832**
Sales contracts receivable	**–**	**–**	**1**	**1**	**680**	**682**
Total financial assets	**4,870**	**7,865**	**7,251**	**5,965**	**24,999**	**50,950**
Financial Liabilities						
Deposit liabilities	**23,075**	**9,584**	**2,277**	**3,022**	**28,461**	**66,419**
Bills payable	**–**	**6**	**3**	**–**	**653**	**662**
Total financial liabilities	**23,075**	**9,590**	**2,280**	**3,022**	**29,114**	**67,081**
Repricing gap	**(₱18,205)**	**(₱1,725)**	**₱4,971**	**₱2,943**	**(₱4,115)**	**(₱16,131)**

A1.9

	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)

PY

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, 2015 and 2014 (amounts in thousands):

	December 31, 2015			
	Change in interest rates (in basis points)			
	100bp rise	**50bp rise**	**50bp fall**	**100bp fall**
Change in annualized net interest income	**(₱94,450)**	**(₱47,225)**	**₱94,450**	**₱47,225**
As a percentage of the Bank's net interest	**(8.51%)**	**(4.26%)**	**8.51%**	**4.26%**

	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%

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, 2015 and 2014 (amounts in thousands):

	December 31, 2015			
	Change in interest rates (in basis points)			
	25bp rise	**10bp rise**	**10bp fall**	**25bp fall**
Change in equity	**(₱35,704)**	**(₱14,410)**	**₱14,639**	**₱36,944**

	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

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 and liabilities (foreign exchange assets and liabilities).

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 table summarizes the Bank's exposure to foreign exchange risk as of December 31, 2015 (in thousands):

	2015
Assets	
Cash and other cash items	US$888
Due from other banks	5,469
Investment securities at FVTPL	6,061
Investment securities at amortized cost	20,430
Loans and receivable	10,100
Total assets	42,948
Liabilities	
Deposit liabilities	35,682
Other liabilities	224
Total liabilities	35,906
Net Exposure	US$7,042

The Bank assessed that its exposure to foreign currency risk does not have a material effect on the Bank's profit or loss in 2015 as the foregoing foreign currency-denominated assets and liabilities arose from the merger with PDB. The Bank's exposure to foreign currency risk is not material to the 2014 financial statements.

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, 2015, ratios for Philippine peso deposits and USD deposits are at 3.14% and 3.08%, respectively, while as of December 31, 2014, ratios for Philippine peso deposits and USD deposits are at 2.79% and 1.57%, 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:

A1.7

	December 31, 2015			
	On demand	**Within 1 year**	**Over 1 year***	**Total**
Financial Assets				
Cash and other cash items	**₱1,323,313,455**	**₱–**	**₱–**	**₱1,323,313,455**
Due from BSP	**5,382,977,226**	**3,950,659,888**	**–**	**9,333,637,114**
Due from other banks	**2,287,575,643**	**–**	**–**	**2,287,575,643**
FVPL financial assets	**–**	**879,467,909**	**76,335,683**	**955,803,592**
AFS financial assets	**–**	**27,900,000**	**3,444,185,229**	**3,472,085,229**
HTM financial assets	**–**	**173,332,043**	**3,206,420,983**	**3,379,753,026**
Loans and receivables*	**–**	**25,115,785,284**	**37,405,616,997**	**62,521,402,281**
Other assets:				
Accrued interest receivable	**–**	**464,202,246**	**–**	**464,202,246**
Accounts receivable	**–**	**536,787,051**	**–**	**536,787,051**
Rental deposit	**–**	**–**	**13,774,175**	**13,774,175**
RCOCI	**–**	**12,246,490**	**–**	**12,246,490**
Miscellaneous	**–**	**1,083,853**	**145,868,604**	**146,952,457**
Total financial assets	**₱8,993,866,324**	**₱31,161,464,764**	**₱44,292,201,671**	**₱84,447,532,759**
Financial Liabilities				
Deposit liabilities:				
Demand	**₱10,891,110,126**	**₱–**	**₱–**	**₱10,891,110,126**
Savings	**10,165,580,027**	**–**	**–**	**10,165,580,027**
Time	**281,426,868**	**36,787,531,380**	**9,099,894,563**	**46,168,852,811**
Bills payable	**–**	**5,960,946**	**765,728,147**	**771,689,093**
Manager's checks	**–**	**671,895,143**	**–**	**671,895,143**
Accrued interest and other expenses	**166,210,009**	**70,344,389**	**–**	**236,554,398**
Other liabilities:				
Accounts payable	**–**	**538,960,833**	**–**	**538,960,833**
Bills purchased	**–**	**190,724,093**	**–**	**190,724,093**
Security deposit	**–**	**–**	**4,168,053**	**4,168,053**
Total financial liabilities	**₱21,504,327,030**	**₱38,265,416,784**	**₱9,869,790,763**	**₱69,639,534,577**

**Includes non-performing loans and receivables*

PY

	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	1,417,573,008	459,855,000	–	1,877,428,008
Due from other banks	439,672,783	–	–	439,672,783
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
Rental deposit	–	–	9,572,000	9,572,000
RCOCI	17,626,999	–	–	17,626,999
Miscellaneous	1,565,209	–	–	1,565,209
Total financial assets	₱2,325,527,809	₱7,314,104,564	₱12,912,228,488	₱22,551,860,861

	December 31, 2014			
	On demand	Within 1 year	Over 1 year*	Total
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
Security deposit	–	–	3,487,372	3,487,372
Inter-office float items	–	18,953,407	–	18,953,407
Total financial liabilities	₱4,652,759,305	₱9,945,995,281	₱3,923,228,701	₱18,521,983,287

**Includes non-performing loans and receivables*

PY

6. Cash and Cash Equivalents

	2015	2014	
Cash and other cash items	**₱1,323,313,455**	₱449,089,810	C01
Due from BSP (Note 15)	**9,332,977,226**	1,867,573,008	C02
Due from other banks (Notes 26 and 29)	**2,287,575,643**	439,672,783	C03
	₱12,943,866,324	₱2,756,335,601	

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, 2015 and 2014, the balance of demand deposit accounts amounted to ₱5.38 billion and ₱1.42 billion, respectively. As of December 31, 2015 and 2014, special deposit accounts with the BSP amounted to ₱3.95 billion and ₱450.00 million, respectively. The special deposit accounts earned average annual interest of 2.50% and 2.19% in 2015 and 2014, 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 1.63% and from 0.13% to 1.85% in 2015 and 2014, respectively.

7. Investment Securities

Fair Value Through Profit or Loss Investments

DA03

As of December 31, 2015, FVPL investments pertain to the Bank's investments in Peso-denominated and USD-denominated government securities, most of which were acquired as a result of the merger with PDB. Peso-denominated government securities amounted to ₱366.12 million, while USD-denominated government securities amounted to ₱387.46 million as of December 31, 2015.

AFS Financial Assets

	2015	2014
Quoted:		
Government debt securities (Note 25)	**₱1,405,120,935**	₱941,349,704
Private debt securities	**435,835,382**	153,809,501
	1,840,956,317	1,095,159,205
Unquoted equity securities	**121,717,672**	17,277,276
	1,962,673,989	1,112,436,481
Allowance for credit losses (Note 14)	**63,153,755**	867,000
	₱1,899,520,234	₱1,111,569,481

DA01

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

	2015	2014
Balance at beginning of year	**(₱9,636,153)**	(₱28,079,365)
Gains (losses) on AFS financial assets		
Changes in fair value of AFS financial assets	**4,669,291**	20,158,663
Effect of merger (Note 30)	**189,284**	–
Realized gain from sale of AFS financial assets taken to profit or loss	**(19,149,033)**	(1,715,451)
	(14,290,458)	18,443,212
	(₱23,926,611)	(₱9,636,153)

Quoted government debt securities have effective interest rates ranging from 1.35% to 6.60% and 2.15% to 6.66% in 2015 and 2014, respectively. These investments have maturity dates ranging from January 6, 2016 to January 30, 2037. As of December 31, 2015 and 2014, private debt securities earn interest ranging from 5.87% to 6.73% in both 2015 and 2014, respectively. These securities will mature up to March 22, 2021.

As of December 31, 2015, AFS debt investments include government securities acquired from the merger with PDB amounting to ₱615.52 million and ₱250.00 million that are pledged to BSP and CBC, respectively. The pledge made to BSP is to secure PDB's Collateralized Overdraft Credit Line, while those pledged to CBC is for compliance with DOSRI rules.

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, 2015 and 2014, unquoted equity securities are carried at cost net of allowance for impairment losses of ₱0.93 million and ₱0.87 million, respectively (Note 14).

HTM Financial Assets

HTM financial assets composed of government debt securities and private bonds that carry yield-to-maturity rates ranging from 3.22% to 6.45% with maturity of five years to fifteen years in both 2015 and 2014. DA02

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

	2015	2014
AFS financial assets	**₱51,478,044**	₱41,113,073
HTM financial assets	**4,385,614**	1,982,427
	₱55,863,658	₱43,095,500

UC02

8. Loans and Receivables

This account consists of:

	2015	2014 (As Restated – Note 31)
Loans and discounts:		
Consumer lending	**₱19,060,733,642**	₱11,127,619,506
Corporate and commercial lending	**32,711,009,206**	3,867,599,183
Others	**321,786,660**	14,807,377
	52,093,529,508	15,010,026,066
Unearned interest and discounts	**(103,171,100)**	(41,475,281)
	51,990,358,408	14,968,550,785
Unquoted debt securities	**525,038,189**	491,836,309
Sales contracts receivable	**766,476,720**	51,177,245
	53,281,873,317	15,511,564,339
Allowance for credit losses (Note 14)	**(2,329,190,497)**	(517,190,170)
	₱50,952,682,820	₱14,994,374,169

EH01

As of December 31, 2015 and 2014, 22.76% and 43.01% of the total loans and receivables of the Bank, respectively, are subject to periodic interest repricing. In 2015 and 2014, the remaining loans and receivables bear annual fixed interest rates ranging from 1.50% to 39.43% and from 3.00% to 14.31%, 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	₱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 and 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, 2015 and 2014, respectively.

In February 2016, the remaining receivables from FSAMI were fully collected.

Included under loans and receivables (part of assets acquired from PDB) are those rediscounted under government rediscounting facilities (Note 16). The following table shows the breakdown of loans pledged as collateral on these rediscounting facilities (in thousands):

	2015
Land of the Philippines (LBP)	₱545,050
Social Security System (SSS)	187,389
Small Business Guaranty and Finance Corp.	27,735
	₱760,174

The loans pledged as collaterals shall be released by the rediscounting institution once the rediscounted loan has been fully paid upon maturity. In case a particular loan account pledged as collateral is paid in full by the borrower before it matures, the equivalent rediscounted value shall be paid by the Bank to the rediscounting institution before the pledged collateral can be released.

<u>Regulatory Reporting</u>
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:

	2015		2014	
	Amounts	**%**	Amounts	%
Loans secured by:				
Real estate	**₱24,830,422,570**	**46.51**	₱6,701,738,889	43.08
Chattel mortgage	**8,406,187,139**	**15.74**	5,242,192,435	33.71
Deposit hold out and others	**2,816,869,015**	**5.28**	91,292,294	0.59
	36,053,478,724	**67.53**	12,035,223,618	77.38
Unsecured loans	**17,331,565,693**	**32.47**	3,517,816,002	22.62
	₱53,385,044,417	**100.00**	₱15,553,039,620	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, 2015 and 2014, NPLs of the Bank not fully covered by allowance for credit losses follow:

	2015	2014
Total NPLs	**₱3,288,252,207**	₱600,073,761
NPLs fully covered by allowance for credit losses	**(1,097,007,413)**	(134,285,206)
	₱2,191,244,794	₱465,788,555

As of December 31, 2015 and 2014, secured and unsecured NPLs of the Bank follow:

	2015	2014
Secured	**₱1,521,685,567**	₱437,828,984
Unsecured	**1,766,566,640**	162,244,777
	₱3,288,252,207	₱600,073,761

The estimated aggregate fair value of collaterals held by the Bank pertaining to the NPLs as at December 31, 2015 and 2014 amounted to ₱2.95 billion and ₱103.88 million, respectively.

Interest Income on Loans and Receivables

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

	2015	2014
Loans and discounts:		
Consumer lending	**₱1,225,952,373**	₱907,254,470
Corporate and commercial lending	**182,125,014**	261,718,878
Others	**970,431**	1,889,140
Unquoted debt securities	**20,018,373**	22,217,061
Sales contract receivable	**14,392,562**	3,707,372
	₱1,443,458,753	₱1,196,786,921

9. Non-current Assets Held for Sale

G02

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.

	2015	2014
Balance at beginning of year	**₱75,788,175**	₱4,872,930
Effect of merger (Note 30)	**20,465,738**	–
Additions	**133,464,689**	84,486,024
Disposals	**(152,667,312)**	(13,570,779)
Balance at end of year	**₱77,051,290**	₱75,788,175

Loss recognized on the sale of these properties presented under 'Gain (loss) on asset exchange' in the statements of income amounted to ₱15.41 million in 2015, while gain of ₱3.80 million was recognized in 2014.

Loss on asset foreclosures presented under 'Gain (loss) on asset exchange' in the statements of income amounted to ₱18.00 million and nil in 2015 and 2014, respectively.

10. Property and Equipment

The composition of and movements in this account follow:

K01

	December 31, 2015				
	Land	**Condominium Properties, Buildings and Improvements**	**Furniture, Fixtures and Equipment**	**Leasehold Improvements**	**Total**
Cost					
Balance at beginning of year	**₱24,671,788**	**₱271,220,669**	**₱392,781,972**	**₱124,173,969**	**₱812,848,398**
Effect of merger (Note 30)	**368,044,546**	**571,419,566**	**486,744,918**	**40,286,086**	**1,466,495,116**
Additions	**–**	**826,549**	**56,580,115**	**19,921,571**	**77,328,235**
Transfers (Note 11)	**–**	**2,518,553**	**–**	**–**	**2,518,553**
Amortization	**–**	**–**	**–**	**(39,407,860)**	**(39,407,860)**
Write-offs	**–**	**–**	**(8,647,410)**	**–**	**(8,647,410)**
Balance at end of year	**392,716,334**	**845,985,337**	**927,459,595**	**144,973,766**	**2,311,135,032**
Accumulated Depreciation					
Balance at beginning of year	**–**	**193,885,187**	**205,481,294**	**–**	**399,366,481**
Effect of merger (Note 30)	**–**	**228,737,892**	**414,744,032**	**–**	**643,481,924**
Depreciation and amortization	**–**	**17,174,550**	**89,228,943**	**–**	**106,403,493**
Write-offs	**–**	**–**	**(8,647,410)**	**–**	**(8,647,410)**
Balance at end of year	**–**	**439,797,629**	**700,806,859**	**–**	**1,140,604,488**
Accumulated Impairment Losses (Note 14)					
Balance at beginning of the year	**–**	**2,586,272**	**–**	**–**	**2,586,272**
Provision	**–**	**2,070,488**	**–**	**–**	**2,070,488**
Balance at end of year	**–**	**4,656,760**	**–**	**–**	**4,656,760**
Net Book Value at End of Year	**₱392,716,334**	**₱401,530,948**	**₱226,652,736**	**₱144,973,766**	**₱1,165,873,784**

	December 31, 2014 (As restated – Note 31)				
	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	23,704,625	25,891,819	1,886,693	67,180,637
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	271,220,669	392,781,972	124,173,969	812,848,398
Accumulated Depreciation					
Balance at beginning of year	–	165,474,819	151,433,723	–	316,908,542
Effect of merger (Note 30)	–	14,332,436	16,186,067	–	30,518,503
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	205,481,294	–	399,366,481
Accumulated Impairment Losses (Note 14)					
Balance at beginning of the year	–	359,702	–	–	359,702
Effect of merger (Note 30)	–	2,586,272	–	–	2,586,272
Reversals	–	(359,702)	–	–	(359,702)
Balance at end of year	–	2,586,272	–	–	2,586,272
Net Book Value at End of Year	₱24,671,788	₱74,749,210	₱187,300,678	₱124,173,969	₱410,895,645

PY

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

	2015	2014
Property and equipment	**₱145,811,353**	₱86,010,391
Investment properties (Note 11)	**33,671,614**	25,123,185
Software costs (Note 12)	**6,883,274**	4,942,588
	₱186,366,241	₱116,076,164

As of December 31, 2015 and 2014, the gross carrying amount of fully depreciated building and furniture, fixtures and equipment still in use amounted to ₱372.03 million and ₱37.24 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, 2015 and 2014.

11. Investment Properties

The composition of and movements in this account follow:

	December 31, 2015		
	Land	**Condominium Properties, Buildings and Improvements**	**Total**
Cost			
Balance at beginning of year	**₱433,379,207**	**₱358,850,757**	**₱792,229,964**
Effect of merger (Note 30)	**1,987,140,213**	**1,042,129,814**	**3,029,270,027**
Additions	**10,953,864**	**33,590,978**	**44,544,842**
Transfers (Note 10)	**572,224**	**(3,090,777)**	**(2,518,553)**
Disposals	**(1,120,546)**	**–**	**(1,120,546)**
Write-off	**–**	**(2,024,745)**	**(2,024,745)**
Balance at end of year	**2,430,924,962**	**1,429,456,027**	**3,860,380,989**

K03

(Forward)

	December 31, 2015		
	Land	**Condominium Properties, Buildings and Improvements**	**Total**
Accumulated Depreciation			
Balance at beginning of year	**₱–**	**₱185,539,005**	**₱185,539,005**
Effect of merger	**–**	**112,322,132**	**112,322,132**
Depreciation (Note 10)	**–**	**33,671,614**	**33,671,614**
Balance at end of year	**–**	**331,532,751**	**331,532,751**
Accumulated Impairment Losses (Note 14)			
Balance at beginning of year	**50,767,155**	**66,004,337**	**116,771,492**
Effect of merger (Note 30)	**–**	**429,194,151**	**429,194,151**
Provision for (reversal of) impairment losses	**6,637,911**	**(18,566,123)**	**(11,928,212)**
Balance at end of year	**57,405,066**	**476,632,365**	**534,037,431**
Net Book Value at End of Year	**₱2,373,519,896**	**₱621,290,911**	**₱2,994,810,807**

K03

	December 31, 2014 (As Restated – Note 31)		
	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)	212,469,837	67,088,190	279,558,027
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	433,379,207	358,850,757	792,229,964
Accumulated Depreciation			
Balance at beginning of year	–	144,237,189	144,237,189
Effect of merger (Note 30)	–	17,348,631	17,348,631
Depreciation (Note 10)	–	25,123,185	25,123,185
Disposals	–	(1,170,000)	(1,170,000)
Balance at end of year	–	185,539,005	185,539,005
Accumulated Impairment Losses (Note 14)			
Balance at beginning of year	9,246,139	2,600,297	11,846,436
Effect of merger (Note 30)	41,504,230	44,837,917	86,342,147
Provision for impairment losses	16,786	18,566,123	18,582,909
Balance at end of year	50,767,155	66,004,337	116,771,492
Net Book Value at End of Year	₱382,612,052	₱107,307,415	₱489,919,467

PY

The Bank's investment properties consist entirely of real estate properties acquired in settlement of loans and receivables and investments in real estate. In 2015 and 2014, the Bank recognized gain on foreclosure amounting to ₱9.16 million and ₱60.23 million, respectively, and loss and gain on sale of investment properties amounting to ₱0.21 million and ₱2.58 million, respectively which are presented under 'Gain (loss) on asset exchange' in the statements of income.

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

	2015	2014
Rent income on investment properties (included under income from property rentals)	**₱19,176,051**	₱26,663,373
Direct operating expenses on investment properties not generating rent income (included under miscellaneous expenses)	**3,816,188**	2,768,757

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

Transfers pertain to properties with change in use, from capital appreciation to owner-occupied in 2015 and from owner-occupied to property intended for sale in 2014 (Note 10).

12. Intangible Assets

L01

Branch Licenses
This account includes the branch licenses recognized by the Bank in connection with its merger with PDB amounting to ₱74.48 million (Note 30).

Software Costs
Movements in software costs are as follows:

G01.1

	2015	2014
Cost		
Balance at beginning of year	**₱22,806,504**	₱17,087,646
Effect of merger (Note 30)	**84,378,202**	–
Additions	**14,083,153**	5,718,858
Balance at end of year	**121,267,859**	22,806,504
Accumulated Amortization		
Balance at beginning of year	**9,715,239**	4,772,651
Effect of merger (Note 30)	**21,329,422**	–
Amortization (Note 10)	**6,883,274**	4,942,588
Balance at end of year	**37,927,935**	9,715,239
Net Book Value at End of Year	**₱83,339,924**	₱13,091,265

13. Other Assets

This account consists of:

G01.2

	2015	2014
Financial		
Accrued interest receivable	**₱464,202,246**	₱139,907,899
Accounts receivable (Note 26)	**536,787,051**	46,422,478
RCOCI	**12,246,490**	17,626,999
Miscellaneous	**160,726,632**	11,137,209
	1,173,962,419	215,094,585
Nonfinancial		
Non-performing Asset Pool (NPAP)	**1,273,101,335**	–
Prepaid expenses	**140,054,339**	22,933,312
Creditable withholding taxes (CWT)	**91,043,858**	90,367,378
Documentary stamp tax	**35,828,227**	6,149,927
Receivable from Bureau of Internal Revenue (BIR)	**33,816,164**	33,816,164
Stationary and supplies	**13,314,218**	7,107,328
Other equity investments	**21,792,208**	–
Miscellaneous	**47,897,060**	14,541,035
	1,656,847,409	174,915,144
	2,830,809,828	390,009,729
Allowance for impairment and credit losses (Note 14)	**(1,702,438,223)**	(17,053,637)
	₱1,128,371,605	₱372,956,092

Accounts receivable
As of December 31, 2015, accounts receivable includes receivable from Philippine Deposit Insurance Corporation (PDIC) amounting to ₱58.20 million which was acquired as a result of the merger with PDB. This receivable represents the proceeds of the sale of certain assets of Region Bank to PDIC under the Asset Purchase and Assumption of Liability Agreement of PDB with Region Bank (the Region Bank - PDB Agreement). The proceeds were temporarily placed in escrow until the Bank is able to transfer the assets sold in the name of PDIC.

Receivable from BIR
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.

Other equity investments
This account comprise of investments acquired by the Bank from its merger with PDB. The investments include the 100% owned subsidiary, Filrice Inc. (Filrice), with investment cost of ₱2.19 million, and 49% owned investee, PDB SME solutions, Inc. (PDB SME), with investment cost of ₱19.60 million. Filrice was established for the business of rice milling and warehousing but ceased operations in 2011 and has not begun formal winding up process. Its principal place of business is in Bulacan, Philippines. Investment in Filrice is classified under prudential regulations as a nonfinancial allied undertaking. Accordingly, for prudential reporting purposes, such investment is accounted for under the equity method of recovery instead of consolidated on a line-by-line basis.

PDB SME Solutions, Inc. (SME.Com.Ph) provides web-based solutions to help SME-entrepreneurs to manage businesses better and to expand to new markets. Its principal place of business is in Makati City, Philippines. In 2013, PDB SME Solutions, Inc. was dissolved and is currently under liquidation. The investment is fully provided with allowance for credit and impairment losses.

Filrice and PDB SME are non-operating private companies and as such, have no available quoted market prices.

Miscellaneous
As of December 31, 2015, miscellaneous assets include NPAP which was acquired as a result of the merger with PDB. The NPAP represents the non-performing assets of PDB which were purchased by Philippine Deposit Insurance Corporation (PDIC) under a buy-back arrangement following the terms and conditions of the Financial Assistance Agreement (FA Agreement) dated June 28, 2002 between PDIC and PDB. This consists of the following (in thousands):

	2015
Loans and receivables	₱998,693
Investment properties	200,332
Other assets*	74,076
	₱1,273,101

**Other assets include various property and equipment, various rental deposits of PDB's branches and other miscellaneous assets.*

The above NPAP are fully provided with allowance for impairment losses as of December 31, 2015 and 2014.

As of December 31, 2015, this account includes receivable from a third party (acquired from the merger with PDB) amounting to ₱113.51 million pertaining to the final withholding tax (FWT) on Poverty Eradication and Alleviation Certificates (PEACe) bonds which matured on October 18, 2011. As of December 31, 2015, allowance for impairment losses on the PEACe Bonds amounted to ₱13.87 million.

On October 17, 2011, PDB together with seven other banks filed a joint petition against the BIR's decision to impose 20.00% FWT on PEACe bonds. The high court issued a temporary restraining order in favor of these banks on the same day and ordered these banks to place in escrow an amount equivalent to the disputed withholding tax until final decision is rendered. However, the government withheld the 20.00% FWT from the proceeds of the PEACe bonds and held it in an escrow account with the Land Bank of the Philippines.

On January 13, 2015, the Supreme Court (SC) ordered the Bureau of Treasury (BTr) to release to the bondholders the amount corresponding to the 20.00% FWT.

On March 13, 2015, the respondents filed a motion for reconsideration and clarification.

Pursuant to a resolution dated April 21, 2015 by the SC, the public filed a consolidated comment on the motions filed by the respondents.

As of December 31, 2015, the SC has yet to issue its final decision on the matter.

As discussed in more detail in Note 2, the Bank considers several factors in determining whether a financial asset is impaired, including the present value of the expected future cash flows discounted at the asset's original contractual effective rate. As of December 31, 2015, the Bank, in consultation with its legal counsel, has determined that the said receivable is collectible.

As of December 31, 2015 and 2014, miscellaneous assets also include prepayments to contractors for construction of leasehold improvements, security deposits and postage stamps.

Allowance

Allowance for impairment and credit losses includes provision against impaired accrued interest receivable and long-outstanding advances amounting to ₱409.74 million and ₱17.05 million as of December 31, 2015 and 2014, respectively.

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

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

E01

	2015	2014
Balance at beginning of year:		
Loans and receivables	**₱517,190,170**	₱311,678,825
Property and equipment (Note 10)	**2,586,272**	359,702
Investment properties (Note 11)	**116,771,492**	11,846,436
AFS financial assets	**867,000**	867,000
Other assets	**17,053,637**	16,692,157
	654,468,571	341,444,120
Provisions charged to operations	**292,558,154**	270,974,445
Accounts charged off and others	**(35,084,571)**	(71,982,665)
Effect of merger (Note 30)	**3,721,534,512**	114,032,671
	3,979,008,095	313,024,451
Balance at end of year:		
Loans and receivables (Note 8)	**2,329,190,497**	517,190,170
Property and equipment (Note 10)	**4,656,760**	2,586,272
Investment properties (Note 11)	**534,037,431**	116,771,492
AFS financial assets (Note 7)	**63,153,755**	867,000
Other assets (Note 13)	**1,702,438,223**	17,053,637
	₱4,633,476,666	₱654,468,571

Below is the breakdown of provision for impairment and credit losses in 2015 and 2014:

	2015	2014
Loans and receivables	**₱257,331,746**	₱249,876,353
Investment properties (Note 11)	**(11,928,212)**	18,582,909
Property and equipment (Note 10)	**2,070,488**	(359,702)
AFS financial assets	**59,200**	–
Other assets	**45,024,932**	2,874,885
	₱292,558,154	₱270,974,445

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

	December 31, 2015						
	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	**₱56,631,671**	**₱295,116,608**	**₱11,810,112**	**₱153,631,779**	**₱517,190,170**	**₱867,000**	**₱17,053,637**
Provision	**74,588,095**	**182,743,651**	–	–	**257,331,746**	**59,200**	**45,024,932**
Accounts charged off	**(7,470,806)**	**(25,818,295)**	–	**(1,795,470)**	**(35,084,571)**	–	–
Effect of merger (Note 30)	**1,002,336,000**	**546,044,518**	**41,372,634**	–	**1,589,753,152**	**62,227,555**	**347,658,319**
Balance at end of year	**₱1,126,084,960**	**₱998,086,482**	**₱53,182,746**	**₱151,836,309**	**₱2,329,190,497**	**₱63,153,755**	**₱409,736,888**
Individual impairment	**₱1,119,675,706**	**₱339,935,911**	**₱53,182,746**	**₱151,836,309**	**₱1,664,630,672**	**₱63,153,755**	**₱74,270,888**
Collective impairment	**6,409,254**	**658,150,571**	–	–	**664,559,825**	–	**335,466,000**
	₱1,126,084,960	**₱998,086,482**	**₱53,182,746**	**₱151,836,309**	**₱2,329,190,497**	**₱63,153,755**	**₱409,736,888**
Gross amount of loans and receivables individually determined to be impaired	**₱2,639,071,774**	**₱830,046,141**	**₱83,192,719**	**₱151,836,309**	**₱3,704,146,943**	**₱63,153,755**	**₱98,588,920**

**Excludes allowance for impairment losses on NPAP and equity investments.*

	December 31, 2014						
	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	₱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)
Effect of merger (Note 30)	11,003,574	10,869,183	2,260,116	–	24,132,873	–	971,379
Balance at end of year	₱56,631,671	₱295,116,608	₱11,810,112	₱153,631,779	₱517,190,170	₱867,000	₱17,053,637
Individual impairment	₱42,472,282	₱212,256,606	₱11,810,112	₱151,836,309	₱418,375,309	₱867,000	₱11,605,169
Collective impairment	14,159,389	82,860,002	–	1,795,470	98,814,861	–	5,448,468
	₱56,631,671	₱295,116,608	₱11,810,112	₱153,631,779	₱517,190,170	₱867,000	₱17,053,637
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

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% NA01

As of December 31, 2015 and 2014, Due from BSP amounting to ₱5.31 billion and ₱1.39 billion, respectively, was set aside as reserves for deposit liabilities. As of December 31, 2015 and 2014, the Bank is in compliance with reserves regulation.

Foreign currency-denominated deposit liabilities bear annual fixed interest rates ranging from 0.25% to 1.50% and from 0.50% to 1.95% in 2015 and 2014, respectively, while peso-denominated deposit liabilities bear interest rates ranging from 0.25% to 4.44% and from 0.25% to 5.75% in 2015 and 2014, respectively.

16. **Bills Payable**

This account consists of borrowings of the Bank from government institutions that were assumed by the Bank from PDB (Notes 1 and 30).

Bills payable to government institutions includes funds obtained from LBP, SSS and SBGFC which the Bank relends to borrowers availing of the financing programs of these government financial institutions. These borrowings are secured by loans and receivables with carrying value of ₱0.76 billion as of December 31, 2015 (Note 8).

Rediscounting availments are subject to annual interest rates ranging from 4.03% to 4.13% as of December 31, 2015. Other bills payable are subject to annual interest rates ranging from 2.50% to 8.66% as of December 31, 2015.

17. **Accruals and Other Liabilities**

Accrued interest and other expenses

This account consists of:

	2015	**2014**	
Accrued interest payable	**₱90,525,437**	₱24,961,574	P02
Accrued rent payable	**29,659,496**	25,791,887	
Accrued other expenses	**116,357,049**	47,040,694	
	₱236,541,982	97,794,155	

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

Other liabilities

This account consists of:

	2015	2014	
Financial:			
Accounts payable	**₱538,960,833**	₱110,130,027	P01
Bills purchased	**190,724,093**	–	
Security deposit	**4,168,053**	3,487,372	
Inter-office float items	–	18,953,407	
	733,852,979	132,570,806	
Nonfinancial:			
Accrued retirement obligation (Note 22)	**56,373,587**	58,279,523	
Withholding tax payable	**28,284,729**	18,755,680	
Accrued gross receipts tax	**2,646,394**	2,646,394	
Miscellaneous	**65,892,805**	456,557	
	153,197,515	80,138,154	
	₱887,050,494	₱212,708,960	

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, registration fees, insurance premium, documentary stamps and notarial fee.

Bills purchased pertains to credit accommodation where check payments in the form of manager's check, demand draft and cashier's check are purchased by the Bank which are payable after the credit period.

Miscellaneous includes SSS, medicare and employee compensation premium, dormant cashier’s checks, security deposits on leased out properties and safety deposit boxes and other liabilities.

18. Maturity Analysis of Assets and Liabilities

The table below presents the Bank's assets and liabilities as of December 31, 2015 and 2014 analyzed according to when they are expected to be recovered or settled within one year and beyond one year from the respective reporting dates (in thousands):

A1.10

	December 31, 2015			December 31, 2014		
	Within twelve months	Over twelve months	Total	Within twelve months	Over twelve months	Total
Financial assets						
Cash and cash equivalents	**₱12,943,866**	**₱–**	**₱12,943,866**	₱2,756,336	₱–	₱2,756,336
FVPL	**677,240**	**76,336**	**753,576**	–	–	–
AFS financial assets	**27,007**	**1,935,667**	**1,962,674**	21,354	1,091,082	1,112,436
HTM financial assets	**80,931**	**2,109,614**	**2,190,545**	–	27,980	27,980
Loans and receivables	**23,399,353**	**29,985,692**	**53,385,045**	4,909,338	10,643,702	15,553,040
Other assets						
Accrued interest receivable	**464,202**	–	**464,202**	139,908	–	139,908
Accounts receivable	**536,787**	–	**536,787**	46,422	–	46,422
RCOCI	**12,246**	–	**12,246**	17,627	–	17,627
Rental Deposit	–	**13,774**	**13,774**		9,573	9,573
Miscellaneous	**1,084**	**145,870**	**146,954**	1,566	–	1,566
	38,142,716	**34,266,953**	**72,409,669**	7,892,551	11,772,337	19,664,888
Nonfinancial assets						
Non-current assets held for sale	**77,051**	–	**77,051**	75,788	–	75,788
Property and equipment	–	**2,311,135**	**2,311,135**	–	812,848	812,848
Investment properties	–	**3,860,381**	**3,860,381**	–	792,230	792,230
Software costs	–	**121,268**	**121,268**	–	22,807	22,807
Branch licenses	–	**74,480**	**74,480**	–	–	–
Other assets						
NPAP	–	**1,273,101**	**1,273,101**	–	–	–
Prepaid expenses	**140,054**	–	**140,054**	22,933	–	22,933
CWT	–	**91,044**	**91,044**		90,367	90,367
Receivable from BIR	**33,816**	–	**33,816**	33,816	–	33,816
Stationery and supplies	**13,314**	–	**13,314**	7,107	–	7,107
Documentary Stamp	**35,828**	–	**35,828**	6,150	–	6,150
Other equity investments	–	**21,792**	**21,792**	–	–	–
Miscellaneous	**47,897**	–	**47,897**	14,541	–	14,541
	347,960	**7,753,201**	**8,101,161**	160,335	1,718,252	1,878,587
	₱38,490,676	**₱42,020,154**	**80,510,830**	₱8,052,886	₱13,490,589	21,543,475
Allowances for impairment and credit losses (Note 14)			**(4,633,476)**			(654,469)
Unearned interest and discounts (Note 8)			**(103,171)**			(41,475)
Accumulated depreciation and amortization (Notes 10, 11 and 12)			**(1,510,065)**			(594,621)
			(6,246,712)			(1,290,565)
			₱74,264,118			₱20,252,910
Financial liabilities						
Deposit liabilities	**₱57,864,874**	**₱8,518,675**	**₱66,383,549**	₱4,411,616	₱13,155,235	₱17,566,851
Manager's checks	**671,898**	–	**671,898**	199,917	–	199,917
Bills payable	**9,416**	**653,115**	**662,531**	–	–	–
Accrued interest and other expenses	**236,542**	–	**236,542**	97,794	–	97,794
Other liabilities:						
Accounts payable	**538,961**	–	**538,961**	110,130	–	110,130
Bills purchased	**190,724**	–	**190,724**	–	–	–
Security deposit	–	**4,168**	**4,168**	–	3,487	3,487
Inter-office float items	–	–	–	18,953	–	18,953
	59,512,415	**9,175,958**	**68,688,373**	4,838,410	13,158,722	17,997,132
Nonfinancial liabilities						
Retirement obligation	–	**56,374**	**56,374**	–	58,280	58,280
Deferred tax liabilities	–	**107,469**	**107,469**	–	487	487
Advances from Parent Company	–	–	–	–	312,500	312,500
Income tax payable	**1,361**	–	**1,361**	–	–	–
Other liabilities	**96,824**	–	**96,824**	21,859	–	21,859
	98,185	**163,843**	**262,028**	21,859	371,267	393,126
	59,610,600	**9,339,801**	**68,950,401**	4,860,269	13,529,989	18,390,258

19. **Equity**

As of December 31, 2015 and 2014, the Bank's capital stock consists of:

	2015	2014	
Preferred stock - ₱100 par value			
Authorized shares (6,000,000 shares)			
Issued and outstanding (22,042 shares)	**₱2,204,200**	₱2,204,200	A1 5 2
Common stock - ₱100 par value			
Authorized shares (74,000,000 shares)			
Subscribed shares (37,059,172 and 20,558,079 shares as of December 31, 2015 and 2014, respectively)	**3,705,917,200**	2,055,807,900	
Subscriptions receivable on common stock (3,090 shares as of December 31, 2015 and 2014)	**(309,000)**	(309,000)	
	3,705,608,200	2,055,498,900	
	₱3,707,812,400	₱2,057,703,100	

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
December 17, 2015	Common	74,000,000	₱100
	Preferred	6,000,000	100
March 1, 1973	Common	24,000,000	100
	Preferred	6,000,000	100

The total number of stockholders is 1,535 and 1,421 as of December 31, 2015 and 2014, respectively.

<u>Capital Infusion</u>
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.

<u>Merger</u>
As discussed in Note 1, the Bank issued 16,501,093 and 5,173,881 common shares as a result of the merger with PDB and Unity Bank, respectively. Further, other equity reserves of

(₱1.95 billion) and (₱303.96 million) were recognized in effecting the merger with PDB and Unity Bank, respectively, under the pooling of interest method.

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, 2015 and 2014.

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 ExeCom.

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 2015 and 2014 are shown in the tables below (amounts in thousands).

	2015*	2014
Tier 1 capital	**₱6,172,302**	₱2,087,262
Tier 2 capital	**602,904**	328,012
Total qualifying capital	**6,775,206**	2,415,274
Risk weighted assets	**₱60,712,639**	₱15,619,546
Total CAR	**11.16%**	15.46%

**based on merged balances*

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.

On October 9, 2014, the BSP issued BSP Circular No. 854 which amends the provisions of the Manual of Regulations for Banks on the minimum capitalization of banks and on the prerequisites for the grant of authority to establish a branch. Based on this circular, the Bank is required to maintain a minimum capitalization of ₱2.00 billion.

Deposit for Future Stock Subscription / Advances from Parent Company
Advances from parent company pertains to deposit for future stock subscriptions made by stockholders of the Bank on subscription to the increase in the authorized capital which cannot be directly credited to capital stock issued pending approval by the BSP and registration with the SEC of the amendment to the Articles of Incorporation for the proposed increase in capital stock. Under SEC Financial Reporting Bulletin 006 issued in 2012, an entity should not consider a deposit for future subscription as an equity instrument unless all of the following elements are present:

a. There is a lack or insufficiency of authorized unissued shares of stock to cover the deposit;
b. The entity's BOD and shareholders have approved an increase in capital stock to cover the shares corresponding to the amount of the deposit; and
c. An application for the approval of the increase in capital stock has been presented for filing or filed with the SEC and BSP.

If any or all of the foregoing elements above are not present, the deposit for future stock subscription should be recognized as a liability.

As of December 31, 2014, the Bank accounted for the Advances from Parent Company as a liability, after not having met the requirements of SEC Financial Reporting Bulletin 006. On June 15 and December 17, 2015, the increase in authorized capital stock of the Bank to 74 million common stock and 6 million preferred stocks was approved by the BSP and SEC, respectively. As of December 31, 2015, the Bank has already satisfied the requirements of SEC Financial Reporting Bulletin 006 and reclassified the Advances from Parent Company from liability to equity. In March 2016, the Bank already issued common shares on such deposits.

As of December 31, 2015 and 2014, tier 1 capital, for purposes of CAR calculation, included deposit for future stock subscription from the Parent Company amounting to ₱2.31 billion and ₱312.50 million, respectively.

As of December 31, 2015, the tier 1 capital also include advances from the Parent Company to PDB, which was assumed by the Bank as a result of the merger (Notes 1 and 30), amounting to \ ₱1.70 billion. The advances represent additional capital infusion to PDB on March 31, 2015, which PDB no longer issued shares in anticipation of the merger with the Bank.

In March 2016, the Bank already issued common shares on such deposits and advances.

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 (excluding the effect of merger with PDB for comparative purposes):

	2015	2014 (as Restated-Note 31)
Return on average equity (ROE)	**(9.08%)**	(10.01%)
Return on average asset (ROA)	**(1.13%)**	(0.88%)
Net interest margin over average earning assets (NIM)*	**5.18%**	5.86%

**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, 2015 and 2014, deficit included the amount of ₱36.45 million and ₱47.60 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.

21. Miscellaneous Expenses

Miscellaneous expenses consist of:

	2015	2014
Information and technology expenses	**₱11,895,569**	₱8,591,568
Fuel and lubricants	**8,870,487**	10,065,231
Advertising	**8,514,901**	15,549,061
Acquired asset and other litigation expenses (Note 11)	**7,477,876**	5,818,446
Supervision fees	**6,061,359**	3,237,652
Clearing and processing fees	**2,746,545**	2,691,664
Freight	**1,432,424**	1,354,303
Membership fees and dues	**496,009**	438,216
Others	**15,279,995**	12,223,875
	₱62,775,165	₱59,970,016

VD01

'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 two separate funded noncontributory defined benefit retirement plans; one is managed by the trust department of the Bank and the other is administered by PDB's trust department, 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 plans was made as of December 31, 2015. The principal actuarial assumptions as of December 31, 2015 and 2014 used in determining the retirement obligation for the Bank's retirement plans are shown below:

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	2015		2014
	CBS	**PDB**	
Discount rate	**4.61%**	**4.23%**	4.66%
Salary increase rate	**5.00%**	**5.00%**	6.00%

As of December 31, 2015 and 2014, accrued retirement obligation comprised the following:

P03

	2015			2014
	CBS	**PDB**	**Total**	CBS
Fair value of plan assets	**₱25,407,290**	**₱493,546,695**	**₱518,953,985**	₱26,139,373
Present value of defined benefit obligation	**78,495,903**	**496,831,669**	**575,327,572**	84,418,896
Net defined benefit liability	**(₱53,088,613)**	**(₱3,284,974)**	**(₱56,373,587)**	(₱58,279,523)

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

	2015											
		Net benefit cost					Remeasurements in other comprehensive income					
	January 1, 2015	Current service cost	Net interest	Gain/Loss due to settlement	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, 2015
	(a)	(b)	(c)	(d)	(e)=b + c + d	(f)	(g)	(h)	(i)	(j) = f + g + h + i	(k)	(l) = a + e + f + j + k
Fair value of plan assets	**₱26,139,373**	**₱–**	**₱1,218,095**	**₱–**	**₱1,218,095**	**₱–**	**(₱1,950,178)**	**₱–**	**₱–**	**(₱1,950,178)**	**₱–**	**₱25,407,290**
Present value of defined benefit obligation	**84,418,896**	**31,945,342**	**3,933,921**	**–**	**35,879,263**	**–**	**–**	**(22,868,016)**	**(18,934,240)**	**(41,802,256)**	**–**	**78,495,903**
Net defined benefit liability	**(₱58,279,523)**	**(₱31,945,342)**	**(₱2,715,826)**	**₱–**	**(₱34,661,168)**	**₱–**	**(₱1,950,178)**	**₱22,868,016**	**₱18,934,240**	**₱39,852,078**	**₱–**	**(₱53,088,613)**

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

	2014											
		Net benefit cost					Remeasurements in other comprehensive income					
	January 1, 2014	Current service cost	Net interest	Gain/Loss due to settlement	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)	(e) = b + c + d	(f)	(g)	(h)	(i)	(j) = f + g + h + i	(k)	(l) = a + e + f + j + k
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*

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 (in thousands):

	2015		2014
	CBS	**PDB**	
Cash and cash equivalents	**₱1,841**	**₱490,162**	₱22,201
Debt instruments	**23,433**	–	3,938
Other assets			
Accrued interest receivable	**185**	**30**	48
Investment properties – net of allowance	–	**3,355**	
Accrued trust fees	–	–	445
Other accountabilities	**(52)**	–	3
Balance at end of year	**₱25,407**	**₱493,547**	₱26,635

P03

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, 2015, assuming if all other assumptions were held constant (in thousands):

	2015		2014
	CBS	**PDB**	
Discount rate			
1.00%	**(₱11,058)**	**(₱9,064)**	(₱12,832)
(1.00%)	**14,179**	**13,191**	16,118
Salary increase rate			
1.00%	**13,577**	**12,502**	15,302
(1.00%)	**(10,864)**	**(8,845)**	(12,496)

Shown below is the maturity analysis of the undiscounted benefit payments (in thousands):

	2015		2014
	CBS	**PDB**	
Less than five years	**₱453,626**	**₱422,697**	₱11,580
More than five years to ten years	**66,575**	**30,571**	65,69
More than ten years to fifteen years	**223,039**	**114,600**	135,478
More than fifteen years to twenty years	**565,544**	**260,662**	339,911
More than twenty years	**4,430,350**	**1,417,540**	1,740,979

The average duration of the defined benefit obligation for CBS and PDB retirement plans as of December 31, 2015 is 18 and 11 years, respectively, while the average duration plan of the Bank as of December 31, 2014 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 generally bear an annual rent increase ranging from 5.00% to 10.00%.

For the years ended December 31, 2015 and 2014, annual rentals of the Bank on these lease contracts included in 'Occupancy costs' in the statements of income amounted to ₱93.64 million and ₱106.27 million, respectively.

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

	2015	2014
Within one year	**₱161,004,255**	₱78,535,944
After one year but not more than five years	**381,771,220**	296,298,381
After more than five years	**81,742,102**	132,699,196
	₱624,517,577	₱507,533,521

VD02

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 ten years.

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

	2015	2014
Within one year	**₱19,573,244**	₱17,091,948
After one year but not more than five years	**36,259,163**	51,957,246
After more than five years	**13,407,646**	21,657,813
	₱69,240,053	₱90,707,007

UB03

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:

	2015	2014	
Current:			
Final tax	**₱16,267,700**	₱18,758,585	O01
Excess of MCIT over RCIT	**11,908,638**	16,153,157	
RCIT	**8,791,261**	–	
	36,967,599	34,911,742	
Deferred	**375,257**	(1,150,763)	
	₱37,342,856	₱33,760,979	

Components of net deferred tax liabilities are as follows:

	2015	2014 (As restated - Note 31)	
Deferred tax liability on:			
Fair value adjustment on asset foreclosures	**₱119,856,975**	₱10,501,531	O01
Revaluation increment on condominium properties credited to surplus free	**15,623,427**	20,398,115	
Capitalized loan origination cost	**232,100**	2,418,005	
Accrued lease receivable	**1,009,127**	711,524	
	136,721,629	34,029,175	
Deferred tax asset on:			
Allowance for impairment and credit losses	**(21,744,173)**	(25,784,242)	
Accrued lease payable	**(7,508,021)**	(7,758,254)	
	(29,252,194)	(33,542,496)	
	₱107,469,435	₱486,679	

Movements in net deferred tax liabilities (DTL) include the amount assumed from the merger with PDB amounting to ₱106.61 million which represents DTL on fair value adjustments in asset foreclosure.

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:

	2015*	2014
Tax effects of:		
Allowance for impairment and credit losses	**₱3,939,548,143**	₱467,088,427
Depreciation on asset foreclosures	**596,475,369**	5,071,371
Excess MCIT over RCIT	**110,193,097**	25,473,954
Accrued retirement	**56,373,587**	58,279,523
Unamortized past service cost	**2,632,081**	3,138,986
NOLCO	**–**	52,492,193

**Amounts include the effect of merger of CBS and PDB.*

Details of the Bank's NOLCO are as follows:

Year incurred	Amount	Used	Balance	Expiry date
2012	₱95,583,907	₱95,583,907	₱–	2015

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

Year incurred	Amount	Used/Expired	Balance	Expiry date
2012	₱1,099,495	₱1,099,495	₱–	2015
2013	8,221,302	–	8,221,302	2016
2014	16,153,157	–	16,153,157	2017
2015	11,908,638	–	11,908,638	2018
	₱37,382,592	₱1,099,495	₱36,283,097	

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

	2015	2014 (As Restated – Note 31)
Statutory income tax	**(₱67,760,093)**	(₱32,834,484)
Tax effects of:		
Nondeductible expenses	**166,872,721**	104,305,311
Nontaxable income	**(59,223,910)**	(19,938,233)
Tax paid income	**(9,169,159)**	(7,348,901)
Movement in unrecognized deferred tax assets	**6,961,302**	(9,640,490)
FCDU income	**(338,005)**	(782,224)
Effective income tax	**₱37,342,856**	₱33,760,979

25. Trust Operations

Securities and other properties (other than deposits) held by the Bank , including those assumed for PDB, 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 ₱62.00 million and ₱73.00 million as of December 31, 2015 and 2014, 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.

On December 11, 2014, the BOD of the Bank approved the winding down of the Bank's Trust business.

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, 2015 and 2014, all plan assets of the Bank are managed by CBC's Trust Department and the Bank's Trust Department, respectively (Note 22).

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.

The transactions with related party retirement includes cash and cash equivalents amounting to ₱1.84 million and ₱21.94 million as of December 31, 2015 and 2014, respectively.

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 2015 and 2014, total remunerations of key management personnel include short-term employee benefits amounting to ₱35.93 million and ₱32.25 million, respectively. In 2015 and 2014, 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.

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December 31, 2015

Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Key Management Personnel			
Loans:		**₱27,548,207**	Loans with interest rates ranging from 1.50% to 8.00% and maturity up to 15 years and secured by real estate mortgage. Unimpaired.
Effect of merger	**₱19,978,000**		
Issuances	**850,000**		
Repayments	**(327,918)**		
Deposit liabilities:		**23,393,609**	These are time, checking and savings account with annual interest rates ranging from 0.25% to 1.55%.
Effect of merger	**21,760,765**		
Deposits	**40,004,428**		
Withdrawals	**(39,637,185)**		
Other Related Party			
Deposit liabilities:		**42,521,303**	This deposit account earns annual interest ranging from 1.63% to 1.75%.
Deposits	**56,152,102**		
Withdrawals	**(42,508,831)**		

December 31, 2014

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
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. Unimpaired.
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)		

As of December 31, 2015 and 2014, 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, 2015 and 2014 are as follows:

	2015	2014
Interest income	**₱351,909**	₱300,742
Interest expense	**467,310**	319,736

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

	Parent Company		
	2015	2014	**Nature, Terms and Conditions**
Balance Sheets			
Due from other banks	**₱102,361,917**	₱139,071,850	This pertains to cash in bank deposited with CBC that bears annual interest rates ranging from 0.13% to 0.25% in 2015 and 2014.
Net movements	**(36,709,933)**	5,895,549	
Accounts receivable	**3,303,068**	6,682,669	This pertains to receivable from CBC for unpaid rental.
Security deposit	**2,445,134**	2,192,538	This pertains to the rental deposits for office space leased out to CBC presented under 'Other assets' (Note 13).
Accounts payable	**3,298,642**	1,723,775	This pertains to the various expenses advanced by CBC on behalf of the Bank.
Statements of Income			
Interest income	**₱75,070**	₱243,068	This pertains to interest income earned from cash in bank deposited with CBC.
Investment securities gain	**13,978,371**	1,715,451	The Bank earned investment securities gain from its outright sale of securities to CBC.
Rental income	**16,266,169**	16,411,000	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		
	2015	2014	**Nature, Terms and Conditions**
Balance Sheets			
Accounts receivable	**₱857,324**	₱57,495	This pertains to receivable from China Bank Insurance Brokers (CIBI) for unpaid rental.
Security deposit	**291,347**	287,429	These pertain to rental deposits for office space leased out to CIBI presented under 'Other assets' (Note 13).
Accounts payable	**5,725,388**	–	These are non-interest bearing insurance premiums held in behalf of loan borrowers to be subsequently remitted to CIBI.
Statements of Income			
Rental income	**₱3,455,277**	₱3,441,920	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:

	2015	2014
Outright purchase	**₱278,102,038**	₱309,141,436
Outright sale	**198,358,965**	233,211,451

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.

Transaction with PDB prior to merger
In 2015, the Bank assigned receivables amounting to ₱2.83 billion to PDB. PDB shall have the absolute and exclusive right to demand, collect and receive payment for the receivables. As of December 31, 2015, the outstanding balance of these receivables amounted to ₱2.77 billion, which formed part of assets acquired by the Bank from the merger with PDB.

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:

	2015*	2014
Total outstanding DOSRI accounts	**₱138,638,909**	₱14,044,608
Total outstanding DOSRI accounts prior to effectivity of BSP Circular No. 423	**138,638,909**	14,044,608
Percent of DOSRI accounts to total loans	**0.27%**	0.09%
Percent of unsecured DOSRI accounts to total DOSRI accounts	**1.38%**	6.31%
Percent of nonperforming DOSRI accounts to total DOSRI accounts	**0.00%**	0.00%

**Balances include combined amounts reported by CBS and PDB to BSP.*

As of December 31, 2015, outstanding DOSRI loans (including amounts prior to effectivity of BSP circular no. 423) reported by the Bank to the BSP on a standalone basis amounted to ₱25.00 million. The DOSRI accounts represent 0.05% of total loans. Of the ₱25.00 million DOSRI loans, 0.01% represent unsecured DOSRI while 0.00% represent nonperforming DOSRI.

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, 2015 and 2014, 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:

	2015	2014
Committed credit lines	**₱4,612,520,494**	₱–
Trust department accounts	**2,142,275,796**	3,102,424,872
Standby domestic letters of credit	**330,110,480**	–
Late deposits/payments received	**34,930,411**	33,642,418
Outward bills for collection	–	1,636,520
Others	**1,855,490**	21,167,874
	₱7,121,692,671	₱3,158,871,684

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.

Effective January 1, 2016, as a result of merger with PDB, the Bank's Trust Department (TD) became trustee of the trust and managed fund of ₱1.85 billion which previously was being managed by PDB.

28. Notes to Statements of Cash Flows

The following is a summary of non-cash activities:

	2015	2014
Non-cash operating activity:		
Recognition of non-current assets held for sale arising from foreclosure of chattel mortgage on loans and receivables (Note 9)	**₱151,465,226**	₱77,102,952
Non-cash investing activities:		
Recognition of investment properties from foreclosure of real estate mortgage on loans and receivables (Note 11)	**35,385,023**	58,087,083
Fair value gains or (losses) of AFS financial assets (Note 7)	**14,479,742**	18,443,212
Remeasurement gains (losses) on retirement liability (Note 22)	**39,852,078**	(36,905,492)
Transfers from investment property to property and equipment (Notes 10 and 11)	**2,518,553**	(370,607)

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 (amounts in thousands).

	December 31, 2015					
				Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		
Financial instruments 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]**	**Financial Instruments**	**Fair value of financial collateral**	**Net exposure [c-d]**
	[a]	**[b]**	**[c]**	**[d]**		**[e]**
Financial assets						
Due from other banks (Note 6)	**₱125,858**	**₱–**	**₱125,858**	**₱–**	**₱300,000**	**₱–**
Financial liabilities						
Bills payable (Note 16)	**₱662,531**	**₱–**	**₱662,531**	**₱–**	**₱760,174**	**₱–**

	December 31, 2014					
				Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		
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]	Financial Instruments	Fair value of financial collateral	Net exposure [c-d]
	[a]	[b]	[c]	[d]		[e]
Due from other banks (Note 6)	₱139,072	₱–	₱139,072	₱–	₱300,000	₱–

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**

Merger with PDB

On June 26, 2014, the BOD approved the merger of the Bank with PDB. The terms of the Plan of Merger were approved by the Bank's stockholders in their meeting held on August 14, 2014 with the Bank as the surviving entity.

On June 25, 2015, the MB, in its Resolution Nos. 789 and 1559, approved the Plan of Merger and Articles of Merger of the Bank and PDB subject to certain conditions. On December 17, 2015, the Bank obtained approval from the SEC for the merger to be effective. The actual merger took place on December 31, 2015. As of the effective date of merger, all common and preferred shares of PDB have been converted into fully paid China Bank Savings common shares totaling to 16,501,093 shares.

Merger with Unity Bank
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 the 'pooling of interest' method in accounting for its merger with PDB and Unity Bank, 2015 and 2014, respectively. As disclosed in Note 31, the Bank restated its 2014 financial statements as a result of a change in accounting policy for its business combination under the pooling of interest method.

As of December 31, 2015 and January 31, 2014, the assets acquired and liabilities assumed by the Bank as a result of the mergers are as follows:

	2015	2014 (As Restated – Note 31)
Assets		
Cash and cash equivalents	**₱6,199,302,250**	₱757,674,251
FVPL investments	**677,240,456**	–
AFS financial assets	**42,212,841**	–
HTM financial assets	**2,084,521,866**	27,949,657
Loans and receivables	**34,929,613,263**	193,461,521
Non-current assets held for sale	**20,465,738**	–
Property and equipment	**823,013,192**	34,075,862
Investment properties	**2,487,753,744**	175,867,249
Branch licenses	**74,480,000**	–
Software costs	**63,048,780**	–
Other assets	**691,990,024**	14,495,522
	₱48,093,642,154	₱1,203,524,062
Liabilities		
Deposit liabilities	**₱44,844,656,252**	₱935,515,256
Manager's checks	**407,053,750**	–
Bills payable	**662,530,655**	–
Deposit for stock subscription	**1,700,000,000**	–
Income tax payable	**1,361,031**	626,298
Accrued interest and other expenses	**159,493,797**	12,169,080
Deferred tax liabilities	**106,607,499**	–
Other liabilities	**535,535,395**	42,597,646
	₱48,417,238,379	₱990,908,280

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31. Change in Accounting Policy

Beginning 2015, the Bank adopted approach 2 of PIC Q&A No. 2012-01, PFRS 3.2 *Application of the Pooling of Interests Method for Business Combinations of Entities under Common Control in Consolidated Financial Statements*, which requires that the assets acquired and liabilities assumed from the absorbed entity should be recognized based on their carrying amounts as reflected in the absorbed entity's financial statements as of date of merger and adjusted to conform with the accounting policies of the Bank. The change in accounting policy was made to better reflect the substance of the transaction. From the perspective of the new consolidated entity, the concept of pooling is applied as a sharing of control by the shareholders. Therefore, the carrying values in the financial statements of the entities acquired, PDB and Unity Bank, prior to the merger will be more relevant. The change in accounting policy is accounted for retrospectively in accordance with PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. Accordingly, this resulted in restating the recognized assets and liabilities and their respective carrying values arising from the merger between the Bank and Unity Bank in 2014, which were previously based on the assets and liabilities attributed to the latter as reflected in the consolidated financial statements of CBC on the date of merger. The restatement also resulted in the reversal of provision for impairment losses recognized on intangible assets acquired from Unity Bank subsequent to the merger.

The impact of restatement on the 2014 statements of financial position, income and cash flows is shown below:

2014	**As previously reported**	**Prior-period adjustments**	**As restated**	
Statement of Financial Position				
Assets				
Loans and receivables	₱15,018,507,042	(₱24,132,873)	₱14,994,374,169	A1 5 2
Property and equipment				
Cost	808,740,154	4,108,244	812,848,398	
Accumulated depreciation	(397,844,509)	(1,521,972)	(399,366,481)	
Allowance for impairment losses	–	(2,586,272)	(2,586,272)	
Investment properties				
Cost	743,400,869	48,829,095	792,229,964	
Accumulated depreciation	(177,693,244)	(7,845,761)	(185,539,005)	
Allowance for impairment losses	(30,429,345)	(86,342,147)	(116,771,492)	
Branch licenses	347,400,000	(347,400,000)	–	
Total assets	₱16,312,080,967	(₱416,891,686)	₱15,895,189,281	
Liabilities				
Deferred tax liabilities	₱129,332,566	(₱128,845,887)	₱486,679	
Total liabilities	₱129,332,566	(₱128,845,887)	₱486,679	
Equity				
Deficit	(₱241,427,684)	₱12,600,000	(₱228,827,684)	
Additional paid-in capital	360,008,693	3,311,649	363,320,342	
Other equity reserves	–	(303,957,448)	(303,957,448)	
Total equity	₱118,581,009	(₱288,045,799)	(₱169,464,790)	
Statement of Income				
Provision for impairment and credit losses	₱283,574,445	(₱12,600,000)	₱270,974,445	
Net loss	₱283,574,445	(₱12,600,000)	₱270,974,445	
Statement of Cash Flows				
Cash flows from operating activities				
Loss before income tax	(₱123,019,660)	₱12,600,000	(₱110,419,660)	
Provision for impairment and credit losses	283,574,445	(12,600,000)	270,974,445	
	₱160,554,785	₱–	₱160,554,785	

32. Approval of the Release of Financial Statements

The accompanying financial statements were authorized for issue by the Bank's BOD on April 14, 2016.

33. 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 2015.

Taxes and Licenses

Gross receipts tax	₱69,634,726
Local taxes	7,451,960
Others	1,427,305
Balance at end of year	₱78,513,991

Withholding Taxes

Details of total remittances of withholding taxes in 2015 and amounts outstanding as of December 31, 2015 are as follows:

	Total Remittances	Amounts Outstanding
Withholding taxes on compensation and benefits	₱41,321,283	₱3,241,094
Final withholding taxes	47,920,008	4,982,817
Expanded withholding taxes	18,526,677	3,241,094
	₱107,767,968	₱11,465,005

As of December 31, 2015, there are no outstanding tax assessment and tax cases under investigation, litigation nor prosecution in courts or bodies outside the BIR.